

Corporate Responsibility Report 2005

A Culture of Sustainable Excellence



Website

This printed Corporate Responsibility Report details STMicroelectronics' corporate responsibility (CR) performance across all its activities and sites in the calendar year 2005.

The report can be read online or downloaded in PDF format at <http://www.st.com/stonline/company/cr/2005/index.htm>.

More detailed information on ST's CR issues and responsibilities can be found at <http://www.st.com/stonline/company/cr/company/profile/issues.htm>. Alternatively, contact Kate Rigge on corporate.responsibility@st.com, or at:

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Report scope and profile

This is a report of how responsibly we have performed as a company in the calendar year 2005, and covers all STMicroelectronics NV's (ST's) activities and sites, unless otherwise stated. You can find details about ST's size, structure, ownership and countries of operation plus reports from previous years at www.st.com.

This report is in accordance with the 2002 Global Reporting Initiative (GRI) Guidelines, although this year we also referred to the draft G3 Guidelines that were released for public comment between January and March 2006. Where relevant, we have also used our own company indicators to give a complete and accurate picture of our performance. These are all prefixed 'ST' and shown in black italics. We have identified a number of Key Performance Indicators (KPIs), which are shown as **ST**. All KPIs have been verified and validated by Bureau Veritas Quality International, France.



This report contains comments from our assurance provider for corporate responsibility management systems, Reassurance Network, taken from their Management Review report. This is summarized on page 65 and a full version is available at <http://www.st.com/stonline/company/cr/reports/reassurance.htm>.

ST's Environmental and Health and Safety Decalogue targets are also included throughout the report and denoted with §.

You can find an index of all indicators used on the flap at the back and you can find details of our verification processes on pages 64 – 65. We explain methodologies used for measuring specific aspects of performance in the relevant sections. We also provide a glossary explaining acronyms and abbreviations inside the flap at the back.

We are committed to improving both our corporate responsibility performance and the ways we communicate this to our stakeholders. We encourage contributions and debate from all stakeholders, and welcome feedback on the content and presentation of this report – as well as suggestions for next year.

Company profile

STMicroelectronics was created in 1987 by the merger of SGS Microelettronica of Italy and Thomson Semiconducteurs of France with the aim of becoming a world leader in the sub-micron era. ST has grown faster than the semiconductor industry as a whole and it has been one of the world's top 10 semiconductor suppliers since 1996. Today, an unrivalled combination of silicon and system expertise, manufacturing strength and efficiency, intellectual property portfolio, strategic industrial and academic partnerships, and one of the industry's broadest product ranges makes ST a world leader in developing and delivering semiconductor solutions across the spectrum of microelectronics applications. For more detailed company information, including our market position, product portfolio and shareholding structure, please visit <http://www.st.com/stonline/company/cr/company/profile/index.htm>.

EC7: ST key figures 2005

ST1 : Net revenues	\$US8,882m
ST3 : Net earnings	\$US266m
ST2 : Gross profit	\$US3,037m
ST4 : Earnings per share 2005	\$US0.29
ST5 : Gross profit as a percentage of sales	34.2%
ST6 : Market share (sales divided by Total Available Market)	3.9%
– 50,033 employees	
– 16 advanced research and development units	
– 39 design and application centers	
– 16 main manufacturing sites	
– 78 sales offices in 36 countries.	

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Vision and strategy: a message from Carlo Bozotti



2005 has been a year devoted to strengthening and reshaping ST into a stronger and more competitive industry leader. We have launched a significant number of important initiatives, focusing on:

- Research and development effectiveness to improve our time to market, which is the key to competitiveness and profitability
- Sales expansion, targeting new major key accounts to broaden our base of strategic customers, and developing our presence in major countries such as Japan and China
- Cost reduction programs, including some painful but unavoidable restructuring initiatives, which affected primarily our European sites and the Mediterranean area.

In 2006 we are still facing several challenges, and we know it will not be easy. But we are moving fast in the right direction, and I know we can capitalize on our solid culture and values to drive our company to success. For more than 15 years, the principles of Corporate Responsibility have been embedded in our values, and we have always been conscious of our responsibility toward our stakeholders. This commitment has led us, quite naturally, to be one of the first signatories of the Global Compact in July 2000, and it has been illustrated by the results we have obtained in the area of Sustainable Development. To name a few:

- We have cut our energy consumption per unit produced by 44% since 1994
- We have cut our CO₂ emissions per unit produced by 50% in the same period
- We have improved our health and safety performance by a factor of two in the last four years.

“We are still facing several challenges, and we know it will not be easy. But we are moving fast in the right direction, and I know we can capitalize on our solid culture and values to drive our company to success.”

Carlo Bozotti – President and CEO

We are permanently in search of excellence; we have recently updated our company values (now called Principles for Sustainable Excellence) to share more easily our commitment to Corporate Responsibility with all our employees, and I have decided to focus our actions on four main areas in 2006:

- Integrity, the core of our business ethics, which I see as a deep ethical obligation
- Health and safety, where we will work at protecting the health of our employees inside and outside their workplace
- Our efforts to help bridge the digital divide
- And, of course, as part of our commitment to sustainable development, product responsibility and in particular energy conservation. We will make a special effort in designing and introducing new products that are more environmentally sound, particularly in the area of energy saving.

This Corporate Responsibility Report will show you how we are deploying our values and commitment in our daily activities, how we integrate a culture of responsibility and accountability in our decision-making processes, and how this leads to performance improvements. I am proud to lead a company that stands up for what is right, and has demonstrated that good, responsible business practice is also good for the bottom line.

This report has been prepared in accordance with the 2002 GRI Guidelines. It represents a balanced and reasonable presentation of our organization's economic, environmental, and social performance.

Carlo Bozotti
President and CEO of STMicroelectronics



Vision and strategy: a message from Alain Dutheil

At STMicroelectronics, we never had any doubt about the importance of shared values in achieving superior performance. More than 15 years ago we laid down our Guiding Principles as a common basis for our company culture and our Total Quality Management (TQM) approach to business, that has since spread throughout the whole organization.

“We are present in more than 100 countries across the world, and we value highly what each culture brings to ST. This cultural wealth is key to our performance.”

Alain Dutheil – Chief Operating Officer and Vice Chairman of the Corporate Executive Committee

This culture and these values are permanently enriched by the diversity of our company. We are present in more than 100 countries across the world, and we value highly what each culture brings to ST. This cultural wealth is key to our performance.

Equally, being present in many countries, and especially in emerging countries, we contribute to local development in many ways:

- We provide employment, which means revenue for several thousand families in each major manufacturing site
- Given the nature of our activity, we provide highly technical jobs, which allow local engineers and technicians to find appropriate jobs in their home country
- We contribute to the development of local suppliers and services
- We develop local expertise and know-how through partnerships, including with schools and universities
- We contribute to local communities in specific ways, for instance with education helping bridge the digital divide, or through the taxes we pay locally.

These interactions between ST and local communities throughout the world are an integral part of our corporate culture, and a key element of corporate responsibility. We believe we are accountable not only to our primary stakeholders, customers, employees, and shareholders, but also to the communities in which we operate, and society at large. TQM started with a strong commitment to quality, a fundamental responsibility to our customers. Ten years ago, this commitment was enlarged to embrace the environment and, more recently, we have extended our vision to the wider scope of corporate responsibility. The world is moving in that direction, and we strongly support this move; but for us this is just the continuation of our traditional culture, which has always valued the sense of responsibility and the corresponding accountability. Understanding our impact on stakeholders and building long-term and mutually beneficial relationships with them is, for us, the path to Sustainable Excellence.

Alain Dutheil
Chief Operating Officer and Vice Chairman
of the Corporate Executive Committee

Vision and strategy: looking forward to 2006

ST is one of the world's largest semiconductor companies, a leader in developing and supplying technology for the broad spectrum of microelectronics applications. Here we examine how ST competes in its markets, and the issues of corporate responsibility this raises for the company.





The pace of change in all technological sectors seems to accelerate almost daily, and at a global level. And the semiconductor market is one of the most competitive markets in the world. It's therefore no wonder that incoming CEO Carlo Bozotti called for maximum speed and efficiency in executing ST's change programs. In his words: "If we blindly oppose all change we will ... be washed away by the advancing wave of innovation." This is the very challenging environment facing companies like ST.

Competing in this rapidly changing environment formed the centerpiece to Mr Bozotti's presentation when, as our new CEO, he toured the world visiting ST sites. He made clear his pride in the traditions he was inheriting in a company that had fought its way into the rankings of the biggest and best, and introduced the concept of Execution Excellence. By this, he meant the collective sense of responsibility and accountability for results, the discipline of acting flawlessly on decisions taken, and the sense of urgency required for success in ST's markets.

So, how did ST become one of the biggest and best? Well, since the company was formed almost 20 years ago, its mission has been to grow as a profitable and viable broad-range semiconductor supplier. It has succeeded in this aim through focusing on innovation, time to market, cost-effectiveness, creating a world-class manufacturing machine, and building alliances to share the high level of Research & Development (R&D) expenditure. ST's success also depends on its ability to reach a critical mass, which is why the company has focused on high-growth market segments such as telecommunications, digital consumer, computer peripherals, automotive, and industrial.

Within the context of this strategic direction, and to accelerate the pace of change in ST, Carlo Bozotti announced three major initiatives that were rolled out during the year:

- Sales expansion: focusing on new major key accounts and on the mass market, while reorganizing to strengthen efforts in China and Japan
- R&D effectiveness: improving time to market for technologies and products by redeploying resources and increasing the focus on program selection and execution, while launching an ambitious initiative to improve product quality
- Cost reduction: wide-ranging programs that include cutting manufacturing and purchasing costs, as well as some restructuring initiatives affecting mostly European and Moroccan sites.

"There has been strong commitment toward many aspects of corporate responsibility from senior management in ST for a long time, resulting in a framework of policies and operating procedures, a positive culture, significant capability at the operational level and, in environmental management in particular, leading-edge performance."

Reassurance Network – assurance provider

Much of this strengthening and reshaping has been implemented in 2005. But for a company whose aim is to be a top-three semiconductor manufacturer, it is only the start. The task facing ST is huge, especially given a further tenet of its strategy – the belief that long-term viability is linked to understanding its stakeholders' expectations, and its ability to create value for all of them.

In this respect, implementing strategy may raise issues such as:

- The effect on our European workforce of balancing development between the company's historical roots in Europe and fast-growing markets in Asia
- The advocacy for labor rights when expanding activities and developing connections with suppliers in emerging countries
- The availability of financial resources to reduce the company's environmental footprint while increasing its production volumes by more than 10% a year
- The capacity to maintain and develop an experienced and permanent workforce while adapting the company's activity to the cyclical nature of the semiconductor market.

However, as Carlo Bozotti acknowledged: "The attention of our whole team is dedicated to bringing the company's financial performance back to the levels where we all want them to be. But the values we share are there, strong and solid as ever... Just as in the past, we will do business with integrity, and we will be aware of our responsibility toward our stakeholders."

So, it is clear that, whatever the difficulties, ST will be guided by its values. In a most challenging market, top management is constantly attentive to reinforcing the company's historical culture in order to achieve long-term success.

GRI indicators are shown in the color of the section in which they belong.
ST's own indicators are all prefixed 'ST' and shown in **black italics**.

Performance against 2005 objectives and objectives for 2006

	2005 objectives	Indicators	Trend
Company	Review of CR management systems by assurance providers Reassurance Network.		▶
	Revise and extend Environmental Decalogue into an EHS Decalogue.		▶
	Continuing implementation of Business Conduct & Ethics Policy.	<i>SO2</i> ; <i>STSO1</i>	▶
	Introduce formal non-compliance reporting (whistleblowing system).		▶
	Design new framework for CR including revised Code of Conduct.		▶
Economic impact	Improve reporting in Economic Impact and Performance including integration of overall company performance.		▶
	Publish data on timeliness of payment of suppliers.	<i>EC4</i>	▶
Social performance	Integrate Human Resources in company five-year plan.		▶
	Complete restructuring plan.		●
	Gender equality working group to propose company strategy to CR Advisory Council.	<i>LA10</i> , <i>STSO10</i>	▶
		<i>STS12b</i>	
	Improve internal mobility.	<i>STS13</i> , <i>STS14</i>	▶
	Collective People Review.	<i>STS21b</i>	●
	Competency referential.		
	e-Performance appraisal.	<i>STS21</i>	●
		<i>STSO15</i>	●
	Employee Opinion Survey integration with CR.		▶
	Employee Opinion Survey follow-up improvement.		●
	Health and safety: reduce recordable cases per 100 employees (RC Rate) by 10%.	\$9.1; <i>STHS1</i>	▶
	Health and safety: reduce number of days lost per 100 employees (Severity Rate) by 10%.	\$9.3; <i>STHS2</i>	■
	Health and safety: evaluate and eliminate workstation risk due to chemicals.	\$5.2	▶
Health and safety: maintain OHSAS 18001 certification on all ST manufacturing sites.		▶	
Human rights: review/revise policies and management systems.			
Environmental performance	Maintain ISO 14001 and EMAS validation on all ST manufacturing sites.	\$10; <i>STEV3</i>	▶
	Reduce energy consumption per unit of production by 5%.	\$4.1; <i>STEV31</i>	▶
	Increase use of renewable energy to 15% of total energy use by 2010 (internal target).	\$2.1; <i>STEV37</i>	■
	Reduce net PFC emissions by 10%.	\$3.5; <i>STEV46</i>	■
	Reduce water consumption per unit of production by 5%.	\$2.2; <i>STEV56</i>	▶
	Reduce chemical consumption per unit of production by 5%.	\$5; <i>STEV65</i>	▶
	80% waste to be reused or recycled.	\$6.2; <i>STEV72</i>	▶
	5% landfilled waste versus total waste.	\$6.1; <i>STEV73</i> ; <i>EN11</i>	■
		\$4.1; <i>EN1</i> ; <i>STEV23</i>	
		\$4.2; <i>EN1</i> ; <i>STEV23</i>	
	\$4.3; <i>EN1</i> ; <i>STEV23</i>		
	\$4.4; <i>EN1</i> ; <i>STEV23</i>		
Product responsibility	Preliminary review of energy-saving products.	<i>EN17</i> ; <i>STPR1</i>	▶
	Continue eliminating lead from products to ensure compliance with RoHS Directive before July 2006.	<i>EN14</i>	▶
	Preparation for compliance with proposed REACH Directive.	<i>STEV79</i>	▶
Supply chain management	Introduce new Supplier Code of Conduct.		●
	Join Electronics Industry Code of Conduct Initiative.		▶
	Transform exchanges with key material suppliers to electronic system.	<i>STSC6</i>	

2005 performance	2006 objectives
Review carried out – results published in this report.	Continue to assess implementation of CR throughout company.
EHS Decalogue published in this report.	
85% of eligible population (15% of total employees) signed through new e-signature system.	Target 100% eligible population and extend e-signature system to handling disclosure cases.
System introduced on company intranet.	
Task force drafted new Code of Conduct; proposal accepted; CR Awareness program deployed to top management worldwide.	Formalize ST Principles for Sustainable Excellence; deploy CR Awareness training to all employees.
Information published in this report.	
Information published in this report.	
Target achieved.	Participate in five-year plan.
Restructuring plan implemented 40% by end 2005.	100% implementation.
	Formalize Social Policy.
	Review and align social procedures with Principles of Sustainable Excellence.
Strategy discussed within CR Advisory Council; further discussion required in 2006; strong progress in France including negotiations with local and national unions.	Decide on company strategy; sign France-level agreement with unions.
	Define disability consistently to improve reliability of indicator tracking percentage of disabled employees.
Jobs posted internally down 1% to 68% in 2005. Jobs requiring experience filled internally were up 4% to 65% in 2005.	Medium-term target: 90% of jobs to be posted internally.
43% of professionals assessed in last two years as part of collective people review.	Continue to increase percentage of assessments.
Completed for France and Italy.	To be completed worldwide.
Partial roll-out of system.	Complete roll-out of system worldwide.
	Increase training hours.
	Improve newcomer and new manager training programs, and make mandatory.
Integration of employee concerns into framework and programs for corporate responsibility (e.g. Asia-Pacific and Rousset actions and CR Awareness training).	Link Employee Opinion Survey more closely to beSTICK self-assessment action plans.
2005 Employee Opinion Survey carried out; open questions introduced for first time.	Analyse new open questions; take specific corporate actions on worldwide issues.
	Reactivate corporate recognition process.
RC Rate reduced by 30%.	Reduce by 10%.
Severity Rate increased by 9%.	Reduce by 10%.
20,000 workstations evaluated in 2005 – 7% identified as posing significant risks (ST standard more stringent than local regulations); 50% of these eliminated.	Reach zero cases of risk by end 2006.
	Define and initiate new health program for employees.
All OHSAS certifications maintained.	Same target as 2005.
Human rights policy statements changed; 25 new indicators in internal self-assessment defining management systems.	Support local sites to implement new management systems.
Target achieved 100%.	Same target as 2005.
-1.5% front-end, -9.6% back-end versus 2004.	Same target as 2005.
2.04%	Same target as 2005.
+4%	Same target as 2005.
-5.2% front-end, -7.2% back-end versus 2004.	Same target as 2005.
-0.3% front-end, -21.6% back-end.	Same target as 2005.
73.3% front-end, 89.9% back-end.	Same target as 2005.
8.3%	Same target as 2005.
	Reduce pollution from VOCs by 10% in front-end.
	Reduce pollution from acidification by 5% in front-end.
	Reduce pollution from eutrophication by 5% in front and back-ends.
	Reduce pollution from heavy metals by 10% in back-end.
Review identified energy-saving products representing 4.3% of our total revenues.	Extend information network to identify more energy-saving products; establish monitoring system for new products.
95% of production in full compliance with RoHS (remaining 5% exempt) at end 2005.	
Working closely with other semiconductor companies on identification and phasing out of potentially harmful substances. PFOS only used in critical applications.	Phase-out of PFOS from non-critical applications by end 2006.
	Quality training for all employees.
Work focused on reviewing Electronics Industry Code of Conduct in place of specific ST code for suppliers.	EICC to be signed by 200 key suppliers; track response.
Joined in November 2005.	Continue participation.
	Formal information and training on EICC and related requirements for Purchasing and Supplier Quality teams.
25% of order cycle (volume) with key material suppliers by electronic exchange.	Target 50%.
	Seek formalized solution for tracking customer CR requirements in sales regions.

Looking back at ST's 2005 performance

The year 2005 was devoted to strengthening and reshaping our company to make it stronger and more competitive.

Today, customers in the Asia-Pacific region account for nearly half our total sales.

We redeployed over 1,000 R&D engineers to improve market share and profitability by getting our products on the market faster.



Working towards sustainable excellence

As a company, ST is committed to growing its business for the benefit of customers, staff, shareholders and all other stakeholders worldwide. This commitment to growth and prosperity is matched by a dedication to total quality and corporate responsibility. Our business continues to perform well, and we are investing in new products and technologies, while also continually ensuring that we meet these wider responsibilities.

The company, of course, does not live in a vacuum and its success is heavily influenced by world events and the global economy. In 2005, the global semiconductor market experienced a moderate increase in total sales after the strong growth recorded in 2004. Semiconductor industry revenues on our market increased year-over-year by approximately 7%. This increase was driven by unit demand while average selling prices remained basically flat, largely due to overcapacity in the industry. So, while there was significant demand for our products throughout 2005, this price pressure meant our success was not necessarily fully reflected in our revenue earnings. Our revenues increased by approximately 1% to US\$8,882m compared with US\$8,760m in 2004. This sales growth was driven mainly by successes in the computer peripherals, telecom and automotive markets. Declining sales price and the unfavorable US\$ exchange rate also had a negative impact on our gross margin, which dropped from 36.8% in 2004 to 34.2% in 2005, while our net income dropped from US\$601m in 2004 to US\$266m in 2005.

Implementing programs for higher performance

The year 2005 was devoted to strengthening and reshaping our company to make it stronger and more competitive. This has a number of benefits for everyone involved in the company and for its customers and those affected by its activities. Investment and restructuring offers us opportunities to improve the way we operate, and the changes we have made have always taken into account our commitments to social responsibility.

Increasing market share

We have reorganized in Japan, and we are expanding sales, design and support resources to take positive steps to gain market share. Our creation in October of a new 'Greater China' sales region covering China, Hong Kong, and Taiwan reflects the growing importance of this region. Today, customers in the Asia-Pacific region account for nearly half our total sales, and shipments within China are responsible for over half of our Asia-Pacific volume.

We have also increased our efforts to develop new online tools to help us grow in the wider mass market, where we aim to make the most of our technical know-how. We also launched a quality awareness program, extending the product quality progress made with our automotive products to other areas. Finally, we have begun strong campaigns to increase our market share with potential key customers, six of these in Asia, four in the US and two in Europe.

Improving R&D effectiveness

We have cancelled a number of lower-priority projects and focused our efforts on higher-priority developments, to improve market share and profitability by getting our products on the market faster. To do this we redeployed over 1,000 R&D engineers, which represents around 10% of our total R&D workforce.

Reducing costs

In addition to launching several initiatives in 2005, we have continued the transfer of 6-inch wafer manufacturing to Asia (Singapore), to reduce cost as well as allowing our company to redeploy the Europe- and US-based workforce on state-of-the-art manufacturing activities (8-inch and 12-inch technologies). We have also centralized some key corporate functions such as purchasing, logistics and IT, in order to be more effective; in the purchasing area only, this has allowed us to save over US\$100m a quarter (Q4 2005 compared with Q4 2004).

We are now the number one camera module manufacturer in mobiles worldwide, expanding our product range to three and five megapixels.

We have reinforced our presence in the automotive market, winning designs in new generation braking systems.



Last but not least, we have launched a significant restructuring program, aimed at reducing our workforce by about 3,000 (approximately equivalent to US\$90m a year), mainly in our European and Mediterranean sites; at the end of 2005, this program was almost halfway to completion (see page 41).

Pushing back the boundaries

ST's commitment to pushing back the boundaries of technological progress is demonstrated through innovative product development.

We have been winning business in the wireless market, offering high-value products for 3G applications as well as processors for smart phones and feature phones in Europe and Asia; we have also started to supply several customers with Bluetooth and wireless LAN devices, and we are now the number one camera module manufacturer worldwide, expanding our product range to three and five megapixels with integrated autofocus. We provide Flash memories to the top five cell phone manufacturers, and we have introduced a common standard for these products together with Intel.

We are expanding our product offerings in the digital consumer segment, with a strong position in high-definition TV, set-top boxes and DVD players. There is a growing demand for our products in China, Korea and Japan, on top of our traditional European and US market.

We have reinforced our presence in the automotive market, winning designs in new generation braking systems, as well as in safety and power-steering applications, including in China. ST is number one for digital satellite radios, in a market of over nine million subscribers.

We have developed a revolutionary Lab-on-Chip called 'In-Check™' device (see page 55), which allows molecular diagnostics on silicon, dramatically reducing the time and complexity of the instrumentation needed, as well as the risks of cross-contamination inherent in conventional analysis methods.

We maintain our leadership in the computer peripherals and industrial markets, focusing on hard disk drives, printer heads, power conversion for wireless and personal computers, and advanced analog devices.

Investing for the future

In 2005, we continued to invest in upgrading and expanding our manufacturing capacity. Total capital expenditures in 2005 were US\$1,441m, which were financed by net cash generated from our operating activities. We also continued to invest resources into R&D in front-end and back-end. R&D costs for 2005 were US\$1,630m, or 18.3% of net revenues, compared with 17.5% in 2004.

Business outlook

We expect moderate industry growth to continue through 2006; in this context, we expect that our quantifiable initiatives across manufacturing, cost efficiencies and capital management, will lead to significant improvements in our earnings and return on capital.

As we reshape ST into a more competitive industry leader, we are better positioned to re-establish our long-term financial and growth objectives.

Significant events 2005

In March, Carlo Bozotti was appointed President and Chief Executive Officer.

Joint semiconductor R&D activities within the Crolles2 Alliance now include R&D related to wafer testing and packaging.

Our creation in October of a new 'Greater China' sales region covering China, Hong Kong, and Taiwan reflects the growing importance of this region.



In January, we created a Corporate Executive Committee, consisting of five corporate executives in addition to the COO and the CEO. The Committee is responsible for corporate policy, coordinating the strategy of individual corporate functions, and driving major cross-functional programs. In March, Carlo Bozotti was appointed as both our President and Chief Executive Officer, making him the new sole member of the Managing Board.

Also in January, we expanded the scope of our joint semiconductor R&D activities with Philips Semiconductors and Freescale to include R&D related to wafer testing and packaging, in addition to the original development of sub-100nm CMOS process technologies. This was the first of two significant events for the Crolles2 Alliance in 2005. The second came in April when we reached a preliminary agreement to cooperate on the creation and validation of high-level System-on-Chip (SoC) intellectual property (IP) blocks. We also announced our intention to collaborate across libraries.

Another significant development that took effect from the start of 2005 was the realignment of our products groups to increase market focus and realize the full potential of our products, technologies, and sales and marketing channels. As a result, we now report our sales and operating income in three product segments:

- The Application Specific Product Groups, consisting of three product lines – our Home, Personal and Communication products (HPC), our Computer Peripherals Group (CPG) and our Automotive Products Group (APG)
- The Memory Products Group (MPG), consisting of our memories and Smart card businesses
- The Micro, Power, Analog Group (MPA), consisting of the greater part of our former Discrete and Standard ICs Group, and our standard microcontroller and industrial devices – including the Programmable Systems Memories (PSM) division previously forming part of the MPG.

In April, together with Hynix Semiconductors, we began construction at the site of a new front-end memory-manufacturing facility in Wuxi City, Jiangsu Province, China. This follows our announcement in November 2004 of a joint-venture agreement with Hynix Semiconductors.

The following month, in May, we announced additional restructuring measures to recover our profitability including the reduction of our workforce outside Asia to a total of approximately 3,000 people by mid-2006. We anticipated that these new measures would create additional savings of US\$90m per year when they had been fully implemented.

Our creation in October of a new 'Greater China' sales region covering China, Hong Kong, and Taiwan reflects the growing importance of this region. Today, customers in the Asia-Pacific region account for close to 50% of our total sales, with shipments within China responsible for more than 50% of the Asia-Pacific volume. Looking ahead, China is expected to make up one-fifth of the global semiconductor market within the next five years. Our creation of a Greater China sales region is therefore an important step in strengthening our success in this fast-growing economic zone.

Activities of the Corporate Responsibility Advisory Council 2005



In 2005, the only significant change to the organizational framework for corporate responsibility was the composition of the Corporate Responsibility Advisory Council. In 2004, the members represented corporate functions relevant to CR: legal, Human Resources, external communication, internal communication, EHS, investor relations, purchasing, finance, quality and CR.

In 2005, the Council (previously Corporate Responsibility Steering Committee) was reorganized in order to be composed of higher-level management (Corporate Vice Presidents and one hierarchical level below), and site and regional directors covering France, Italy, Malta, Asia-Pacific and the United States were included as permanent members. See <http://www.st.com/stonline/company/cr/company/governance/organization.htm> for a complete version of this chart, including committee members.

The Council met twice in 2005 and oversaw the following programs and activities:

- The work of a Corporate Code of Conduct Task Force to develop the new company code of conduct and propose the roadmap for its implementation
- The continuing development of a Corporate Responsibility Awareness campaign, including its deployment to the top management of 17 manufacturing sites and the Asia-Pacific, Europe and Japan sales regions. Preparation for its deployment to all employees in 2006 by e-learning
- Revision of internal self-assessment questions for corporate responsibility, especially human rights; ongoing consultation with human rights NGOs in Europe and Asia-Pacific
- Presentation of the results of the corporate working group on gender equality
- Membership and participation in the Electronics Industry Code of Conduct (EICC) initiative within the wider ICT supply chain initiative
- Continuing engagement with the SRI community and inclusion in the main sustainability indices; adoption of One Report
- Continuing engagement with business networks for corporate responsibility (e.g. CSR Europe, EFQM, WBCSD, Philiat and Sodalitas)
- Continuing engagement with our customers to understand their expectations and requirements regarding CR
- Continuing engagement with the Reassurance Network as part of the assurance process of our management systems for corporate responsibility.

Governance and management systems

FRAMEWORK FOR SUSTAINABLE EXCELLENCE

As in the past, ST is growing organically and in response to changes in the external world reflecting the importance attributed by society to responsible business behavior. Building on our strong values and pioneering activity in the domain of social and environmental responsibility, in 2004 we initiated a process to explore how best we could renew our commitment to corporate responsibility in today's world, 16 years after the shared values were first introduced.

In 2005, we acknowledged this process of evolution and continuous improvement by changing the name of the organization responsible for Quality, Environment, Health and Safety, and Corporate Responsibility from 'TOEM' to 'TOCR' which stands for Total Quality and Corporate Responsibility. Responding to our stakeholders' expectations has been embedded in our total quality approach since the early 1990s, but our reference to TOCR and, more recently, to 'Sustainable Excellence' reflects the extension of our framework for corporate responsibility to acknowledge a wider set of stakeholders and corporate responsibility considerations.

The term 'Sustainable Excellence' draws on the belief we hold that our ability to respond to our stakeholders' expectations in the short and long term will make our company 'sustainable' – successful now and in the future – and enable us to contribute to sustainable development at a global level.

In 2006, we will finalize our new code of conduct, which we have been working on in 2005, and we will begin deploying it throughout the company. This document, which brings together some of the key elements of our Shared Values in a new context, is called the Principles for Sustainable Excellence. It will serve as the formal reference for corporate responsibility in the company, and will contribute to defining our culture and guiding our employees in responsible business behavior. Please visit <http://www.st.com/stonline/company/cr/company/governance/principles.htm> to view the Principles for Sustainable Excellence.

The design and development process of our framework for Sustainable Excellence has been gradual, and this reflects our intention to ensure that it is fully integrated, not just in the official policies and procedures of the company, but more importantly in the decisions and actions of our employees.

CORPORATE GOVERNANCE AT ST

Information on corporate governance can be found at: <http://www.st.com/stonline/company/cr/company/governance/corporate.htm>

Our 20-F report – <http://www.st.com/stonline/company/annual/index.htm>

Our Corporate Governance Charter – <http://www.st.com/stonline/company/governance/index.htm>

"There is no immediate threat to ST's ongoing business operations. Its commitment, culture, approach, systems, and capabilities are all generally at the forefront of corporate responsibility management when compared with most other companies.

There is no clear definition of corporate responsibility (or sustainability) that is consistently understood across the organization. Neither is there a clear, risk/opportunity-based business case.

Recently, ST has been exposed to deeper probing from external stakeholders (mainly investors and customers) on a wider range of issues, including ST's supplier management, employee diversity, and business ethics."

Reassurance Network – assurance provider

“Actions and achievements on CR will directly impact in the long term the profitability and business sustainability of the company. I am convinced it would positively impact the value of the ST brand across all products, to the point that customers would agree to pay a reasonable premium and would show long-term loyalty to our products.”

Maurizio Paganini – Design, Grenoble

BUSINESS ETHICS

S02, ● STS01

In 2005, our Business Conduct and Ethics policy was updated through the introduction of an e-Signature system. The core target (about 15% of total employees) is middle to upper management plus staff in specific functions (purchasing for instance). Some sites have extended the system to all employees, and all sites have acted in full compliance with legislation regarding the collection and filing of electronic data. At the end of 2005, about 83% of eligible employees had used the new system to sign our Business Conduct and Ethics policy. However, the coexistence of e-Signature and paper processes means that the real figure is probably higher. Local Human Resources managers are responsible for the compliance process.

We aim to make further improvements in 2006, increasing use of the e-Signature system to 100%, and implementing the process for handling disclosure cases.

In 2005, we also set up a formal company-wide non-compliance reporting (whistleblowing) system on our intranet. This supports existing local non-compliance reporting systems already in place.

▶ STS01: 2005 Business Conduct and Ethics policy		%
		2005
Percentage of eligible employees who signed the Business Conduct and Ethics policy (eligible = approximately 15% of total population)		83

(*) This is a new indicator this year and has been identified as key to measuring our CR performance.

“For me, the most important aspect of CR is to be kind and fair to our next generations.”

Solomon NG – Design, Shanghai

CORPORATE RESPONSIBILITY ISSUES, RISK MANAGEMENT AND RELATED POLICIES

We define our corporate responsibility issues as those specific topics that have the potential to impact us – or one or more of our stakeholders – in our ability to create financial or non-financial value. These are areas requiring a special effort that exceeds any ‘business as usual’ approach.

Through continuing dialogue and engagement with our stakeholders, as an integral part of our business activity, we have identified a number of important corporate responsibility ‘issues’ that we believe we should focus our attention on specifically. These may be longstanding, recent, specific to our industry, particular to our company, or simply reflect a general concern relating to the impact of business on society.

These key issues are listed in a table at <http://www.st.com/stonline/company/cr/company/governance/performance.htm>, together with more general issues or areas of activity relating to CR. The issues are presented in the context of three aspects:

- The triple bottom line and our CR Report structure
- Some of the material risks disclosed in our 20-F report
- The policies and high-level documents that support our governance structure and organization.

More information can also be found in our CR Issues in Context diagram at <http://www.st.com/stonline/company/cr/company/profile/issues.htm>.

Looking at our CR issues in the context of these wider aspects serves as a general illustration of the ‘business case’ for CR; in other words, the business benefits of strong implementation of CR through the company’s business activities and some of the related risks and opportunities.

Our management systems for CR include a comprehensive self-assessment tool, beSTick <http://www.st.com/stonline/company/cr/company/governance/performance.htm>, which allows sites and organizations throughout the company to evaluate and monitor their CR performance, and manage risks and opportunities accordingly. The organizational framework for CR, see page 11 and <http://www.st.com/stonline/company/cr/company/governance/organization.htm>, which includes the beSTick tool used by Local Sustainable Excellence Committees, is designed to monitor CR risks and bring them to the attention of higher levels of management as quickly and effectively as possible.

Stakeholder engagement

We have many different groups of stakeholders and we engage with them in a variety of ways. Much of our stakeholder engagement takes place at local or regional level.



In 2005, we introduced new questions on stakeholder engagement into our beSTick self-assessment, which is used by all of our sites and regions to assess their overall company performance. The contents of the self-assessment serve to guide Sustainable Excellence steering committees in setting up and maintaining their management systems for corporate responsibility, to evaluate their performance, manage risks, and set up action plans for the gaps that are identified.

In 2006, we will work with Philius, the Swiss National Partner of the CSR Europe business network, to carry out a project on stakeholder engagement at corporate level. This forms part of the process of progressively formalizing our management systems for stakeholder engagement, in line with CR strategy.

Throughout this report, we have included quotes from employees who attended one of the half-day CR workshops we do four times a year within ST University's Advanced Management Program, to give an insight into how CR is perceived internally. We have also included excerpts from the Reassurance Network's review of CR at ST, to add an external perspective. A summary of this review is included on page 65. In many cases our evolving CR strategy and our performance results show how we have worked to integrate and respond to this external perspective.

For a full list of our stakeholders and a description of how we engage with them and understand their expectations, see <http://www.st.com/stonline/company/cr/companystakeholder/index.htm>.

"STMicroelectronics is a sustainability pioneer. We particularly noted strong performance in the fields of environment, community involvement, and Human Resources management. ST's 'Environmental Decalogue' addresses all of the industry's key environmental issues with ambitious targets and a long-term environmental approach. In its efforts to tackle the 'digital divide', ST efficiently leverages its 'train the trainers' expertise with promising results. And with regard to Human Resources management, we see that long-term Human Resources management is clearly integrated into the company's corporate strategy and processes. In the area of corporate governance, we would appreciate greater levels of disclosure.

With regard to the report, it is detailed and factual, and also honest, because it names strengths and weaknesses. ST uses detailed measurement systems and pursues validation of its CSR reporting by its external auditors. We particularly appreciated the new chapter on lobbying and the chapter on business risks and opportunities."

**Sylvain Vanston – Technology, Media & Telecom Team Leader, Vigeo Group
Feedback on 2004 Corporate Responsibility Report**



Lobbying

At the corporate level, we interact with government authorities on a number of key issues specifically related to our sector and where we have significant influence.

These issues largely involve environmental subjects – such as CO₂ emissions from the use of Perfluorinated Compounds (PFCs) and the use of hazardous substances in our operations – and topics relating to the strategic direction of our R&D, mainly in Europe.

We often advocate more stringent regulations and occasionally lobby to prevent a ban on chemicals for which there are no current alternatives. We lobby via industry associations and this generally involves voluntarily committing to the maximum possible reduction in the relevant chemicals or emissions until a viable alternative is found.

In 2005, there have been no significant changes to our lobbying activities. Please consult our website for more details of past or existing activities: <http://www.st.com/stonline/company/cr/companystakeholder/lobbying.htm>.

S02, S03

Regarding public policy, our sites work with local authorities according to the company's shared values and principles of business integrity. These are set out in our policies on Business Conduct and Ethics, and Conflict of Interests, and prohibit the use of any kind of bribes or illicit payments. ST also refuses financial support to political parties or groups, see <http://www.st.com/stonline/company/cr/companystakeholder/lobbying.htm>.

The importance of the long-term view

There were short-term pressures in 2005 but ST has succeeded in maintaining its focus on longer-term value creation, argues Chief Financial Officer and Executive Vice President Carlo Ferro.

2005 has been a year of refocusing priorities and reallocating resources in the spirit of Execution Excellence. Within this context there is no doubt considerable pressure across the company to improve financial bottom-line performance. Is this performance being sought at any cost, or are we managing to maintain ST values?

Well, in 2005 we did concentrate intensely on recovering profitability and building shareholder value, these are key objectives and necessary for the existence of a public company, consistent with all ST values, especially our strong focus on people. Employees remain the key asset of a technology company. Indeed our various programs of Execution Excellence are all about empowering people and making them accountable for decisions and results.

What exactly were our expectations regarding performance?

The key performance target at ST is to generate a return on Invested Capital substantially higher than the Weighted Average Cost of Capital, as we believe that by doing so a company creates shareholder value and establishes the right conditions for sustainable growth and prosperity for all stakeholders. We pursue this objective over time, in a sustainable way, as opposed to targeting short-term success. Cost efficiencies are relevant, but expansion of the customer base and product innovation are even more crucial. Continuing to invest capital while pursuing higher return is

important as well. ST has aggressively addressed all four of these dimensions in 2005. We have achieved steady progress in each of them and now have good momentum for continuous improvements.

This is not a short-term effort. We have devoted 18.3% of our revenue in 2005 to Research & Development and 16.2% to capital expenditures: overall one third of our revenue has been invested in the future.

Another characteristic of 2005 has been the strong external pressure on companies regarding governance and financial accountability, for example the need to comply with Sarbanes-Oxley. How has the Finance department responded to these changes?

Yes, there has been an increase in the reporting requirements facing us. For example, we have had to comply with new US, Dutch, and international accounting regulations (e.g. US GAAP, IFRS). The bedrock of our approach remains complete transparency and an open response to disclosures required by any regulator. Compliance with Sarbanes-Oxley is important, and is something we have done even beyond pure compliance to regulation. Our CEO and I, for instance, voluntarily submit quarterly certification under rules 302 and 906 of Sarbanes-Oxley that are not required for foreign registrants. Indeed, the fact remains that as normal practice, companies must

ensure effective internal controls. In short, for ST, Sarbanes-Oxley is an expansion of our existing business practice rather than a change in our culture.

Can you give some examples of how we are balancing short-term financial objectives with longer-term value creation?

Just look at our reallocation of Research & Development resources. This was not a decision taken for the short term. The management perception was that we had sufficient dedicated resources, but that they needed to be redirected to higher priority programs. So, instead of cutting our total R&D workforce, we redeployed about 10% of it to programs focused on decreasing our time to market, a very clear goal relating to our current performance. In other areas we did take action to reduce costs, such as exiting certain product families, but these decisions were made based upon performance results. This fact-based methodology is extremely important, as resources are being reduced only where the returns expectations are not being met, rather than across the entire company.



“Our focus is to be where our customers are and competencies exist. This is still significantly in the USA and Europe, and faster-growing Asia.”

Carlo Ferro – Chief Financial Officer and Executive Vice President

Do you think investors today put too much emphasis on short-term objectives? If so, how can companies like ST help shift the balance back to reflect the medium- to longer-term picture?

There are various categories of investors. The Socially Responsible Investment sector is a good example of prioritizing sustainable performance. In the end management doesn't drive investor expectations but must understand them, translate them into a sustainable long-term plan, and focus on execution toward results. I do not personally perceive increased focus on the short term with investors. On the contrary, a deeper, longer view of value creation is increasingly becoming part of mainstream analysis, and this helps a company like ours to think long term.

There is a lot of debate today about the competitiveness of Europe in the global market. One reason why European companies, including ST, are having a hard time is because of the Euro-dollar currency exchange. Among the strategies ST is using to minimize this impact is to focus more of its activity in Asia. What do you see as the risks and opportunities of this approach?

ST is a global company with strong roots in Europe and a marketing and manufacturing presence worldwide. Europe is where we still have almost half of our workforce, with approximately 25,000 employees.

Our focus is to be where our customers are and competencies exist. This is still significantly in the USA and Europe, and faster-growing Asia. This means we work in a number of different geographies and leads to a mismatch between the currencies of our sales and our costs. The way we are trying to reduce the mismatch is by balancing our geographic presence, growing in Asia faster than in Europe, as all the semiconductor industry does.

In addition we also deal with financial hedging where we try to smooth the currency impact over time, but cannot completely eliminate it. Our actions have improved the currency balance of our cost structure. Costs in US\$, the currency that denominates revenues in the semiconductor industry, are currently approximately 50% of our total costs, or 10 points higher than three years ago, before we started our plan of natural hedging. At the same time we have mitigated our exposure to the Euro, which still remains relevant. The currency exposure is a problem not only for ST or the European semiconductor industry; it is a general issue in Europe that should raise some alarm for the effect of the monetary policy in Europe on the competitiveness of European Industry.

Carlo Ferro
Chief Financial Officer and
Executive Vice President



In search of the virtuous cycle

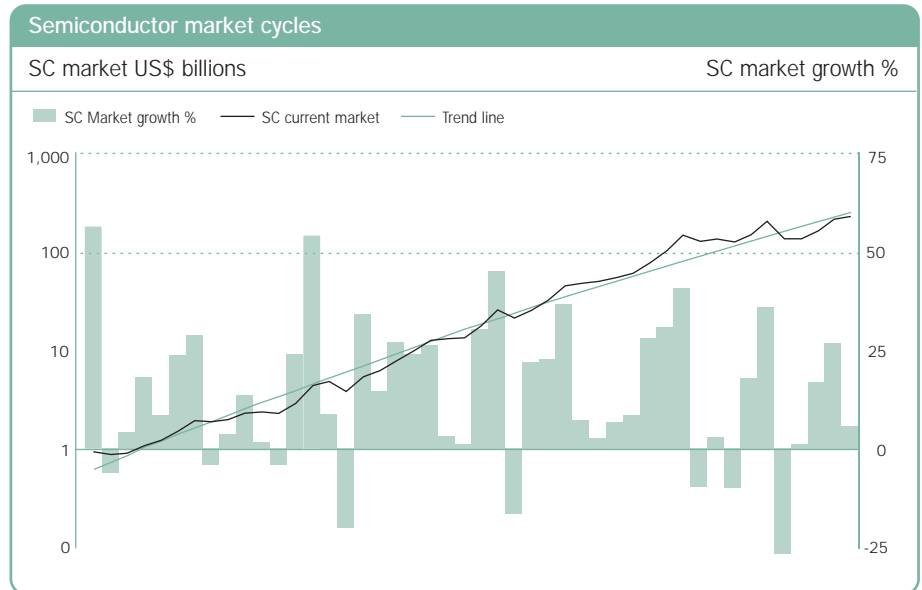
The growth rate graph of the relatively young semiconductor market charts a roller coaster of sharp peaks and troughs caused by myriad reasons, some common to all industries, some unique to the technology sector. This presents serious issues for the economic success of the companies in the market, and periods of natural instability for people working within the sector.

Jean-Philippe Dauvin is ST's Group Vice President of Knowledge and Education, known slightly less formally as the company's chief economist. Jean-Philippe has, by his own chuckling admission, been around for many of these market cycles. Here he tells us how he brings his experience to bear – in harness with the whole spectrum of traditional economists' tools and disciplines – for the good of ST and its people.

“There is still plenty of growth potential in semiconductors, fuelled by applications of new technology. There is the push of technology into developing countries and the pull of new demand from the developed world. Like any industry there are market cycles, and we have the short three- to five-year, almost traditional, market cycle. But in semiconductors we also have longer 10-year cycles caused by changes in usage, technology, and geography of the market, and so on – and these can involve extraordinary upturns and downturns. As our industry matures and these dramatic up and downturns soften, companies in our sector must adapt their business models to survive.

Manage the short cycle by planning for the upturn

The short cycles we could say are typical of any industry, adjustments in supply and demand, ups and downs of pricing, inventories, product life-cycles. We are able to forecast, monitor and manage these far better as the industry matures. We learn to spread the life of products, and the more we understand the needs of our customers, the more we can help them control levels of inventory, for instance in supporting their Just in Time manufacturing needs. But if swings are as dramatic as 40% then the industry is responsible for great social impact, with much hiring and firing.



Source ST

The long cycle – recognize the new planet

Managing each long cycle realistically means adapting to a new landscape. Remember the days before IT was used in accounting and payroll, these functions were carried out by armies of clerks – that landscape has obviously changed. Sometimes these changes can be incredibly dramatic, as different factors collide – and today we are facing a new semiconductor world molded by what I call the four Cs – consumer, China, cost and consolidation.

We are now in a consumer-driven business. In the developed world TV is reaching saturation, PCs and mobiles are slowing but there are constantly new consumer applications, which means a continuous price drop for semi-conductors. But like it or not, to compete, the functionality must improve within the price drop, so the cost of R&D increases. Therefore there is consolidation, as the industry can be challenging for small companies. So to the other C, China (and India too). These are huge markets, that's where the customers are, that's where 75% of the world's household appliances are built. Just as the US was for PCs 25 years ago, and Europe for digital handsets 15 years ago, China will soon be the new electronic power of the world, and we plan to be part of that process.

So we are hiring and training locally in China, but as always innovation is the way forward, and nowadays where we design product isn't necessarily where we ship product, which used to be the traditional indicator. The real picture is that Europe is still important, it is where we do the high added-value design. So while we are increasing the payroll in China, we are also increasing the payroll in Europe and the US – all part of adapting to the new planet while maintaining our roots.

" The advanced position that ST currently enjoys could easily be eroded, given that the bar is getting higher, key competitors are not standing still, and that there are always more urgent financial and commercial priorities competing for time and resources."

Reassurance Network – assurance provider

Knowledge and Education

Yes, that's my job title, and the two are inextricably linked. In my job as an economist I have just four people using the traditional arsenal of the economist to understand the demand for our work, and what the competition is doing. Just as importantly we have to communicate this around ST. Not just in our continually revised forecasts and market indicators for senior management, but to tell everybody the market trends, so everybody understands the environment we are working in – the need for speed in innovation or flexibility in projects, the extra market information to help our sales teams perform successfully.

This way, everyone at ST understands the market picture, understands what they need to do, and can participate effectively. We do this through the intranet, through e-learning, *World Class* magazine, site road shows. As far as I am aware this employee engagement in the market environment is unique, so in itself it's an innovation – an innovation in behavior. Just as important is our external communication.

The signals that point to new routes to profitability

I mentioned the ever-changing landscape. Our role is to predict this landscape, to look for the signals, however weak, of future applications for our technology. For instance, what will people use their mobile phones for, how can we get our low-cost photovoltaic energy technology to market, what will robotics mean to us?

Currently a good example of where we are looking at future applications is in healthcare. We have to explore the issues, understand the reality of where chips will be used and how, for surveillance, diagnosis, treatment and the like. The new business potential of these new technologies is generally in the developed world – for instance the Japanese use of robotics for elderly health care.

So there you have it, that's my role. To understand where our business is going and where it can go. And then to tell everyone!"

Jean-Philippe Dauvin
Group Vice President, Knowledge and Education

Economic performance overview

This section shows our wider economic impact on stakeholder communities.

Customers

The semiconductor industry is highly cyclical and has been subject to significant economic downturns at various times. This means performance can vary significantly from one year to the next.

EC1: ST sales

	2003	2004	2005
US\$m	7,238	8,760	8,882

Last year our Serviceable Available Market (SAM) increased by 7% while STMicroelectronics grew by 1.4% only, losing market share in 2005 compared with 2004. However, over the last 15 years, the SAM has grown at a compound annual rate of approximately 10%, while our own annual growth has been, over the same period, close to 15%. According to various industry sources, we are a solid member of the top five semiconductor companies worldwide.

EC2: ST7: Sales by region^(*)

	2003	2004	2005
Asia-Pacific	44.1	42.4	45.7
Emerging markets	5.8	6.9	6.6
Europe	31.9	32.3	31.4
Japan	4.6	4.6	3.5
North America	13.6	13.8	12.8

(*) The sales are split by region of shipment of our products; in many cases, the sales process originated in another country (Europe and the USA in particular), at design level with our customers.

Our sales have again increased in the Asia-Pacific region last year, confirming the well-known long-term trend, and leading to the creation of Greater China as a new sales and marketing region within our company. Our sales in Japan did not increase, and a new organization has been implemented to support our expansion program in this country. In both China and Japan we are expanding sales, design, and support resources to gain new customers and new applications in current customers.

We serve five main market segments: Automotive, Computer, Consumer, Industrial and Telecom.

STE9: Sales by market segment

	2003	2004	2005
Automotive	14	15	16
Computer	18	16	17
Consumer	20	21	18
Industrial	15	16	14
Telecom	33	32	35

Telecom is our primary market, and Nokia is our largest customer representing 22% of our sales in 2005; no other customer exceeds 10% of our sales. We also sell through distributors (18% of our revenues). Partnerships are integral to our business, and we have entered strategic alliances with a number of key customers such as Alcatel, Bosch, Hewlett-Packard, Marelli, Nokia, Nortel, Pioneer, Seagate, Siemens-VDO, Thomson, and Western Digital.

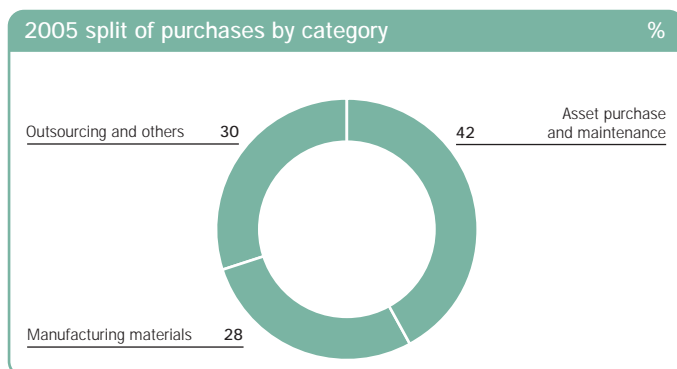
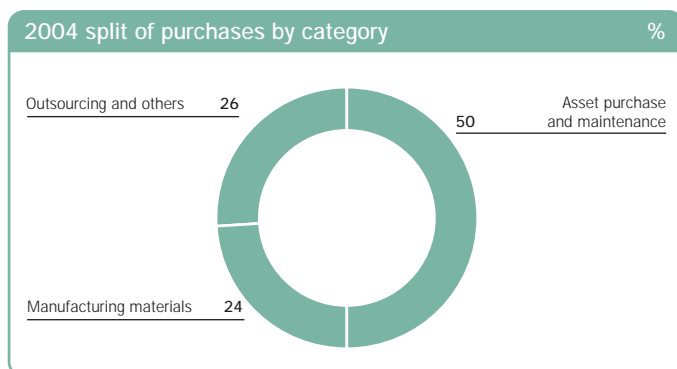
Suppliers

Among the main types of supplier in our business we use are: equipment suppliers, raw material suppliers, and external subcontractors:

- Equipment suppliers: the quality and technology of equipment used in semiconductor manufacturing processes define 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.
- Raw materials: these include silicon wafers, lead frames, molding compounds, ceramic packages, and very high-purity chemicals and gases. Because we depend on a limited number of suppliers for several materials, we have developed strong partnerships over time to avoid disruptions and improve quality.
- Subcontractors: we use them to outsource wafer manufacturing, and assembly and testing of finished products. Depending on the market conditions and our own available capacity, these subcontractors represent a significant proportion of our activity, allowing STMicroelectronics to optimize its capital expenditures strategy and focus on critical proprietary processes.

EC3; ▶ STE1: Payments for purchases of tangible assets

	2003	2004	2005
US\$m	1,221	2,050	1,441



While the amount paid to suppliers of tangible assets is an official and audited figure also published in the 20-F report (page 5), the split of purchases between tangible assets, materials and others is based on different data sources and time frames; it aims at giving a realistic visibility on the most important economic flows between ST and its main supplier categories, but it should not be considered as official and audited accounting information.

This year, we have decided not to publish the split of our purchases by region, because in many cases what we buy in a given country may in fact be imported from another country, and the resulting data are very difficult, if not impossible, to analyze.

Employees

STE7

The overall company headcount has increased again in 2005, especially in Asia (+1,070 headcount). The other regions are globally flat, with a slight decrease in Europe (-342 headcount) and Africa (-59 headcount). See page 32 for more details.

In 2005, we announced a headcount restructuring plan that, combined with other already announced initiatives, will aim to reduce our workforce by 3,000 outside Asia by the second half of 2006. Our workforce gross reduction in Europe will represent about 2,300 jobs of the 3,000 already announced. For more information about our restructuring activities in 2005, see page 8 of our 20-F report and page 41 of this report for the status at the end of 2005.

Our employees in Asia now represent 35.2% of our population, up from 27.5% in 2001. This increase goes hand in hand with increased production in this part of the world. Our 6-inch wafer production capacity in Asia (Singapore) is now more than 60% of our total 6-inch capacity worldwide. However, we still maintain a strong presence in Europe and Americas (+1,340 headcount since 2002).

We hired 5,543 staff in 2005, including 3,100 operators primarily employed in manufacturing sites (Asia). This level of hiring was necessary to compensate the natural turnover (overall headcount increase was only 500 people in 2005), and also to adapt our workforce profile to the needs of the market.

Public society

EC10

For details of donations to the community and civil society, please see the Social performance overview on page 37.

Research & Development

We believe that Research & Development (R&D) is critical to our success, and we are committed to continue investing in R&D in the future. The main R&D challenge we face is to continually increase the functionality, speed and cost-effectiveness of our semiconductor devices, while ensuring that technological developments translate into profitable commercial products as quickly as possible.

Our policy in the field of R&D is market driven and is focused on leading-edge products and technologies in close collaboration with strategic alliance partners, leading universities and research institutes, key customers, and global equipment manufacturers working at the cutting edge of their own markets.

STE3, STS44

– Number of partnerships with universities, colleges and schools: 217

We have a number of strategic alliances and partnerships with customers, suppliers and other semiconductor manufacturers. For more details, see page 33 of our 20-F report.

Our two major technology centers are Crolles2 Alliance, France, and Agrate, Italy. Other advanced R&D centers include Catania and Castelletto in Italy; Grenoble, Tours and Rousset in France; Phoenix, Carrollton and San Diego in the USA; Ottawa in Canada; Bristol and Edinburgh in the UK; Bangalore and Noida in India; Beijing, Shenzhen and Shanghai in China; Singapore; and Geneva in Switzerland.

We cooperate with Philips Semiconductors and Freescale as part of the Crolles2 Alliance to jointly develop sub-micron logic processes to provide 90nm to 32nm chip technologies, and to build and operate an advanced 12-inch wafer pilot line. In 2005, the Crolles2 Alliance extended the scope of cooperation to include R&D related to wafer testing and packaging. We have worked with Texas Instruments since 2002 to define and promote an open standard for wireless application processor interfaces; this initiative has now broadened and is known as the MIPI alliance, which includes over 92 members that collaborate as mobile industry leaders. We have consistently maintained our R&D effort over the past years, whatever the market conditions have been, as demonstrated by the following figures:

► STE4: R&D expenditures

	2003	2004	2005
US\$m	1,238	1,532	1,630

► STE5 : R&D headcount evolution

	2003	2004	2005
Headcount	5,254	6,003	6,570

► STE5 : R&D headcount by region

	Europe	Americas	Asia-Pacific	Others	TOTAL
Employees	4,632	317	1,425	196	6,570

(*) This indicator has changed compared with last year. The R&D headcount now refers specifically to R&D engineers involved in Product Development and R&D Process and Technology. Last year administrative staff and operators were included in the headcount.

In 2005, we reallocated about 10% of our total R&D resources in favor of higher-priority projects for both process technology development and product design, with the aim of increasing the efficiency of our activity and accelerating product innovation.

Our success depends in part on our ability to obtain patents, licenses and other intellectual property rights covering our products and their design and manufacturing processes. To that end, we continue to seek patents on our circuit designs, manufacturing processes, packaging technology, and other inventions. We maintain our strong IP portfolio (over 19,000 patents) with a constant flow of new patents:

► STE6: ST patent applications filed by region

	2004	2005
Italy	239	253
France	245	310
Rest of Europe	75	69
Americas	69	39
Asia-Pacific	86	49
Total	714	720

Governments

Taxes are part of our normal economic contribution to society, but we operate in many jurisdictions with highly complex and varied tax regimes. Our tax rate is variable and depends on changes in the level of operating profits within various local jurisdictions and on changes in the applicable taxation rates, as well as changes in estimated tax provisions due to new events. We currently enjoy certain tax benefits in some countries, and these benefits may not be available in the future due to changes in the local jurisdictions.

EC8: All taxes paid

	2001	2002	2003	2004	2005
US\$m	97	146	41	168	122

Shareholders

We seek to use our available cash in order to develop and enhance our position in the very capital-intensive semiconductor market while at the same time, managing our cash resources to reward our shareholders for their investment and trust in us. Based on our annual results, projected capital requirements as well as business conditions and prospects, the Managing Board proposes each year to the Supervisory Board the allocation of our earnings involving, whenever deemed possible and desirable in line with our objectives and financial situation, the distribution of a cash dividend.

EC6: Dividends paid

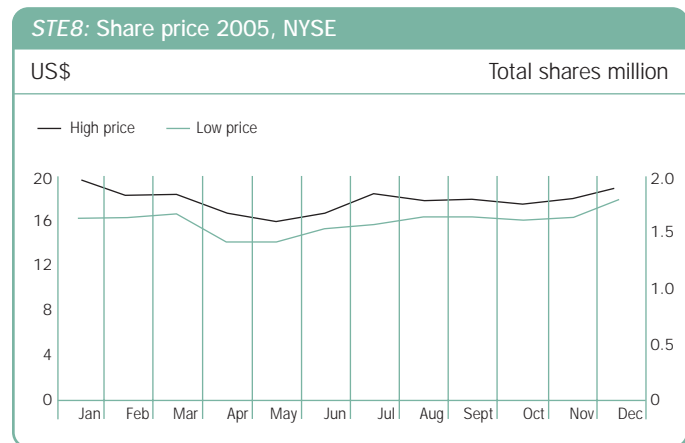
	US\$m		
	2003	2004	2005
Dividends	71	107	107

Our common shares (approximately 894 million as of December 31, 2005) are traded on the NYSE, on the Euronext Paris, and on the Borsa Italiana in Milan. The evolution of the share price is shown opposite.

Share price and volume

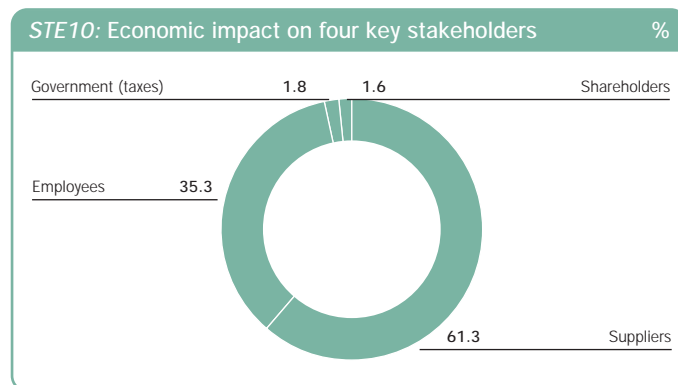
STE8

(For more information please refer to 20-F pages 120–125)



Overall economic impact on key stakeholders

This chart shows the economic impact of ST on four of its key stakeholders.



Please note that while this chart aims to give a clear picture of the economic flows between ST and its main stakeholders, it is not a precise and audited reporting of ST financial data. The retained earnings are not included in this graph, as they are not distributed outside the company.

The role of human resources in managing ST's social performance

As Carlo Bozotti outlines earlier in this report, 2005 was a year of major change for ST, involving the whole organization around the world. He also reaffirms our shared values and commitment to corporate responsibility. Naturally, organizational change will have an impact socially, as well as economically. Here, we chat with Patrice Chastagner about the challenges and opportunities the company strategy presents for his role as Corporate Vice President, Human Resources.



Firstly Patrice, what is the HR strategy?

We have nothing set in stone. The role of HR must be to support the company strategy in the way that is best for all concerned, and the HR strategy should be flexible enough to do this.

OK, well let's look at the three main strands of the current company strategy – R&D effectiveness, sales expansion, and cost reduction programs – and examine how HR is dealing with these issues, starting with R&D.

Well, it's no secret that we're doing some major restructuring, but this was never going to touch R&D. What we've done is focus existing expertise – 1,000 engineers in fact – on the major R&D programs, but without any lay-offs. For HR, the challenge is to remotivate people, as their perception is that their original project was not important. So we have to help people see the bigger company picture.

And has the new sales strategy caused a similar reorganization?

Yes, it's partially the same thing. It's not so much a reallocation of resources as a reorganization of our commercial areas, for example our new Greater China region, and bringing Eastern Europe into our plans. From an HR point of view, the way our markets are changing will change the orientation of sales people. They will have to demonstrate their day-to-day sales skills in the field, which will involve some training on our part.

So the current major restructuring is basically supporting the third element of the strategy, the cost-reduction programs?

You are right, cost reduction is at the heart of the restructuring. The plan is to cut 3,000 jobs, mainly in Europe and Mediterranean areas, but also some in the USA, and at the end of 2005, we were about 40% of the way through this. But our aim was to do this in the most efficient way and with as little disruption as possible.

In France, we managed to avoid lay-offs, although 1,000 people left the company. For example, we didn't renew temporary contracts, which had been made clear from the start. We also helped many people who chose to leave, and we will continue our support for their new enterprises for a while yet; helping people to move out and start up a business is one of our responsibilities. This requires a permanent support structure, which we will consider implementing alongside some partner companies, and with the support of the French labor administration. It is a big cultural change for our company, and indeed for society at large. We are not entering a company for life

"Much of our work in 2006 will be continuous improvement of the various programs we are working on to make our HR processes as efficient and effective as possible."

Patrice Chastagner – Corporate Vice President, Human Resources

any more. Our aim at ST is to protect a job, even if ultimately that job is not with ST any more, and certainly to protect our people as much as we can in any restructuring plan process.

The other major area in the restructuring program is Italy, where 1,200 people will leave, largely by natural departure, and by helping people who choose to retire early.

We are restructuring because of economic conditions and the development of the market, not because we are reducing our activities in Europe. At the same time we are heavily investing in R&D, including in the countries where there was some restructuring. Naturally people would like to keep all activities in their own country, but ultimately, we are still investing in Europe.

It's interesting that you are keen to emphasize you are investing in Europe, because shifting some manufacture to Asia is very much in line with the ICT sector as a whole. For industry commentators, it raises the question of 'delocalization'. What is your view?

Some companies in our sector are disinvesting in Europe. Indeed, entire industries are leaving Europe, and not replacing the activity with something else. This is what delocalization means. But for us, the word doesn't exist and should be replaced by 'manufacturing strategy'. We are different from some other companies because we are increasing activity in Europe. Let me explain. Our strategy includes several steps in the life of a process or a product, and we do the R&D mainly in Europe. But in our industry, once processes and products are mature you have fierce competition, which results in lower prices. So the only way to keep these processes and products alive is to transfer them to low-cost areas. This in turn allows us to reallocate our R&D resources and advanced manufacturing processes to brand-new initiatives in Europe. So while we have been growing steadily in

Singapore, we are still growing in headcount in France and Italy. And let's not forget it also makes sense to be present in growing markets like Asia-Pacific.

Staying with the Asia theme, what are you doing in China and other countries to ensure you protect the human and labor rights of ST employees?

Well it would be a dream to have the same standards in developing countries as in developed countries. But what we can do is aim to be the best in each country in which we operate. And some of our initiatives, for instance the plans we are working on for employee well-being, will have greater relative benefit for our people in developing countries.

You mention the employee health initiative. What other key schemes or actions should readers look out for in this report, or expect to see in the coming year?

Well, the efforts ongoing in Asia-Pacific and Europe to integrate corporate responsibility through local human resources strategy are interesting to see, particularly when you look at the way the employee opinion survey is used as a tool to support this process. In 2006, there will be further programs to respond to the 2005 survey results. In 2005, we have also seen some developments in the programs for equal opportunities, for example, in France. Much of our work in 2006 will be continuous improvement of the various programs we are working on to make our HR processes as efficient and effective as possible. In other words, business as usual.

Patrice Chastagner
Corporate Vice President, Human Resources

Good for people – good for business: mainstreaming corporate responsibility through HR strategy in Asia-Pacific

One of the most important elements of CR is the way an organization treats its people. In addition, the engagement of the people who work for the organization is vital if CR is to become embedded in the company's culture. Effective HR management is therefore one of the key tools for implementing corporate responsibility across an organization – and our deep-rooted total quality culture has the effect of doing precisely this.

As part of our evolving Sustainable Excellence activity, the Rousset manufacturing site in France and the Asia-Pacific region are redefining and refreshing their HR activities within a CR context. Here we focus on how enlightened employment practices go hand in hand with corporate responsibility in ST's Asia-Pacific region. On the next page, we offer some updates on the work ongoing at Rousset.

Lay-Sin Lee, Corporate Responsibility Manager for the Asia-Pacific region, says it is all part of delivering continuous business improvement. Good CR, she says, is good for employees and good for business. "Definitely, there is a business case for corporate responsibility. It provides solutions to issues such as long-term sustainability, short-term risks to the community, cost reduction, and the satisfaction and engagement of our people. All these things are vital parts of our success. CR is also, of course, very important in terms of company image and reputation.

"We want to give our employees the best deal we can in every way, and at the same time we know that employee motivation and satisfaction is a key factor for achieving excellence in the company. It's also the case that when you improve one of these elements, it has a knock-on effect. For example, improving the engagement of our people boosts productivity. Satisfied employees are also good for the image of the company – making it more attractive to shareholders."

In 2005, ST AP region introduced an integrated approach to corporate responsibility and the Employer of Choice (EOC) initiative in each major country. The idea behind EOC is simple – that ST should be seen as the best place to work. Taking CR seriously is a vital part of this.

A CR/EOC committee was set up in each country. An Asia-Pacific executive committee reviews progress at a regional level and is represented at the company level on the Corporate Responsibility Advisory Council. An integrated CR/EOC framework gives the company a platform for evaluating risks,

defining strategies, identifying where changes need to be made, and reviewing progress.

This framework is built around five core issues:

- People rights
- Excellence in people management
- Business integrity
- Stakeholder value
- Society and environmental sustainability.

Jean-Louis Champseix, Human Resources Director for the Asia-Pacific Region, says: "We strongly believe that using a common framework across borders helps us to duplicate best practices, educate employees and managers much faster, simplify the assessment of global risks, and provides us with the ability to deploy global initiatives. We believe that the Asia-Pacific model is very pragmatic and can be easily applied elsewhere. The key is using one common framework, whatever that is, and respecting local sites' autonomy to find their own speed and solutions. The culture is the same, but priorities may be different."



"Improving the engagement of our people boosts productivity. Satisfied employees are also good for the image of the company – making it more attractive to shareholders."

Lay-Sin Lee – Corporate Responsibility Manager, Asia-Pacific

The initiative builds on well-established HR processes such as a sophisticated and comprehensive employee opinion survey. The survey covers all ST sites, but the action programs resulting from it are key to local implementation of CR and EOC. In fact, Asia-Pacific's CR/EOC initiative has itself evolved partially in response to employees' changing perception of Total Quality Management (TQM). As Jean-Louis Champseix points out, "TQM, as the culture of ST, needs to renew itself continuously to reflect the most recent direction and focus of the company as a whole. The essence of TQM remains, but it has evolved in 2005 to Sustainable Excellence." So the results of the opinion survey are being used to guide strategic thinking.

"ST has a diverse range of operating environments and employee cultures around the world. This provides a good platform for implementing Corporate Responsibility to meet local needs."

Reassurance Network – assurance provider

Champseix says, "Employees are the main actors of company success. So people engagement is not simply proof of an effective HR/CR strategy; it is also the main enabler for satisfying other stakeholders. It's a kind of 'moral' contract between our people and the company. They help us become a better employer: more responsible, more sustainable, and more effective, which in exchange provides them with a better reference, better employability, and higher rewards."

This high-level, long-term thinking is matched by positive, detailed action being taken in the workplace. Champseix says the CR/EOC initiative is helping the company to focus on taking practical measures that will help deliver significant business improvements. "One of the models we will use is the customized 360-degree feedback tool. In 2006, our aim is that at least half of all managers at job grade 14 and above will have taken part in a 360-degree feedback. This model will help to beef up the competencies of the managers through a journey of self discovery and action plans."

One of the next big challenges is to reinforce the message of corporate responsibility even in parts of the business – such as sales – where, traditionally, results have been everything. The thinking behind this process relates to the evolution of TQM into Sustainable Excellence. Champseix says, "It is a real challenge to continuously apply and live the principles of Sustainable Excellence in the sales environment where billings are of utmost importance. To help engage our sales force into putting their knowledge of Sustainable Excellence into practice, we developed a training package designed to incorporate quality, sales knowledge, and other aspects of corporate responsibility together. This new training package will roll out in May 2006 and it will be used worldwide in all sales regions."

There are, of course, many other significant challenges ahead. Many are areas where, as Jean-Louis Champseix points out, the company has to work with a range of other agencies and organizations. "2005 was a turning point in this regard. For example, we started to work with many partners, including competitors, governments, embassies, and medical

organizations to prepare ourselves in case of an H5N1 (avian flu) pandemic. Taking this forward, in 2006 we will have to build stronger external partnerships to bring about required changes especially in the area of the supply chain."

Another challenge is the general issue of human rights, especially where it relates to the company's own workforce. Champseix says, "Working to uphold human rights is an area where the company is looking to work closely with other stakeholders. There are many sensitive issues here – for example the use of subtle forms of 'bonded labor', though we have taken important steps in regard to this. The biggest improvement area related to the high agency fee charged to our workers from China by recruitment agencies. They have to use a large part of their salary to pay back the agency fee. We now use alternate agencies, with ST paying part of the fee incurred by the workers, and reimbursing the rest in the first years. On top of this, since 2005, ST has extended some benefits such as the free medical check-up to foreign workers."

The second big area of improvement, he says, relates to the training bond. ST is transferring a lot of processes from the USA and Europe toward Asia, and some workers may be sent for six months' overseas training. "Training costs become high compared with salaries, and therefore almost impossible to reimburse if the worker chooses to resign," says Champseix. In line with the Employer of Choice initiative, ST has set out to reduce, if not eliminate, this training bond. The Singapore CR/EOC committee has submitted the proposal to stop the practice, and Asia-Pacific EXCO has approved.

A clear business case: integrating corporate responsibility through management strategy in Rousset

Corporate responsibility is part of the culture at ST Rousset, with wide recognition that responsible decision-making makes sound business sense.



For Rousset, there are clear business benefits in matching corporate goals with those of our employees, our customers, and our local community, in a sound and long-term CR strategy.

Employees have strong personal expectations connected with CR, they are the ones pushing for initiatives and actions; the way we implement CR strategies has a direct impact on motivation and productivity as well as talent retention.

But the benefits of integrating CR in our management strategy are not limited to a motivated workforce. There is a positive knock-on effect for company reputation and relationships with other stakeholders, to which we attach strong importance. Integration in the local community is vital to business success; it enhances ST's reputation locally, it facilitates recruitment and innovation, and it secures our 'license to operate,' helping us to reduce exposure to risks and associated costs.

This culture of responsibility helps us through tough times when our reputation could suffer. Recently, while the company was going through a difficult period of restructuring, the management of Rousset site quite naturally considered that it had to help its 400 temporary employees find a new job when their 18-month contract with ST expired. This proactive and responsible stance makes it easier for Rousset to build effective relationships with local political and administrative structures as well as with professional and educational organizations. And in turn these relationships make it easier for Rousset to do business.

"At the company level, CR messages are not planned or scheduled. There is an opportunity to have a 12-month rolling communications plan so that key messages get coverage and are reinforced."
Reassurance Network – assurance provider

On top of that, Rousset has developed many R&D partnerships with local schools and universities, such as the Centre Microélectronique de Provence (CMP), the Ecole Généraliste d'Ingénieurs de Marseille (EGIM) and other graduate schools; our presence in the SCS (Secured Communication Solutions) Competitiveness Cluster provides a continual source of innovative ideas and activities that support the business.

Employee opinion survey: a mirror for self-improvement

Acknowledging the importance of company image, reputation and culture for corporate responsibility was the message Rousset received from its last employee opinion survey. Building on its existing efforts in this area, the site undertook a number of actions that fall squarely in the domain of CR, whether relating to employees or other local stakeholders. For example:

- A recognition program to acknowledge outstanding contributions by individuals or teams. In 2005, about 600 staff achieved recognition under the program, winning vouchers and being honored at new recognition ceremonies
- A commission to ensure equality between men and women on the site
- A 'weekly family day' on Saturday afternoons when family and friends can look around the site
- Yearly 'application weeks' when staff can find out about the final applications of the chips produced by ST
- Yearly training plans to help staff develop their skills
- An 'ST reputation survey' to gather the feedback of 500 regional citizens and build action plans based on their suggestions and comments.

Competitiveness Clusters: integration in the local community creates business and social value

As a company, we have always strived for continuous improvement in our R&D activities, which includes accelerating the industrialization of our innovations – in other words, getting our technology into production as swiftly as possible. This is only possible through strong partnership and engagement with a number of different stakeholders, particularly within the local community.

“I am genuinely impressed by the significant breakthrough of the Competitiveness Clusters. This experiment is a success for France and a source of inspiration for the country’s partners.”

Mohamed Ghannouchi – Prime Minister of Tunisia

Through this integration, we are not only creating value for the company, but we are creating employment opportunities and encouraging further investment in the areas around our sites. Our interaction with different facets of the local community, in particular local academic institutions, has a magnetic effect, attracting similar specialized activities.

These efforts have now been recognized by the French Government, which has given its official seal of approval, the ‘Competitiveness Cluster’, to three of our projects:

- ‘Secure Communications Solutions’ at Rousset brings together the microelectronics, telecoms, and software expertise of the region in projects directly related to everyday applications such as tracking of consumer goods, secure information to mobile phones, and medical follow-up of patients
- ‘Minalogic’ at Grenoble, where our nanotechnology expertise is used to speed up applications that benefit from our System-on-Chip approach, for example imaging or mobile terminals
- ‘Sciences and systems for electrical energy’ created at our site in Tours, where our challenges include improved management of energy and investigating new sources of electrical energy.

Integrating health and safety into management systems in Italy

The accident rate at Agrate is now 20 times lower than the national average according to figures published by INAIL, the national institute of insurance for work-related accidents.

These figures show that in 2005, there were 2.38 work-related injuries per 100 employees at Agrate compared with a national average of 49.2.

The low accident rate owes much to the site's integrated management approach linking quality, environment, health and safety, and wider social concerns.

Following the launch of the new Environment, Health and Safety (EHS) Decalogue, the site merged its Environment and Health and Safety Steering Committees. At the same time, it has formed new multi-disciplinary teams run by both experts and staff volunteers to focus on particular health and safety issues. Employee involvement is high. Each year about 40 staff make formal suggestions for how health and safety and environmental performance can be improved. On average, half of these suggestions are implemented.

Please note that the figures above are based on a national Italian methodology for calculating accident rates and are therefore not comparable with the health and safety data provided for the whole company on pages 37–38.

See <http://www.st.com/stonline/company/cr/social/health/occupational.htm> for more information.

Equal opportunities – France points the way forward

ST works in a sector that is by its nature very technical and where graduate intake is from subject areas numerically dominated by males. This may be part of the reason why women account for only one-third of the workforce.

Of those women who do work at ST, many are equipment operators and in administrative roles. In France, for example, women make up 90% of those working in administration for the company, yet represent only one-fifth of the technicians and engineering staff. While there is no noticeable difference in compensation, there may be some difference in the career evolution between male and female employees due to factors like maternity leave, parental leave, and part-time jobs.

To redress the male and female balance, important initiatives have been taking place in France, at both the national and local level, such as hiring proportionally more women than the current percentage of women leaving technical schools and universities, or supporting women in their career progression. These offer a way forward for the company as a whole to tackle the issue of equal opportunities.

The PluriElles project

For example, the PluriElles project at ST's Grenoble site operates in a workplace where engineers and managerial personnel make up 80% of the workforce but where only 20% of these are women. The project, which began in 2004, has the active support of senior management and is overseen by a steering committee of directors.

To begin with, project leaders set up four working groups. Each was given a different gender equality challenge to look at, as defined by senior management in consultation with representatives of two local unions. There were two stages to the project – firstly, to analyze the current situation, and secondly, to come up with proposals for ways forward.

During the analysis stage, the project teams gathered statistics and sent out questionnaires, while a psychologist interviewed managers, engineers, and technicians working on the site. The research determined there were no significant differences between male and female salaries, but that the real imbalance lay in the areas of career evolution and work-life balance.



“CR has to come from the heart and belief. Any programs have to be initiated from this perspective. Of course, ST has wonderful programs and I like them.”

Solomon Ng – Design, Shanghai



Women were under-represented in medium to senior levels of management and positions requiring significant technical expertise, ranging from 10% to only 4% at the most senior management levels. However, around 20% of graduates from local technical schools and universities are women.

The project teams went on to draw up 115 proposals designed to change behavior and overcome inequalities. These were put to the steering committee and 90% of them have now been agreed to in principle and 40% put into action. They have also been included in an official collective agreement with unions, which will be signed mid-2006.

In 2005, ST's Grenoble site made an official commitment to hire more women, while raising awareness of the issues among senior managers, and rewording recruitment advertising – an initiative that delivered immediate results, with more women applying for and getting jobs. In 2005, 30% of new external recruits were women, compared with 10% on average for the previous years.

Further initiatives completed in 2005 included the introduction of human resources interviews with women before and after maternity leave, implementing a work-life balance questionnaire, and working in local schools to promote gender equality. A new training course to be implemented in 2006 will help women assert themselves effectively in a strongly male environment and develop self-confidence. A second training module will focus on non-discrimination training for managers. Networks, coaching, and mentoring programs are being created to support women in the workplace. A new gender equality committee, made up of senior managers, human resources staff and union representatives, will monitor progress of all these initiatives.

Progress at Rousset

The work at Grenoble has been mirrored by initiatives at ST's Rousset site. In 2005, a commission for the professional equality of men and women was put in place jointly with the site's works council. Specific training programs were defined and put in place in 2005 for administrative staff, around 90% of whom are women.

In May 2005, six women took part in the Metallurgical Industry Forum. The objective, successfully met, was to encourage the entry and integration of women in metallurgical sectors. ST also published a booklet called *Pregnant Woman*, which includes comprehensive practical and legal information. Meanwhile, unions at the site are being encouraged to ensure gender equality in the presentation of electoral lists. This work continues during 2006 at the Rousset site, as more initiatives are created and put in place. Like Grenoble, one of Rousset's key targets is to ensure a representation of women equivalent to the percentage of women leaving technical schools and universities.

Action at company and national level

Meanwhile, the company as a whole has now started to act on some of the lessons learned at both Grenoble and Rousset. It has been recognized throughout ST that ensuring equal opportunities for women is vital for progress and continued prosperity. The belief is that companies that develop a global diversity approach are those that become 'employers of choice' and ultimately achieve the best results, both financial and non-financial. Diversity enhances efficiency and the quality of social relationships, giving a positive impact on the company's image to its customers, its external suppliers, and its consumers.

The Charter for Diversity

ST in France has now adopted the Charter for Diversity formalized by the French Government. It is designed to demonstrate a company's commitment to cultural, ethnic, and social diversity across its organization. The charter commits ST in France to taking a series of equal opportunities initiatives, including:

- Training staff involved in recruitment, education, and career management in the issues of non-discrimination and diversity
- Respecting and promoting equal opportunities at all stages of human resources management
- Seeking to reflect the diversity of French society in the workforce
- Communicating to all staff the company's commitment to non-discrimination and diversity
- Discussing the issue extensively with employee representatives
- Including a chapter describing this non-discrimination and diversity commitment in the Annual Report.

The text of the collective agreement made at Grenoble is also being used as the basis of a negotiation with unions at the national level in France, with the aim of signing an agreement in 2006 that extends the gender equality program across the country.

Through this collective agreement, on each of a number of areas, ST will commit to make significant progress by the end of 2007 and to fulfill all its equal opportunity commitments by 2010. These areas are: recruitment, equality of status, career, and work-life balance.

These steps are helping ST, as a global company, to learn important lessons about ways to improve equal opportunities, and the company is making continued solid progress in its commitment to embrace diversity, and offer fulfilling and rewarding careers to people from every part of society.

Social performance overview

DISCLOSURE ON MANAGEMENT APPROACH

Our social policy covers respect and care toward our employees, ethics, people management and development, and concern for the community. <http://www.st.com/stonline/company/cr/social/index.htm>

2005 SOCIAL PERFORMANCE IN CONTEXT

The year 2005 has been significant in terms of the impact on ST employees. Three specific events occurred with major implications for their lives both now and in the future:

- In 2005, we carried out a significant reorganization of the company
- There were major changes in our management team due to several retirements
- We launched a restructuring program to maintain our competitiveness. This involved the reduction of about 3,000 positions, primarily in Europe and Mediterranean regions.

Information regarding indicators of social performance

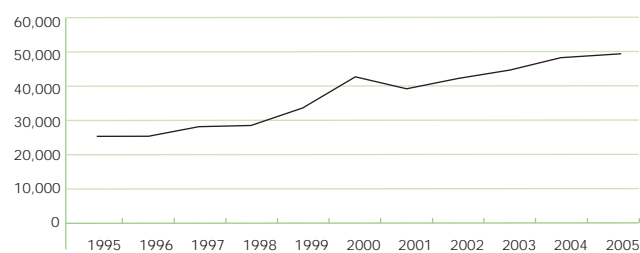
The performance data provided in this social overview section covers 92% of ST employees. The term 'professionals' refers to engineers and managers. Any other categories of employees, for example operators, technicians and administrative staff, are referred to specifically.

OUR PEOPLE

Employment, attraction and retention

Over the last 10 years, our total headcount has almost doubled.

LA1; ST12: Total headcount evolution



More recently, recruitment has slowed although it remains very positive in Asia-Pacific. In Europe and the Americas, recruitment is slightly positive while in the Mediterranean region, it is almost stable. These trends reflect our strategy of adapting the workforce to the business needs. For example, in Asia, where the market is booming we are growing our manufacturing capacity. In Europe, the focus is more on R&D, design, and advanced products and technologies. We are also redeploying existing teams on focused projects.

LA1; ST12: Headcount evolution by region

Region	2003	2004	2005
Europe	21,878	22,593	22,405
Americas	2,985	3,180	3,120
Mediterranean	7,032	7,224	6,906
Asia-Pacific	13,759	16,532	17,602
Total	45,654	49,529	50,033

LA2: Job creation and turnover

	Net job creation 2005	Average turnover (%) 2005
Europe	(188)	2.2
Americas	(60)	9.5
Mediterranean	(318)	8.7
Asia-Pacific	1,070	14.8
Total	504	7.8

(*) Turnover in 2003 and 2004 was respectively 5.2% and 6.6%. These total average figures must be used with care since situations are very different according to countries.

The choice of this GRI indicator as one of our Key Performance Indicators reflects its overall importance. However, it needs to be considered in the context of the individual regions and countries. For example, natural turnover is something we must fight in the countries where growth is important (see our actions regarding ST as an employer of choice in Asia, page 26) and encourage in countries where growth is low or stagnating. In a completely stable situation, a minimum turnover is desirable, allowing us to get 'new blood' without necessarily increasing our headcount.

LA2: Hires by job type

	2003	2004	2005
Engineers and managers	2,266	2,593	1,605
Technicians and administrators	1,032	1,167	749
Operators	2,746	4,446	3,189
Total	6,044	8,206	5,543

Up/down cycles in our industry mean our staffing needs can vary enormously. If the need for more staff appears to be short-term, we use short-term hiring, converting positions into permanent contracts whenever possible. This was the case this year in Asia and Europe.

Regarding turnover, it remains rather high in developing countries, especially in China. Our objective in most of the countries we operate in is to maintain our overall turnover at the same level, while in India and China we aim to reduce it.

Recruitment

	2003	2004	2005
STS1: Offer-to-acceptance ratio	95.7	91.4	93.5
STS2: Fresh-out recruitment rate	61.8	59.1	56.1

(*) Voluntary decrease in connection with refocus and redeployment.

STS3: Recruitment cycle time (days)			
	2003	2004	2005
Professionals*	59	55	49
Non-professionals*			22

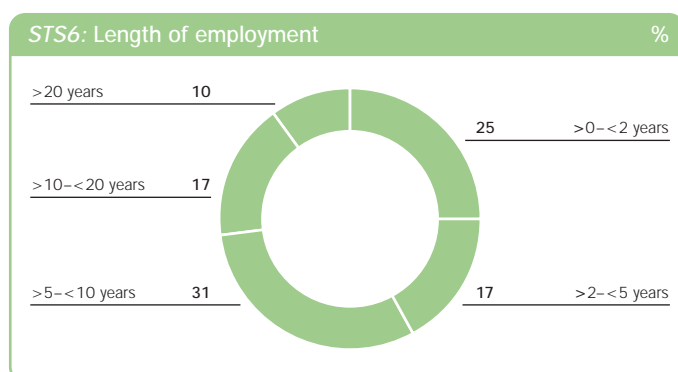
(*) Average cycle time to recruit employees from job opening to acceptance.

Average employee age and seniority			
	2003	2004	2005
STS4: Average employee age	33.8	33.7	33.9
STS5: Average seniority (years)*	8.6	8.5	8.8

(*) Seniority is the average length of employment of employees currently working in the company.

Average career length and turnover rate			
	2003	2004	2005
STS6: Average career length (years)*	10	12	15
LA2: Average turnover rate (%)	5.0	6.6	7.8

(*) Career length is the average length of employment of people leaving ST. Thus the calculation of the career length is based on the average turnover of the last 3–5 years.



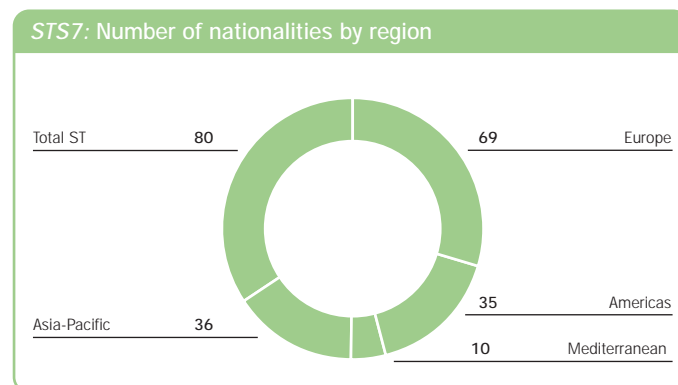
In 2005, 58% of our employees had worked for ST for over five years.

Diversity and equal opportunities

LA10

Our long-term aim is that our workforce should reflect the diversity of the society in which they work and in the case of gender, the relevant local student population (i.e. those studying microelectronics and related subjects). We do support local initiatives aimed at reducing the historic imbalance between the sexes and ensuring equal opportunities, such as 'PluriElles' in Grenoble (see page 30 for more details). In France, we have also negotiated an agreement with unions aiming at developing employment of women and ensuring equality.

Global mergers and acquisitions make our ethnic make-up extremely diverse. We currently operate in 36 different countries and have a worldwide workforce composed of 80 different nationalities.



LA11; STS9: Gender breakdown by region		%	
		2004	2005
Europe	Men	72	74
	Women	28	26
Americas	Men	73	74
	Women	27	26
Mediterranean	Men	31	39
	Women	69	61
Asia-Pacific	Men	50	49
	Women	50	51
Total	Men	60	60
	Women	40	40

STS10: Professionals by gender		%		
		2003	2004	2005
Men		82	81	80
Women		18	19	20

(*) See text regarding imbalance between sexes.

Women in management		%		
		2003	2004	2005
STS11: In senior management		5.9	6.3	6.6
STS12: In executive management		3.7	3.8	4.1
STS12a: In staff management reporting directly to site/senior organization manager*				10

(*) Professionals. This is a new indicator.

There are currently no women on ST's Management Board or on Corporate Staff (corporate vice presidents reporting directly to CEO/COO).

STS8

	2005
Different nationalities represented in the Corporate Staff	8

STS12b

The percentage of disabled employees in our company is 0.41. This figure is presented for the first time this year, but it cannot yet be considered reliable. This is because we have not yet defined 'disability' precisely enough to allow comparison among different countries. We will clarify this in 2006. This is a new indicator.

Training and development

Technology and market evolution mean that the nature of our organization, jobs and skill sets are constantly changing.

Internal mobility

We see internal mobility as a way to meet our business needs and enable staff to develop their careers. This is why it's our policy to give priority to internal applicants whenever we are recruiting, unless this would be against the interests of both ST and the member of staff concerned.

Jobs posted and filled internally

	%		
	2003	2004	2005
STS13: Jobs requiring experience posted internally	64	69	68*
STS14: Jobs requiring experience filled internally	51	61	85

(*) It's important that we post available jobs internally as this allows staff both to develop their careers and to see how we're growing as a company. The percentage of jobs posted internally is more meaningful to us than those filled internally, as the latter can be heavily influenced by specific market needs and conditions.

Training

It is important that we continually develop our competencies to reflect evolving company needs. We therefore offer a wide range of educational and personal development courses through both local training departments and ST University. Our aim is to make our people as employable as possible, both inside ST and outside it. Our understanding of 'employability' in this sense represents a change of approach in response to changes in society.

STS17a

In 2005, 77% of newcomers participated in a newcomer seminar. Our objective is for all new staff to attend this seminar within six months of joining us. This is a new indicator.

STS15a: STU core team activity

	2003	2004	2005
Number of training hours per year	104,000	117,000	126,000

LA9: Average training hours

	2003	2004	2005
► STS15: Professionals	35	38	37
STS16: Operators	62	67	80*
STS17: Others (non professionals)	35	36	30
Total**	46	49	53

(*) This higher figure is linked to the regular certification/recertification of operators at least every 18 months.

(**) Including training on equipment and outside training.

Reaching our target of an average of 55 and a minimum of 35 training hours per employee per year is not easy except in the case of operators where training is required for certification.

► STS18: Employee access to training

	%
	2005
Employees having received > 35 hours training/year*	40

(*) This indicator is particularly important as it shows how training is distributed among employees. This is a new indicator.

We monitor the effectiveness of our training with the training industry standard Kirkpatrick model.

STS19, STS20: Trainees who received evaluation

	%		
	2003	2004	2005
Kirkpatrick Level 1*	96	94	93
Kirkpatrick Level 2**	89	83	83

(*) Evaluation of trainee satisfaction with regard to content facilitation and logistics.

(**) Evaluation of trainee's knowledge acquisition, attitude or skill improvements as a result of the training.

Performance and job evaluation**Individual performance appraisal**

We use a formal process to evaluate the performance of our staff and help them develop their careers. All managers are asked to give their staff at least one individual annual performance review.

STS21: Performance appraisals completed

	%		
	2003	2004	2005
Managers, engineers, technicians	95	94	87

Our target is to reach 100%. The drop in 2005 reflects the significant changes connected with the company reorganization, which have had a noticeable impact on routine activities.

This year, we have slightly modified the process by adding an additional level of evaluation (six instead of five) to help us differentiate staff performance more accurately. At the same time, we have developed our online performance appraisal tool (ePA), training managers at all sites in how to use it. This should speed up the appraisal and salary review process.

Collective people review

In 2006, we plan to implement a people review on a worldwide scale using a standard approach that we have defined in 2005. The aim is to identify, develop, and retain the best talent in ST and to strengthen the commitment and contribution by these staff. The review will involve:

- Identifying talented employees
- Analyzing their characteristics and strengths
- Creating programs that help retain and develop these staff
- Using peer judgment to ensure fairness in the review and limit the risk of mistakes.

STS21b

During the past two years, 43% of all professionals have been assessed during a collective people review. Our objective is to develop and extend this process in the coming years. This is a new indicator.

Job evaluation

● STS21a

Between 2004 and 2005, we wrote job descriptions for 74% of professional/non-professional jobs (excluding operators) either because they were new jobs, had evolved significantly, or simply to make sure the existing job description was still accurate. This is a new indicator.

Competency referential project

Each job in the company is given a reference, depending on the level of expertise it requires. In 2005, this project was ongoing.

Our objectives for 2006 are to:

- Complete implementation of ePA and extend its use worldwide
- Complete the competency referential project
- Increase the number of training hours.

Performance reward and recognition

Unvested Stock Awards

In 2005, we replaced the stock options granted to employees since 1996 with an allocation of ST restricted stock: the Unvested Stock Awards (USAs). Any employee with a job grade equal to 12 or above is eligible to receive USAs depending on their yearly performance and potential.

STS47

In 2005, 7,189 employees, about 41% of those eligible, received USAs. Our practice is to grant 100% of the shares if the performance criteria defined by the company are achieved. For more details of performance criteria see <http://www.st.com/stonline/company/cr/social/people/reward.htm>.

Employee benefits

Employee benefits vary according to the countries, local practices, and collective agreements.

STS25a; LA12

About 78% of our employees benefit from a pension plan paid at least partially by the company. This is a new indicator, but we are not yet entirely confident in its reliability. It should only be taken as an estimation. In 2005, we also attempted to introduce a new indicator on medical insurance paid entirely by ST, but the data gathered was not reliable enough to publish.

Compensation

Common practice in ST is to regularly benchmark our compensation practices with the market.

STS24: Compensation			%
	2004	2005	
Exempt positions benchmarked for compensation	97	94	

Recognition

We consider that recognition is a key way to motivate our employees and it has therefore been an integral part of our total quality culture for many years. We regularly recognize outstanding performance by both individuals and teams.

Recognition			
	2003	2004	2005
● STS26: People recognized	23,767	49,553	41,676 ^(*)
STS27: Recognition ceremonies	195	171	173
STS28: Overall company recognition budget (US\$m)	54	1,000	1,613 ^(**)

(¹) This is the number of recognitions/employee: some employees have been recognized several times.

(²) STS28 is cost of prizes, ceremony and labor involved in US\$m. The substantial increase in 2004 and 2005 compared with 2003 is due to an improved reporting system and a more comprehensive coverage of all sites, in US\$m.

Employee empowerment and engagement

Employee empowerment

Employee empowerment is one of the key principles at ST; clearly defined objectives and teamwork are two of the ways in which we seek to achieve it.

Employee objectives and incentives		%	
	2004	2005	
STS30a: Employees with annual objectives ^{††}			95
STS30: Employees with team goals in annual objectives [*]	78	65	
STS31: Employees with incentive based on team results [*]	64	64	
STS22: Employees with personal development objectives ^{††}			93
STS31a: Employees with one objective of VIP ^{**} linked to innovation ^{††}			25

(^{*}) Professionals, technicians and administrative staff.

(^{**}) VIP = Variable Incentive Plan

(^{††}) This is a new indicator.

STS34b		%	
		2005	
Employees involved in teams or Excellence projects [*]			34

(^{*}) This is a new indicator.

Employee engagement

Employee suggestion scheme

We welcome personal initiatives and greater staff involvement in the company. One of the key ways in which we encourage this is through our long-standing employee suggestion scheme see <http://www.st.com/stonline/company/cr/social/people/employee.htm>.

Employee suggestion scheme				
	2003	2004	2005	
STS32a: Suggestions for the year				92,778
STS32: Average number of suggestions by employee [*]	2.6	1.9	1.9	
STS33: Acceptance rate for suggestions [*] (%)	74	47	48	
STS34: Accepted suggestions which were implemented (%)	44	54	57	

(^{*}) All employees can make suggestions but not all are appropriate and therefore may or may not be accepted or implemented. In previous years we have focused on the suggestions results of our back-end manufacturing sites only. This year, we are able to show the total number of suggestions gathered by all sites for the first time. In 2004, ST focused on quality-related suggestions, which resulted in a steep decrease in the number of suggestions in the back-end when compared with the previous year.

STS28b		%	
		2005	
Percentage of unplanned absenteeism [*]			3

(^{*}) This is a new indicator.

Participatory management

Another key method of engagement is employee attendance at and participation in site meetings, where company strategy and results are presented and where any topic of discussion can be raised by employees. The average number of meetings in 2005 was 10 meetings per site, although the actual number varies significantly from site to site.

STS34a			
		2005	
Average number of meetings in each organization or site during which management presents company/organization/site results to all employees allowing time for open discussion (number/year) [*]			10

(^{*}) This is a new indicator.

Employee opinion survey

Despite our reorganization activities, we decided to go ahead with the 2005 opinion survey. Intranet participation was possible in some countries for the first time. More than 30% of staff took part in the survey this way. It is too early to present detailed findings but we can present some results. Although it has decreased, the overall participation rate remains high compared with the industry average.

STS28a		%	
	2003	2005	
Overall participation rate	87	80	
Overall satisfaction rate [*]	65	61	

(^{*}) This is a new indicator.

Almost all categories received a lower score than they did in 2003, particularly quality, innovation, and company image. The circumstances in 2005 – reorganization and restructuring – clearly had an effect on the opinion of employees, but some themes are recognizable from the previous opinion survey and efforts have been made locally to respond to them (see the articles on Asia-Pacific and Rousset on pages 26 – 28).

Once we have analyzed the results in detail, we will consider what we need to do at both a local and a corporate level to reverse the downward trend.

COMMUNITY AND SOCIETY

All our local sites have strong business and wider social links with the local community. A key indicator of these links is the number of partnerships we have with universities, colleges and schools. See page 22 for examples.

STS44: ST partnerships with the academic community			
	2004	2005	
Partnerships with universities, colleges, schools	286	217	

STS45

Students (apprentices/interns/cooperative education placements): 3,175

We also have many local initiatives to support the local community whereby staff donate time or other resources such as cash and in-kind donations.

EC10: ST donations		KUS\$	
	2003	2004	2005
● STS39: Total cash donated to charitable associations	402	291	1,645*
STS39a: Estimated value of in-kind donations to community and society**			655

(*) For the first time this figure includes the donations made by STMicroelectronics to the STMicroelectronics Foundation. This explains the higher figure compared with previous years.

(**) This is a new indicator.

The increase in donations in 2005 reflects the large sums of money donated, by local sites and at the corporate level, to relief programs for the Asian tsunami, the Pakistan earthquake and Hurricane Katrina.

The data related to employee hours in 2005 was not reliable enough to publish.

STS43		2005
Number of recognitions or awards received for excellence in CR		84

STMicroelectronics Foundation

As part of the ST Foundation's 'Digital Unify' program to bridge the digital divide through making our 'Informatics and Computer Basics' training course available to local stakeholders, the following results were achieved:

- Total new trainers 2005:	112
- Total trainees 2005:	8,053
This takes the total to:	
- Total trainers from beginning of program	396
- Total trainees from beginning of program	12,168

In addition to this, the Foundation made the following monetary contributions and charitable donations in 2005 (these are separate from financial donations from STMicroelectronics):

- Total monetary contributions to digital divide-bridging activities (US\$):	118,273
- Total charitable contributions (US\$):	117,172

More information on the ST Foundation can be found at <http://www.st.com/stonline/company/cr/social/communities/foundation.htm> and at www.stfoundation.org.

HEALTH AND SAFETY

The health and safety of our employees is one of our primary responsibilities. As such, we work particularly hard to make continuous improvements.

Note: The performance data in this section covers 86% of our employees. The remaining 14% work in functions and locations unrelated to manufacturing.

Disclosure on management approach

STHS5

We manage our health and safety performance using OHSAS 18001, which is widely seen as the most rigorous international standard for occupational health and safety. We extended the OHSAS 18001 certification program to all 16 of our manufacturing sites following a target set in 2001, and achieved in 2003. Four non-manufacturing sites are also certified.

LA5

Effective performance monitoring means recording work-related injuries and illnesses, and calculating related indices. We have adopted the OSHA (Occupational Safety and Health Administration in the United States) model. Indices are appropriate for benchmarking within the microelectronics industry. The OSHA model meets the requirements of the International Labor Organization (ILO) Code of Practice.

LA6

In 2005, to concentrate our efforts, we merged the three steering committees for Environment, Health and Safety, and Hazardous Materials into one joint Corporate EHS Steering Committee. Each manufacturing site also has a Health and Safety Steering Committee. Permanent members include the Site Manager, Site Safety Officer, Operation Manager(s), HR Manager, Materials/Purchasing Manager, and Facilities Manager. This Committee is responsible for implementing corporate health and safety policy. Each local Health and Safety Steering Committee covers all employees based at its site. Some 86% of our employees are covered by these committees – the remaining 14% of employees are in functions and locations unrelated to manufacturing.

See <http://www.st.com/stonline/company/cr/social/health/index.htm> for more information on our management approach.

Health and safety performance data for 2005

LA7; STHS3, STHS4: §9.1; 9.3 of Decalogue

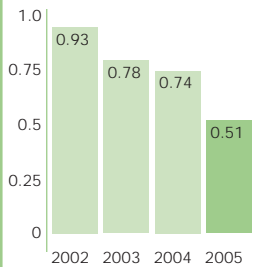
In 2005, there were no work-related fatalities within ST, and no health and safety fines or penalties within any of our manufacturing sites or our major non-manufacturing sites.

LA7; STHS3, STHS4: Approximate man hours worked (millions) since last recordable case of injury or illness	
	2005
Shenzhen (China)	11
Muar (Malaysia)	8
Ain Sebaa (Morocco)	7
Bouskoura back-end (Morocco)	3
Bouskoura SPG (Morocco)	4
Phoenix (USA)	2*

(*) Hours worked without any days lost due to work-related injury or illness.

Ang Mo Kio (Singapore) received Silver and Merit Safety Awards from the Ministry of Manpower for its safety performance.

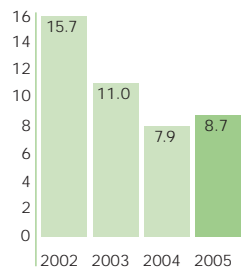
STHS1: Recordable cases rate



ST's recordable cases rate for work-related injuries and illnesses decreased by 30% in 2005 compared with 2004.

2005 recordable cases rate = 0.51 recordable injury/illness case per 100 employees. ST record low for RC rate

STHS2: Severity rate



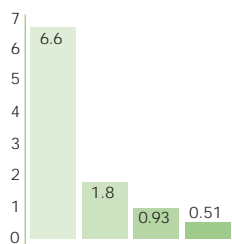
ST's severity rate for work-related injuries and illnesses increased by 10% in 2005 compared with 2004.

2005 severity rate = 8.7 days lost due to injury/illness per 100 employee days.*

(*) In 2002, OSHA rules changed so that the days-away category now includes both work and non-work days lost due to injury or illness.

The apparent deterioration of the severity rate figure was mainly caused by some anomalous peaks at two sites in the second quarter of 2005. Actions were immediately taken and a behavioral risk improvement process was put in place. The severity rate then returned to its natural improvement trend with 6.5 days lost per 100 employees during the fourth quarter (compared with 7.9 in 2004).

Recordable cases rate benchmarks



This chart shows ST's recordable cases rate compared to US manufacturing and US semiconductor manufacturing recordable cases rate. The source of data* is the US Bureau of Labour Statistics (BLS) and the Semiconductor Industry Association (SIA) respectively.

- 2004 US Manufacturing (Source: BLS)
- 2004 All US semiconductor (Source: BLS)
- 2004 SIA OHS
- 2005 ST

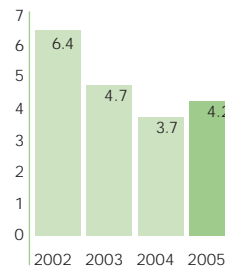
(*) Latest data available.

STHS6

This ST indicator evaluates the direct and indirect cost of injuries and illnesses. This includes direct wage costs, medical costs, indirect wage costs, administrative costs, material losses/damages costs, production costs, and other hidden costs. The chart below shows the results of this evaluation.

STHS6: Injuries/illnesses cost

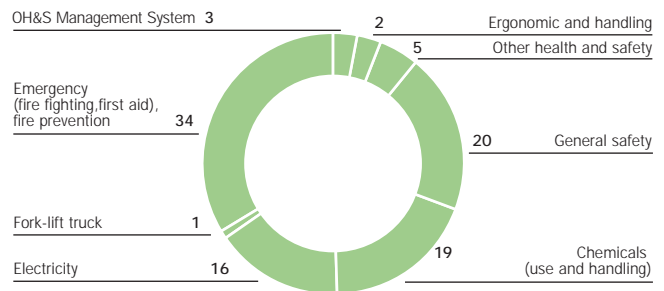
US\$m



ST's work-related injuries and illnesses cost increased by 14% in 2005 compared with 2004.

STHS7: Distribution of 2005 training hours

%



ST's overall safety performance 2002-2005

We have achieved:

- A reduction of 45% in our recordable cases rate in three years (2005 recordable cases rate was 0.51 compared with 0.93 in 2002)
- A cut of 44% in our severity rate in three years (2005 severity rate was 8.7 compared with 15.7 in 2002)
- A decrease of more than 34% in injuries and illnesses cost in three years (2005 cost was US\$4.2m, compared with US\$6.4m in 2002).

Loss prevention

For information on our loss prevention policy and strategy, see <http://www.st.com/stonline/company/cr/social/health/loss.htm>.

**Chemicals management and workstation risk assessment
STEV67, STEV68**

We aim to follow the most stringent regulated health and safety programs at all our locations.

In 2005, we carried out an assessment of all workstations and chemicals in use following strict EHS guidelines. Of more than 20,000 workstations assessed, 1,400 (7%) were identified as falling into the category defined by ST as 'significant' risk (this internal standard is more stringent than any local legislation) and they had dedicated action plans and investment allocated to them. As a result, only 658 cases of 'significant risk' remained in the last quarter of 2005, compared with a target of 700. Our objective is to reach zero cases by the end of 2006.

For more examples of our management of chemicals see <http://www.st.com/stonline/company/cr/social/health/risk.htm>.

Health and safety goals for 2006

We are determined to continuously improve our health and safety performance. Our goal for 2006 is to reduce recordable cases and severity rates by 10% as already published in our EHS Decalogue. In 2006, we will complete all the remaining actions linked to the chemical risk assessment.

HUMAN RIGHTS

Our goal is to provide a safe, healthy, and stimulating workplace where human rights and positive values are protected and promoted.

Disclosure on management approach

HR1, HR4, HR5, HR6, HR7

Our commitment to human rights underlies our entire management approach. As one of the first companies to sign the UN Global Compact, we are committed to advancing human rights within our sphere of influence. We support the United Nations' Universal Declaration of Human Rights and all other international human rights standards, including the draft 'UN Norms on the Responsibilities of Transnational Corporations and Other Business Enterprises with Regard to Human Rights'. For a full description of our management approach, including human rights policy statements, see <http://www.st.com/stonline/company/cr/social/humanrights.htm>. References are made to our management approach throughout this section.

Overview of performance in 2005

Internal management systems

In 2005, we focused most of our attention and resources on reviewing and revising the human rights indicators in our internal self-assessment tool beSTick as part of our revised overall framework for implementing corporate responsibility. We revised these thoroughly in 2005, changing many and introducing an additional 20–25 indicators on human rights (including the supply chain). These indicators are already in use and will progressively be used by all major sites as a gap analysis tool, both to identify issues and risks relating to human rights and to ensure that a robust management system is in place with evidence to support its existence and effectiveness.

Stakeholder engagement

In 2005, we maintained our strong relationships with two international human rights NGOs: Amnesty International (French Section) and The Rights Practice, based in the UK. We consulted them about the continuing development of our policies and management systems for human rights, and kept them informed of our progress, especially in areas where they had expressed concern. In October 2005, we attended the annual 'Club des Affaires' meeting organized by Amnesty International French Section. Having suggested forging stronger links between French companies working towards improved human rights performance and the Business Leaders in Human Rights (BLIHR) working group in the UK, we were pleased that the BLIHR group had been invited to speak at this annual meeting.

We also maintained our contact and relationship with the Institute of Contemporary Observation (ICO), a Chinese NGO based in Shenzhen, where our Chinese manufacturing site is located. In November 2005, we organized a stakeholder engagement session with the ICO and the China Labour Bulletin, another Chinese human rights organization based in Hong Kong. The aim was to learn more about relevant socio-cultural trends in China and the work of these organizations in supporting companies wishing to continuously improve their human rights performance. Managers from our manufacturing site in Shenzhen, our sales office in Hong Kong, and from regional HR management in Singapore joined in the talks.

Non-discrimination and fair treatment

See the 'Our people' section (page 33) of this report for results on diversity and equal opportunities. Local sites are responsible for dealing with cases of non-compliance with company policy in this area.

Fair wages		2005
STHR1a	Percentage of employees with wages above the national legal minimum wage or collective bargaining agreement, whichever is higher	100%
STHR1b	Percentage of employees paid above 105% of the minimum salary required by law or collective agreement, whichever is higher	85%

(*) These are new indicators.

See the 'Our people' section (page 35) for more indicators related to fair wages within a wider human resources context.

Working time and conditions

In 2005, our sites continued to meet our human resources standards, which state that every employee must have one day of rest for every seven days worked and that regular working time must not exceed 48 hours per week. This year, none of our production sites exceeded the regular working time of 44 hours. We have selected these two as key indicators of our human rights performance because we feel they reflect the balance that must be struck between productivity on the one hand and basic employee well-being on the other. The average overtime of our employees has continued to drop for the third year running.

Social performance

Performance overview

In all our sites the standard working hours are equal to or lower than those required by local legislation or collective agreements. Overtime is maintained at a reasonable level and is always on a voluntary basis.

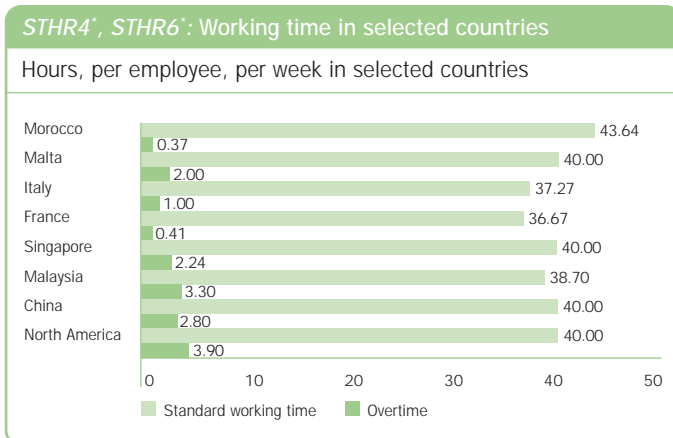
Freedom of association and collective bargaining and participative management culture

Working time	%		
	2003	2004	2005
☛ STS35 Employees having at least 1 day off every 7 days	100	100	100
☛ STS36 Employees with regular work time less than 48 hours per week	100	100	100 (no site above 44 hours)

STHR7: Overtime hours	2003	2004	2005
Average overtime per week (hours per employee)	2.20	1.79	1.29

STS38: Working time lost to strikes	%		
	2003	2004	2005
Ratio time lost to strikes/time worked	0.04	0.05	0.15 ^(*)

(*) 85% of the total strike time in 2005 is due to countrywide strikes in the context of the renewal of the National Labor Contract in Italy.



(*) These are new indicators.

LA3; STHR5

Considering that all of our European sites are covered by the European Works Council, and a number of sites outside Europe (e.g. Morocco and Singapore) also have formal systems for collective labor negotiations, we calculate that in 2005, as in 2004, over 75% of our employees were represented by independent trade unions and other officially recognized representatives, or covered by collective bargaining agreements.

“ST’s work in the field of human rights is certainly innovative and ambitious, considering the complexity of this theme. They are very alert to any problem that could arise regarding their corporate responsibility, and tried to implement tools and processes in their manufacturing sites in order to improve the situation. For them, as for other industrial companies, managing human rights with their subcontractors and suppliers will be the most important challenge in the future, and there is certainly a lot of work to be done with these stakeholders, but our contacts with ST seem to show that they are willing to work on this issue with determination.”

Nicola Macbean – The Rights Practice

LA4

See the section on our restructuring activities in 2005 on the facing page for information on consultation and negotiation with employee representatives regarding significant changes in the company.

See page 36 of this social performance overview section for more details of our systems for participatory management and engagement of employees.

Child labor

There were no cases in 2005 of non-compliance with our company ban on hiring staff aged under 16.

Forced labor

In 2005, three forms of forced labor were identified as potential risks to be monitored and managed by selected sites in Asia: the retention of passports, payment of agency fees, and ‘bonded training’. Under the latter, employees have to reimburse high overseas training fees if they leave the company, a requirement that potentially amounts to a restriction to leave the company of free will. Three indicators were subsequently integrated into the beSTick self-assessment tool. See page 26 of this report for details of how Singapore’s Sustainable Excellence Steering Committee is dealing with these issues.

Regarding the payment of agency fees in China, our Shenzhen site has found a solution to the problem by recruiting workers directly through existing employees (their friends or relatives).

Information and training on human rights has been integrated into our Corporate Responsibility Awareness campaign for deployment to all employees in 2006. More detailed training will be incorporated into the training programs used to deploy the Principles for Sustainable Excellence in 2006 and 2007.

Human rights in the supply chain

In 2005, we integrated a number of new indicators into our beSTick self-assessment tool covering standards set out by the new Electronics Industry Code of Conduct (EICC), which includes human rights. This is a first step towards monitoring the social standards of our suppliers as part

of our internal processes. Many of our sites check routinely on social performance when they perform quality audits, and we are working to make this a formal company-wide procedure. We are not yet ready to report against the relevant GRI indicators.

AN UPDATE ON OUR RESTRUCTURING

Many factors have adversely affected company performance over the last year. These factors include increased competition, pressure on prices, market evolution, and the dollar/euro exchange rate. By the beginning of 2005, our gross margin had declined to a level significantly below that of our comparable competitors. Indeed, the results of the first quarter of 2005 showed a loss.

This state of affairs led management to implement measures aimed at reshaping the company and restoring the competitive excellence we used to have. These measures included a restructuring involving:

- Redeploying about 1,000 engineers on selected projects and products
- Recruiting 500 people to complement this redeployment
- A workforce reduction by about 3,000 positions – about 2,300 in Europe (1,200 in Italy and 1,000 in France), about 700 in the Mediterranean region, and the remainder in other European countries and our Americas region.

Of these 3,000 positions, about 850 relate to projects from which we are disinvesting – 150 in Italy and 700 in our Mediterranean region.

The changes to our workforce were linked and also included changes already announced two years ago concerning the upgrading and closing of former 6-inch 'fabs' (manufacturing facilities) in France and Italy. To maintain production levels at the 6-inch fabs while also starting the new fabs, we hired about 700 operators on special short-term contracts to cover the overlap period.

The aim was to implement these changes within 18 months, completing the program in mid 2006.

LA4

Negotiations with workers about the changes took place at a country level apart from in Europe, where we have a European worker council, and so negotiations took place at both a European and country level. Inevitably, the detail of negotiations varied according to local practices and employment legislation but in every case the priority was to minimize the social impact of our restructuring and, ideally, to have no compulsory redundancies.

We achieved this in two main ways:

- By giving priority to voluntary solutions whereby staff:
 - took early retirement
 - found a new job either within or outside the company
 - set up their own business
 - went part time
 - left to follow personal projects
- By giving stakeholders sufficient time to analyze, present, and negotiate the practical conditions on which they implemented one of these solutions.

"A primary challenge would be dealing with the employees of the company, in these times of transition, showing them that the company practices CR internally as well as externally."

Sapna George – Design, Singapore

All of the actions mentioned above are carried out with the full support of ST.

In all cases, we made every effort to help those affected as much as possible by, for example, identifying other possible jobs in ST, helping them look for jobs outside ST, retraining them, or helping them relocate to another area.

In France, in agreement with the unions, we paid external consultants to advise affected employees on any ideas they might have about their future employment, both inside and outside ST. If these ideas were judged to be realistic we helped employees put them into practice.


As a result of this initiative, by the end of 2005, before formal negotiations were completed, almost 200 volunteers had registered for:

- Other internal jobs	6%
- External jobs	27%
- Setting up their own business	40%
- Training/personal projects	10%
- Retirement/early retirement/part time	17%

This means we can reasonably anticipate that we will achieve our target of zero lay-offs. Our initiative has met with considerable favor from the French authorities and discussions are under way to extend the concept outside ST to create a permanent body available to assist affiliated companies and their employees with redundancy and mobility situations.

In Italy, our first step was a voluntary separation program for people who had reached pensionable age during 2005. The second step was to negotiate an agreement with unions to modify working patterns with a new 21-shift pattern and to introduce phased retirement for up to 270 people. We expect this agreement to come into force during spring 2006 in line with our completion target. At the same time, about 200 employees from our Castelletto plant have agreed to commute to our Agrate plant, taking advantage of transport measures we have put in place.

In all our locations subcontractor, agency and short-term contracts will cease at the fixed date – especially all special temporary contracts linked to fab upgrading – and will not be renewed. These contracts represent about 30% of the total positions that need to be eliminated. By the end of 2005, we had achieved about 40% of the changes required by our restructuring program.



Putting environmental policy into context

ST is now into the second decade of its Decalogue. That's over 10 years of reporting against its well-known environmental 10 commandments. As a preface to this year's performance review, we caught up with Georges Auguste, Corporate Vice President, Total Quality and Corporate Responsibility, to find out exactly why, and how, ST takes its environmental obligations so seriously.

Let's start with the very basics, Georges. Why have an environmental policy at all? And where does it fit in with company strategy?

Our strategy from the beginning was to be a viable company. For us, being viable means being sustainable. This is long-term thinking – we believe a corporation cannot succeed in a world that fails. As the definition has it, we want to fulfill the needs of the present without compromising our ability to fulfill the expectations of all our stakeholders in the long term. So the environmental strategy did not start with a business case argument, it was for moral reasons, an ethical commitment. As a bonus, it is very clear that by saving resources we are more profitable.

And no doubt the reporting helps monitor this?

Well, clearly it's a healthy exercise to understand where you are against where you wanted to be. But it also helps communicate to employees and the outside world our ethical commitment. What's more, it is a powerful motivation to improve, because we are publicly committed.

You revised your Decalogue this year. What are the main changes?

We are updating the purely environmental targets from the perspective of continuous improvement. But we want to focus more on the areas that are completely within our control, such as the impact we have in solvents,

“Clearly, it’s a healthy exercise to understand where you are against where you wanted to be. But it also helps communicate to employees and the outside world our ethical commitment.”

Georges Auguste – Corporate Vice President, Total Quality and Corporate Responsibility

acids, and heavy metals. We have also introduced health and safety targets – nothing we haven’t worked on before – just giving them the same kind of company-wide visibility.

Why not set absolute targets rather than 5% a year improvements in normalized terms?

I agree absolute targets would be quite meaningful but they don’t take into account the fast growth of our industry, and the kind of capital investments required to achieve them would be unmanageable – we have to balance our stakeholders’ expectations. Besides, 5% seems very reasonable and has proved so. If the whole world improved at 5% a year, absolute consumption of natural resources would really come down.

Even though ST’s first priority is management of the impact of hazardous substances, the aim to become carbon neutral by 2010 has attracted much recognition. Can you explain this policy to us and tell us how you are doing?

Well, I think you’ll see a detailed update later in this section, but what it means is that we want our overall CO₂ emissions to be equivalent to zero. The parts of this equation are as follows:

- We reduce our basic energy consumption so we are reducing the CO₂ the energy producers use to supply us. Here we are totally in line with our plan and have achieved a 7–10% reduction over the last few years, beyond the 5% target of the Decalogue.
- We reduce emissions due to our use of Perfluorinated Compounds (PFCs). Here our target is to reduce our absolute PFC emissions by 10% in 2008 from our 1995 baseline. We are a bit behind schedule but we know how we are going to address this, and since we have made an important commitment within the World Semiconductor Council, we are determined to succeed in reaching our goal.
- We replace some of our traditional energy supplies with our own renewable energies such as wind farms and photovoltaics. This is on a small scale, but as it is not our

core business to be an energy producer we are changing our strategy toward the purchase of green energy as a proactive support to green energy producers. Our current use of renewable/alternative energy stands at 2%, so we have quite a way to go to reach our goal of 15% by 2010.

– Finally, we compensate for our remaining emissions through reforestation programs.

So, how are we doing?

Well, it will be impossible for us to reach our original 2010 goal of total carbon neutrality covering both our direct and indirect emissions of CO₂, so for this date we have adjusted our target to be neutral on our direct emissions (due to PFCs). We will certainly be able to reach this goal. Total carbon neutrality, including the emissions of all the energy we consume, is perhaps another five years further off beyond the 2010 target, but we will get there.

ST is also famous for introducing the ‘eco-efficiency’ approach, highlighting the financial benefits that accompany efforts to reduce the consumption of resources. How’s that going?

When we started this, it was by dividing the physical values, like kilowatt hours, by dollars of sales. Of course this is very much dependent on sales data and product prices, which can fluctuate dramatically. So we abandoned this and replaced it by units of production, which is a bit more reliable. In fact, we don’t think we should go much further than we have already, as there would be little added value in deploying a more complicated system to measure smaller impacts. However we have already extended this concept to health and safety, and 2005 is the second year running in which we have been able to publish the estimated costs and savings relating to accident and injury rates.

Looking at the bigger picture, electronics isn’t perceived to be a polluting or extractive sector. What difference can a company like ST make?

No, we are not a ‘big polluter’, but we certainly have an impact, and we must show that proactivity is possible, and that it is compatible with sound financial results – savings of over US\$170m a year in our case. Our commitment to carbon neutrality is unique in our sector, and is made on top of the other initiatives we have launched to reduce our impact. It shows the way; corporations should internalize their environmental costs instead of pushing them out to society at large. The other difference we can make is in developing products for energy-saving.

Ah, yes, tell us more about that.

Well, this is something we’ve done quite naturally in the last 10 years or so, even though there was never a real strategy, and we have a very strong ‘low-power conscious design’ culture. But now our CEO has made it clear that he wants to start measuring the percentage of our total products that are energy-saving products. We will have more visibility on the products already in our portfolio quite soon, but since a product takes between 8–20 months in development, we won’t see these results for products under development until 2007. There are two things to look at here: the way we design the product to consume less energy itself is one. The other is the design of our chip so it saves energy within its final application, like the standby mode on a TV or a computer.

Georges, you’re something of an evangelist for environmental commitment. Does the senior management share your view?

Environment, as part of corporate responsibility, is at the heart of one of the key programs of the company. The environmental results are part of the quarterly results presented to the CEO. If they are not on track, vice presidents have to justify why, and what they will do to correct any inconsistencies. The environmental results are part of defining the salary for key executives. But our commitment and results come from something else, too. When we first started out, there were some executives who were puzzled about our environmental initiatives, but they soon realized they make sense from a business point of view, and that they are highly valued by our stakeholders, such as investors, customers, and local communities. Besides this business perspective, there is a very strong emotional investment in the environment at ST. This aspect of our culture is something that matters to us and we are all very proud of it.

Georges Auguste
Corporate Vice President, Total Quality and Corporate Responsibility

Environment Health Safety

In 1995, we published our first Environmental Decalogue, a set of 10 targets created to help us reduce our impact on the environment. We were one of the first companies to set measurable, time-defined goals for environmental performance and to commit to them in public – publishing our Decalogue as a booklet and distributing it widely among our employees, suppliers, customers, and partners. In 2005, to mark the 10th anniversary of the first Decalogue, we published a new edition, which includes specific health and safety targets.

Over the past 11 years, driven by the Decalogue, we have highlighted the outstanding progress we have made as a company with regard to environmental performance. We have reduced our energy consumption by 43%, our water consumption by 66% and our CO₂ emissions by 52%, per unit produced. This has provided us with extraordinary savings of well over US\$100m per year (US\$173m in 2005), demonstrating very clearly our company's belief that to a large extent 'ecology is free'. In cases where a financial investment is required without a tangible 'payback', for example in the reduction of CO₂ emissions from PFCs, we consider this an internalization of the real cost to society, for which we are responsible.

"The evidence we have accumulated over more than 10 successive years demonstrates that ecology is not only free but makes a significant positive contribution to commercial performance," says Georges Auguste, Corporate Vice President, Director of Total Quality and Corporate Responsibility. "Equally true, and just as important, operating according to the highest standards of wider social responsibility, also makes financial sense. Of course there are challenges and it is not always easy to find the right balance between financial imperatives and wider responsibility for our impact on society, but we firmly believe that responsible behavior is what makes long-term superior performance possible. For us, this is 'sustainable excellence'."

The new Decalogue

The new edition of our Decalogue (it was last revised in 1999) has changed to introduce a new global approach to achieving our overall company target. The big change is that we have now integrated our environmental targets with our health and safety commitments. For the first time, we have also introduced innovative environmental targets, so as well as traditional targets like energy, water and chemicals conservation, we now have specific targets relating to other environmental issues, for example decreases in acidification and eutrophication. We have also included explicit references to our chemical risk management activities, which are embedded in our efforts to ensure a safe and healthy working environment.

After evaluating the historical trends of our environmental performance, we have set new targets for the coming year. As with previous years, we are confident we will achieve these, using the best technologies in the market, together with the extensive knowledge we have developed over the past decade. Some areas are challenging, for example attaining carbon neutrality, but we are determined to find a way to succeed.

"This [EHS data reporting] is well established and considered leading edge in the industry. ST can learn from its record on EHS how to extend its leadership position to other aspects of CSR."

Reassurance Network – assurance provider

ST's Environment Health and Safety Decalogue

1.0 Regulations

- 1.1 Meet the most stringent environment, health and safety (EHS) regulations of any country in which we operate, at all of our locations.
- 1.2 Comply with all relevant international protocols at least one year ahead of official deadlines at all our locations.

2.0 Conservation

- 2.1 Energy: reduce total energy consumption (kWh per production unit) by at least 5% per year, through process and facilities optimization, conservation and building design.
- 2.2 Water: reduce water draw-down (cubic meters per production unit) by at least 5% per year, through conservation, process optimization, reuse and recycling.
- 2.3 Chemicals: reduce total consumption of chemicals by at least 5% per year (weight per production unit), through process optimization and recycling.

3.0 CO₂ neutrality

- 3.1 Energy: reduce total emissions of CO₂ due to our energy consumption (tons of CO₂ per production unit) by at least 5% per year.
- 3.2 PFCs: reduce absolute Perfluorinated Compound (PFC) emissions by 10% in 2008 from 1995 baseline.
- 3.3 Renewable energies: adopt, wherever possible, renewable energy sources such as wind, hydroelectric, photovoltaic, and thermal solar.
- 3.4 Carbon sequestration: compensate for the remaining CO₂ emissions through reforestation or other means, aiming at carbon neutrality by 2010.

4.0 Pollution

- 4.1 VOCs (Volatile Organic Compounds): reduce VOC emissions by at least 10% per year (weight of VOCs/production unit).
- 4.2 Acidification: reduce the emissions by at least 5% per year (kg of SO₂ equivalent per production unit).
- 4.3 Eutrophication: reduce the phosphorus (P) and nitrogen (N) compounds discharged into water by at least 5% per year (weight of P+N per production unit).
- 4.4 Heavy metals: reduce the heavy metals discharged into water by at least 10% per year (weight/production unit).
- 4.5 Noise: meet a 'noise-to-neighbors' rate of less than 60dB(A) at any point and any time outside our property perimeter for all sites, or comply with local regulations (whichever is the most stringent).

5.0 Risk management

- 5.1 Chemical selection and screening: adopt an approach based on precautionary principles when assessing the EHS impact of new chemicals and gases.
- 5.2 Strive towards continuous reduction and control of hazards, hazardous material and processes, and associated risks in the quest for a healthy working place and employees' well-being.
- 5.3 Eliminate all CMR (Carcinogenic, Mutagenic, toxic for Reproduction) substances.

6.0 Waste

- 6.1 Reuse or recycle at least 95% of our waste.
- 6.2 Reduce the generation of waste by at least 5% per year (kg per production unit).

7.0 Products and processes

- 7.1 Design products for decreased energy consumption and for enablement of more energy efficient applications.
- 7.2 Develop and manufacture products and processes, responsibly managing their potential environmental impact (DFE: Design For Environment).
- 7.3 Contribute to global environmental control establishing the Life Cycle Assessment on selected products/processes with the purpose to minimize all environmental and social impacts from raw material, manufacturing, use, and disposal.

8.0 Proactivity

- 8.1 Promote the use of more-efficient (less consumption and low pollution) vehicles for our employees and encourage the use of alternative ways of transportation (mass transportation, car sharing, two-wheeled vehicle, etc.).
- 8.2 Support local initiatives for sponsoring environmental projects, sponsor local EHS events at each of our sites, encourage our people to lead or participate in EHS committee, conferences, etc.
- 8.3 Establish long-standing partnerships with suppliers and customers to achieve common environmental goals and strongly encourage suppliers and subcontractors to be EMAS validated, ISO 14001 and OHSAS 18001-certified, and assist them through training, support, and auditing.

9.0 Health and safety

- 9.1 Number of work-related injuries and illnesses: reduce the Recordable Case rate (RC rate) by at least 10% per year.
- 9.2 Work-related injuries and illnesses with days away from work, job transfer, or restriction: reduce the DART (Days Away from work, job Restriction, job Transfer) rate by at least 10% per year.
- 9.3 Severity rate (total number of days away from work): reduce the Severity rate by at least 10% per year.

10.0 Measurement and validation

- 10.1 Continuously monitor our progress, including periodic audits of all our sites worldwide and cooperation with international organizations and corporations to benchmark and define future goals.
- 10.2 Measure progress and achievements using 1994 as a baseline (where applicable) and publish our results in our Corporate Responsibility Report.
- 10.3 Maintain the ISO 14001 certification, EMAS validation and OHSAS 18001 certification of all manufacturing sites worldwide.
- 10.4 Certify new manufacturing sites within 18 months of their operational start-up, including regional warehouses.

Environmental performance overview

DISCLOSURE ON MANAGEMENT APPROACH

STEV1, STEV2

See <http://www.st.com/stonline/company/cr/environment/index.htm> for details of our management approach to the environment, including our Environmental Policy and details of our training activities to support the culture of environmental protection. See page 44 of this report for our new Environment, Health and Safety Decalogue. References to different aspects of our management approach can be found throughout this performance overview section.

2005 ENVIRONMENTAL PERFORMANCE IN CONTEXT

As this report demonstrates, our CR work today looks at an ever-growing number of areas where we can exert a positive influence. But our reputation as a front-runner in the field is based largely on our pioneering work in keeping the environmental impact for which we are directly responsible to a minimum. In 2005, we put on hold some of our investments in environmental programs (e.g. reforestation), or delayed them as we focused on stabilizing our economic situation in challenging market conditions. Despite these circumstances, we maintained our strong environmental performance in key areas and our 2006 objectives reflect renewed activity and investments in a more stable economic context.

Information regarding values and indicators of environmental performance

As last year, we show absolute values for the whole company. We also refer to impact per unit of production (silicon wafers or finished products).

Some values presented in this report are given separately for front-end and back-end manufacturing sites, which produce different end products:

- Front-end sites produce finished silicon wafers of different diameters and different technological complexity. We have adopted a reference unit of an 8-inch wafer with a complexity level of 20 ‘masks’ (photolithography processes).
- Back-end sites produce the finished product or ‘package’ (a silicon ‘chip’ assembled into a plastic or ceramic package). We refer to this finished product in million ‘units.’ In the sole case of energy, we refer to million ‘pins’ (wire connections on the package) because this is more suitable for measuring the consumption of electricity during the production process.

All environmental indicators cover about 85% of the company in terms of headcount (manufacturing and other major sites where R&D take place), but 100% in terms of manufacturing activity.

MEASURING AND MANAGING OUR PERFORMANCE

STEV3; §10.3, 10.4 of Decalogue

ST certification: All our manufacturing sites are fully EMAS validated and ISO 14001 certified and have been since 1997.

STSC4b; §8.3 of Decalogue

Supply chain certification: In accordance with our Environmental Policy, we strongly encourage both suppliers and subcontractors to become EMAS or ISO 14001 certified. In 2005, almost 69% of our key suppliers were ISO certified or EMAS validated. See the Supply chain section on page 58 for more details.

STEV4; §1 of Decalogue

Results of regulation tracking: For more on ST’s compliance with existing and future environmental legislation, see the section on Product responsibility (page 52).

STEV5, STEV6

Environmental accounting: The table below presents the total costs versus savings for the three key resources used in our industrial processes (energy, water, chemicals). The savings (in US\$m) in a given year are calculated with reference to our performance in 1994. For a description of the accounting methodology used see <http://www.st.com/stonline/company/cr/environment/measuring/index.htm>.

STEV8, STEV35, STEV58: Environmental costs versus savings

	2001	2002	2003	2004	2005
Total costs	30	32	35	35	34
Energy saving	33	59	78	102	123
Water saving	6	10	13	17	19
Chemicals saving	17	31	42	54	65
Total saving	56	100	133	173	207
Balance (cost saving)	26	68	98	138	173

The consistent year-on-year increase in savings is due in part to our constant efforts to reach our Decalogue objectives (in particular to save natural resources), and in part to the increased production activity, which leads to improved eco-efficiency.

STEV6: Environmental investments

% of total company investments



A significant part of 2005 investments focused on measures to reduce carbon emissions resulting from energy and PFCs.

Environmental awards

STEV19

External recognition: During 2005, our company, individual sites and staff have won various environmental awards:

- Business week/climate group: ST ranked among the Top Ten Green Companies of the decade
- National Italian prize for Sustainable Mobility (ST Agrate).

EN13; EN16

Fines and incidents: In 2005, there were no significant incidents having an environmental impact and no fines.

The Environmental Burden Method: the impact of emissions to air and water

STEV20

In 2001, ST began to use the Environmental Burden Method (developed with the World Business Council for Sustainable Development) to measure the global environmental impact of the company. For more details see <http://www.st.com/stonline/company/cr/environment/measuring/burden.htm>.

The table below shows our net figures for Environmental Burden since 2001.

Emissions to air

In general terms, absolute concentrations are low and all of our sites are well within local regulation limits. The increase year on year is due to increases in production, and does not take account of reforestation (see the carbon neutrality section on pages 50–51).

Since 2002, we have been installing scrubbers (at Ang Mo Kio, Agrate, Rousset, and other sites) to reduce emissions to air, particularly of solvents (VOC and POC). Some other actions have been identified and will be implemented in 2006.

STEV21; EN8, EN9, EN10, EN12: Environmental burden: net values

Indicators	Units	2001	2002	2003	2004	2005	Comments
Global warming	MTCE	457,214	489,813	511,084	522,877	626,420	Includes direct greenhouse gas emissions from our manufacturing plants and indirect emissions from energy consumption and transport, reported in Metric Tons of Carbon Equivalence (MTCE)
Ozone depletion	Kg R11 Eq	591	465	158	122	78	Deals with marginal releases of ozone-depleting substances measured in R11 equivalence
VOCs	Tons	309.7	341.2	331.0	294.0	311.0	Reported as net volatile organic compounds emissions in tons
Atmospheric acidification	Kg SO ₂ Eq	24,591	36,304	49,040	25,898	37,670	Total acidic emissions expressed in sulfur dioxide (SO ₂) equivalence
Photochemical ozone creation	Kg ethylene Eq	29,320	97,640	84,478	59,401	46,767	Deals with the potential to form low-level ozone
Air emission toxicity	Kg PH ₃ Eq	3,227	6,375	11,010	3,543	7,532	Emissions of substances are considered with threshold limit values below 3ppm, expressed in phosphine equivalent
Eutrophication	Kg [P + N]	345,603	281,650	253,464	177,122	227,910	Deals with phosphorus and nitrogen emissions
Aquatic oxygen demand	Kg COD	699,790	498,670	476,562	518,935	443,870	Total Chemical Oxygen Demand (COD)
Heavy metals to water	Kg heavy metals	20,269	16,192	18,731	19,520	17,522	Total heavy metals emissions
Aquatic ecotoxicity	Kg Cu Eq	20,269	12,086	12,256	10,772	11,490	Includes mass emissions of various metals expressed in copper equivalent

□ Emissions to air ■ Emissions to water

STE22: Environmental burden: normalized values

	Front-end sites					Back-end sites				
	2001	2002	2003	2004	2005	2001	2002	2003	2004	2005
Global warming	100	81.1	73.7	64.0	71.8	100	97.4	79.7	77.7	68.4
Ozone depletion	100	11.4	0.6	7.8	0.0	100	85.4	22.0	14.0	9.1
VOCs	100	90.3	74.7	56.5	52.76	100	155.8	130.6	126.4	114.0
Atmospheric acidification	100	129.8	150.0	68.8	87.0	100	65.8	78.2	27.7	79.7
Photochemical ozone creation	100	246.4	207.0	117.9	83.4	100	782.6	134.3	209.9	130.5
Air emission toxicity	100	164.4	250.5	68.9	131.0	100	138.1	86.3	21.9	22.5
Eutrophication	100	70.0	47.0	30.5	38.2	100	53.6	74.0	34.4	25.1
Aquatic oxygen demand	100	57.1	56.9	55.4	45.5	100	59.7	33.8	28.0	15.9
Heavy metals to water	100	69.6	69.1	46.0	34.2	100	59.0	61.6	79.1	70.7
Aquatic ecotoxicity	100	47.7	36.6	30.0	31.1	100	53.4	65.5	41.7	31.5

Emissions to water

Here also, absolute values are low and all sites are well within local regulation limits. The figures above take into account all effluent, both in surface water after it has left the waste water treatment station (where these exist), and water that goes directly to the sewer. They also take into account the fact that public water treatment stations are not able to eliminate heavy metals and are able to eliminate only 50% of phosphorus and nitrogen.

The table above presents the normalized values for the Environmental Burden indicators by total front-end (FE) and back-end (BE) sites against a baseline of 100 in 2001.

Eco-footprints

STE23; EN1

We use eco-footprints to allow a fast, fact-based evaluation of environmental performance improvement and a comparison of data from different sites. The ratio of performance against the standard reference is plotted on a radar chart. A value equal to (or below) 1.0 means we are performing at (or better than) our standard.

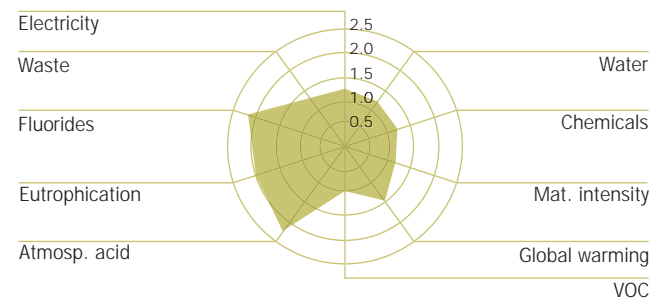
In 2005 the total front-end eco-footprint value improved slightly from 1.44 to 1.39. Some parameters such as electricity or water consumption have improved, but some others (in particular emissions to air and to waste water) are not progressing and we have launched initiatives to reach our Decalogue targets.

In order to monitor improvements, eco-footprints are reviewed on a quarterly basis.

The back-end results are improving as well, and the corresponding eco-footprint has decreased from 1.02 to 0.94 in 2005. Most of the parameters are in line with our targets.

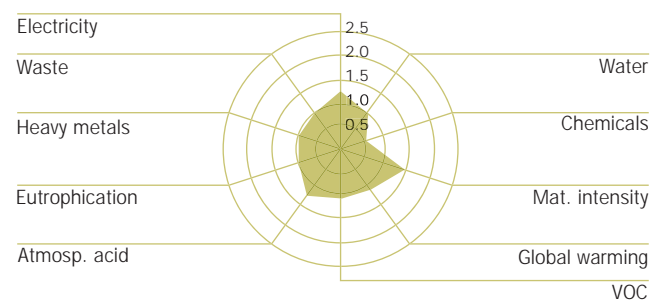
Front-end sites eco-footprints 2005

EFP = 1.39 (weighted average)



Back-end sites eco-footprints 2005

EFP = 0.94 (weighted average)



WATER

● STE56; §2.2 Decalogue

This is an area where we are making good progress. We have consistently exceeded our Decalogue target, reducing our water consumption by unit of production by an average of about 10% rather than 5% per year. In 2005, our front-end sites reduced water consumption per production unit by 5.2% versus 2004, while back-end sites reduced consumption by over 7.2% over the same period. The net increase in water consumption is explained by our increased production.

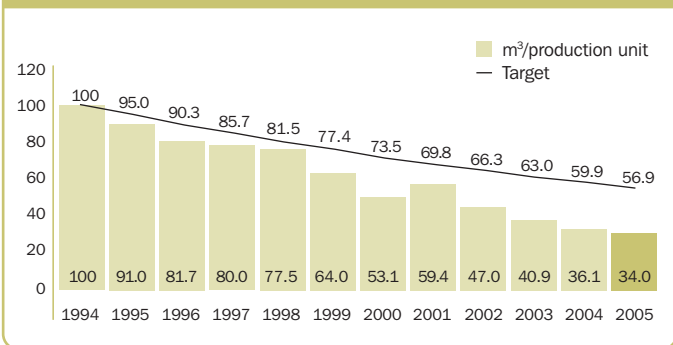
EN5: Reductions in water consumption: absolute values

	2000	2001	2002	2003	2004	2005
Total water use (1,000 m ³)	18,630	20,330	19,450	19,850	20,550	21,834

For details of the cost savings resulting from reduction of water consumption, see the table on page 46.

The chart below plots our performance against the Decalogue target (reduction of 5% per year), and shows that the reduction of water consumption per unit produced has been much faster than planned.

Reduction in water consumption: normalized values



CHEMICALS

Our manufacturing processes require significant amounts of chemicals especially in front-end processes. Since some chemicals have a potential impact on the environment and also carry health and safety risks, we work hard to keep their use to a minimum. The chemicals we target are photoresists, developers, sulfuric acid, hydrogen peroxide, hydrofluoric acid, and a selection of solvent compounds.

STE64; §2.3 Decalogue

We have exceeded our target of reducing by 5% a year the consumption of chemicals per unit of production. In 2005, our front-end sites reduced the consumption of chemicals per production unit by 0.3% versus 2004, while back-end sites reduced by 22% over the same period.

As in the case of water consumption, the increase in absolute values (+10% from 2000 to 2005) is due to the significant increase in production (+83% over the same period).

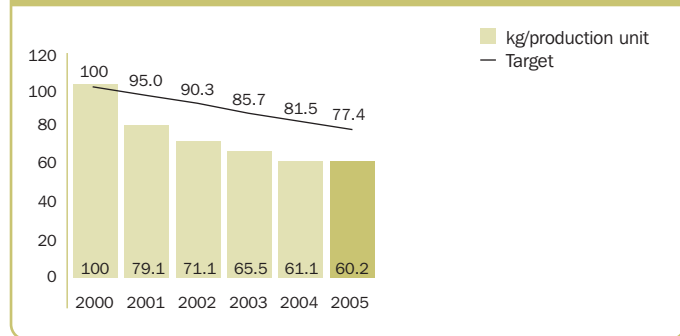
Consumption of chemicals: absolute values

Net consumption	2000	2001	2002	2003	2004	2005
Tons of chemicals	16,947	13,053	14,188	15,345	16,938	18,669

These net values would have been much higher without the actions we have taken.

The chart below shows our performance against our Decalogue target (reduction by 5% per year) since 2000 (our reporting system for chemicals was not reliable enough to publish before that date).

Consumption of chemicals: normalized values



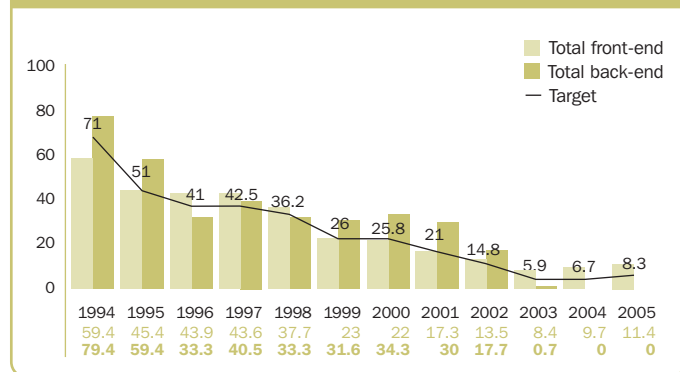
For details of the cost savings resulting from reduction of consumption of chemicals, see the table on page 46.

WASTE

EN11; STE73; §6.2 of Decalogue

In 2005, only 8.3% of total waste produced by ST went to landfill, not quite in line with our 5% target. All other waste was reused, recycled, or burned with energy valorization. The chart below shows landfill waste as a percentage of total waste over time.

Landfill waste % of total waste



EN2; STE71, STE72; §6.1 of Decalogue

In 2005 we recycled or reused 78% of our waste.

EN2; STE71: Recycled waste

	1994	2002	2003	2004	2005
Waste recycled	25	65	73	80	78

We are still some way from our target of 95% waste recycled or reused. In 2004, we reused or recycled 32,000 of the 41,000 tons of waste generated.

Hazardous waste

Hazardous waste, in very general terms, is the waste resulting from the production process, which can include chemical substances, plastics, lightbulbs, etc. The formal definition of hazardous waste varies from country to country. Since 2004, we have been tracking data on hazardous waste, but these data are not yet ready for publication.

All hazardous waste is disposed of safely by specially authorized companies to avoid environmental contamination (e.g. solvents are burned with energy recovery; inorganic substances can be reused inside or outside ST).

CARBON STRATEGY

We continue to believe that one of the most pressing environmental threats is climate change caused by increased levels of greenhouse gases (GHGs). We have therefore developed a carbon roadmap to help us achieve our ambitious target of becoming CO₂ neutral by 2010. This roadmap consists of our:

- Energy Management Program
- Use of alternative and renewable energy
- PFC Management Program
- Carbon Offset Program and Emission Reduction Trading Program.

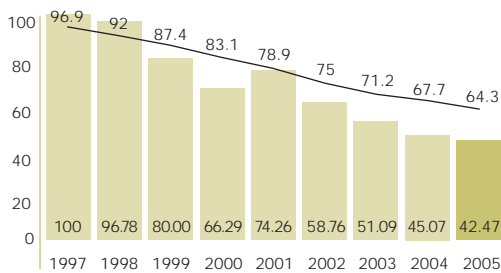
Energy Management Program

◆ STEV31; §3.1 of Decalogue

Energy efficiency: In 2005, we continued to improve our energy efficiency, as shown in the table below, and we again reached our Decalogue target of reducing energy consumption by 5% per year in normalized values. The decrease for front-end sites of 1.5% versus 2004 was not in line with our target, while back-end sites significantly exceeded the target by reducing 9.6%. Overall company reduction was 3.3%.

The chart below plots our performance against the Decalogue target since 1994 (reduction by 5% per year) and shows that we are exactly in line with our long-term objective.

◆ STEV31: Consumption of electricity: absolute values



STEV33, STEV34

In 2002, we reported on the identification of 350 energy-efficiency measures following our energy conservation self-assessment survey. In 2005, we identified projects for 50 GWh. Implementing these and other projects in 2006 will guarantee a saving of 85 GWh per year.

EN3; STEV33, STEV34: Energy consumption: absolute values GWh

	2001	2002	2003	2004	2005
Electricity	1,771	1,862	1,972	2,148	2,341
Gas	277	270	260	268	308

Gas is used for heating and in site canteens. The average growth of our global electrical energy consumption is well below the average for production growth.

For details of the cost savings resulting from reduction of electricity consumption, see the table on page 46.

Alternative and renewable energy

EN17; §3.3 of Decalogue

As mentioned in last year's report, we also plan to source a greater percentage of our energy from:

- Co-generators (combined heat and power), which are more efficient and emit less CO₂ per unit of energy (a 40MW co-generator is under construction in Catania)
- Renewable energies (wind and solar, which emit no CO₂). ST's 10.5MW wind farm located in the south of France produced the electricity reported in the table below.

STEV40: Electricity produced by ST wind farm GWh

	2003	2004	2005
Electricity	18.6	30.5	33.1

STEV37

The percentage of renewable energy used in the whole company is stable at around 2%.

STEV36

Our internal target is to increase this to 15%, and we are exploring the possibility of purchasing green electricity to achieve this, rather than investing in wind farms ourselves. In 2006, we will carry out a review at our different sites to understand the options open to us.

Our total savings in CO₂ emissions due to all the above measures will be approximately 15 million tons of CO₂ between 2000 and 2010.

Perfluorinated Compounds (PFCs) Management Program

§3.2 of Decalogue

The World Semiconductor Council (WSC) has set an ambitious goal of reducing the aggregate of absolute PFC emissions to 10% below 1995 levels by 2010. At ST, we aim to achieve this target by 2008.

STEV46

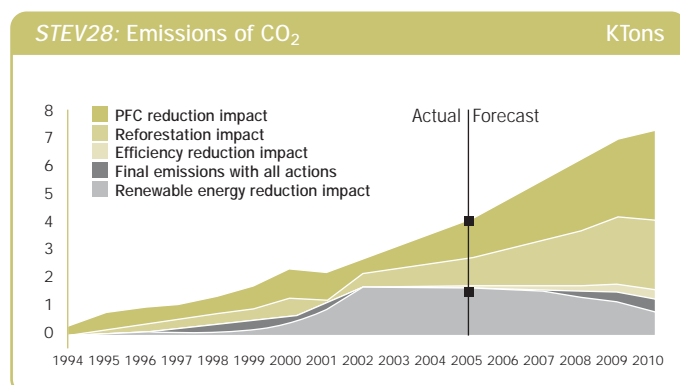
In 2005, despite significant increased production (+13%), our net PFC emissions increased by only 4%. This represents continued good progress given the 12.3% increase that had occurred in 2003 and the 5.9% increase in 2004. To enable us to achieve the WSC goal by 2008, US\$5m will be spent on abatement systems during 2006, a bit later than originally planned (2005). Looking at the table below, it is clear that overall our eco-efficiency relating to PFCs has dramatically improved, as we have cut our emissions per unit produced by more than 60%.

CO₂ emissions due to PFCs: absolute and normalized values

	2000	2001	2002	2003	2004	2005
Net emissions due to PFC KMetricTonsCE	689	532	601	677	718	747
kgCE/wafer eq base 100 in 1995	65.7	52.2	48.5	46.7	42.0	38.9

Overall, we have saved more than one million TCE (tons of carbon equivalent) between 1996 and 2005.

Closing the carbon loop: carbon sequestration and emissions trading
§3.4 of Decalogue



STEV49: CO ₂ emissions (PFC + energy)		Ktons		
	2003	2004	2005	
Without Carbon Road Map	3,102	3,566	4,142	
With Road Map (actual)	1,639	1,744	1,853	

STEV28

Carbon sequestration and emissions trading

In 2005, our greenhouse gas (GHG) emissions from energy consumption and PFCs totalled 1.85 million tons of CO₂, compared with about 1.74 million tons in 2004. Nevertheless, in terms of normalized figures (TCO₂/unit of production), our efficiency is improving, and the absolute figures would be much higher without the action we are taking. Given our economic growth, if no action had been taken, our emissions would have been 3.5 million tons of CO₂ in 2004 and 4.1 million tons in 2005.

Our Carbon Offset Program aims to neutralize any remaining carbon emissions (both direct and indirect) by 2010. (We expect to reach this target for direct emissions, but it will probably take us a bit longer than planned to neutralize indirect emissions.) It will allow us to sequester 3 million tons of CO₂ between 2001 and 2010 through reforestation projects in different countries around the world.

According to our Carbon Road Map, we will avoid emitting over 7 million tons of CO₂ in 2010 due to our Energy and PFC Management Program, and to our Carbon Offset Program.

STEV50

By the end of 2004, our Carbon Offset Program had resulted in approximately 8,800 hectares (4,800ha in Morocco, 2,600ha in South Wales Australia, 1,400ha in Texas and 17ha in Italy) being reforested. In 2005, no additional reforestation projects were implemented.

ST is currently taking part in the Chicago Climate Exchange (CCX) program, a voluntary greenhouse gas trading program in North America involving around 30 companies from different industry sectors. ST is participating through its two manufacturing sites in the United States, at Phoenix, Arizona and Carrollton, Texas.

Regulation has increased since the introduction of the Kyoto Protocol, particularly in Europe: one site (Crolles2 Alliance) has to comply with emission trading regulations because the site's combustion installations have a rated thermal input exceeding 20MW.

Sustainable mobility

§8.1 of Decalogue

Our sustainable mobility program is also helping us to reduce emissions. By the end of 2005, 53% of employees at our Grenoble site were using alternative means of transport. It is hoped that by the end of 2008 this will have increased to 60%.

Meanwhile, at our Agrate site, more than 1,500 employees are now using shared transport. The CO₂ reduction is about 5 tons per day. This won the site the prestigious 'Innovazione Amica dell'Ambiente 2004' award from the Regione Lombardia e Legambiente and in 2005, the 'Premio Nazionale Mobility manager' during the Ecomondo 2005 workshop.

Since the promotion of sustainability has been included in the new 2005 Decalogue, we plan to begin tracking data at company level in 2006, for example 'percentage of employees travelling to work by bus, either public or provided by ST, per day'.

See <http://www.st.com/stonline/company/cr/environment/carbon/mobility.htm> for more information on Agrate's sustainable mobility activities.

Summary of greenhouse gas emissions	Emissions of CO ₂ (Ktons)						
	1999	2000	2001	2002	2003	2004	2005
STEV27: CO ₂ due to energy (direct and indirect emissions)	701	822	929	940	971	1,047	1,157
STEV46: Direct emissions due to PFCs	605	689	532	601	677	718	747
STEV47: Total emissions	1,306	1,511	1,561	1,541	1,650	1,765	1,904
STEV38: Saving due to investment in renewable energy					1.14	1.86	2.59
Sequestration due to the implementation of reforestation projects					6	14	40
STEV53: Savings due to the Emission Trading Program					3.99	5.27	7.82
STEV52: Total net Ktons CO ₂					1,639	1,744	1,853



A focus on R&D effectiveness

Product responsibility, as an area of focus within corporate responsibility, looks at where there may be crossover between our product development activity and our social and ethical obligations. As Executive Vice President of our largest product group, Home, Personal and Communication Products (HPC), Philippe Geyres is in an excellent position to update us on some of the key issues.

Philippe, clearly product development is the lifeblood of our company, and this is reflected in our focus on R&D effectiveness as one of our key Execution Excellence programs. How successful was this program in 2005?

The priority for product development is time to market – how quickly we can get our designs into production. The ultimate measurement of success is the market share of the company, and we also track the weight of new products in ST sales. For new, we mean less than two years old.

What we did was track at company level 20 priority projects – five of them technology process development and 15 product development. We also reallocated resources to the priority projects, and in 2005, 10% of our total R&D workforce – 1,000 engineers – moved to different projects.

With this new focus we started to see improvements in market share and new products. The third quarter of 2005 was the lowest point, but in the fourth quarter, signs of recovery were evident and the positive trend is continuing early 2006. Among the projects we completed on time there is a 3G base-band for cellular phones and a 2 megapixel camera, the new generation of Nomadik application processors endorsed by Nokia, and a big success in high-definition TV, being the first with single-chip decoders in 90nm.

ST has some significant R&D activities in developing countries. Can you tell us more about this, and the economic and wider social value that it brings in those areas?

Our first criterion in deciding where to locate our R&D activities is where we have the knowledge and skills. Given the history of ST, this is first

Europe – in France, Italy and also the UK – and of course, in the USA too. The second criterion is where the innovation of our customers is, and the USA in computers and Europe in telecoms continue to play an important role here. But we see more and more innovation happening in Asia, by Asian and western companies. The third criterion is the cost of labor, but this must be considered in the context of available skills and the situation of the country in question.

We can in fact do R&D anywhere in the world. Of course one country can have experience and skills that are preferable to another, but these can be learned. That is how we started working in Singapore and India 15 years ago, and in Morocco and Tunisia five years ago. In the case of Tunisia and Morocco, there is the added advantage of being in the same time zone, and being close to our sites in Europe where, in France in particular, there can be strong interaction because of the language.

There is no doubt that our presence in these countries, and the expertise we bring, helps develop skills and specializations that support long-term development at a national level.

And what about the human rights of workers in these countries?

In R&D jobs, the working conditions are the same as in Europe and the USA, with the same tools and the same access to knowledge.

"We can in fact do R&D anywhere in the world. Of course one country can have experience and skills that are preferable to another, but these can be learned."

Philippe Geyres – Executive Vice President, Home, Personal, Communication Groups (HPC)

There may be some minor differences in working time due to local legislations, but there are absolutely no violations of human rights. And this is true everywhere in ST, in R&D, in manufacturing, in any job.

Our R&D activities often depend on partnerships and alliances with national public laboratories, customers, and even competitors. What are the risks and opportunities of this kind of engagement?

Yes, there is maximum cooperation with many different parties. One of the reasons is the investment needed to develop new process technologies. To stay in the race we partner with Philips Semiconductor and Freescale on process R&D in Crolles in France as part of the Crolles2 Alliance. This has been going for many years now, but we extended it in 2005 to

intellectual property 'blocks' of design. These are elements of products that are common between us and on which we can collaborate, even if we keep competing and differentiating at product level.

We also have a network of strategic alliances within which we do lots of R&D with customers. The design is partially done by the customer and partially by ST – with Nokia in telecoms, for example, or with Western Digital and Seagate in computer peripherals. We already had 12 of these key alliances and in 2005, we added a further 12 customers.

At a national level, we also have very strong links and long-term cooperation with national labs and universities in various countries: France, Italy, Singapore, the USA, and others. Going back to supporting the development of emerging countries, we have developed very strong links with several universities and engineering schools, and take a very active role in building up the curriculum and training students. In Morocco, this is a formal program, open to several universities and engineering schools, and the presence of ST has great significance for the country's future in the high-tech industry. Our initiative has been sponsored by the Prime Minister himself.

How is HPC organized to respond to the CEO's desire to capitalize on our innovation to respond to growing market demands for energy-saving products?

We can distinguish here between our products themselves, which consume less energy as technology develops, and the way our microchips help the electronic device they form part of consume less energy. We have introduced this latter approach, for example, in television sets and audio systems. Saving five watts per TV may not seem a lot, but when you consider that each TV is active for around five hours a day and that there are 500 million TVs out there, you realize the difference it can make. It's the same for the microchips we design for automotive engine control, to make the car more fuel-efficient.

So our products have a huge capacity for contributing to the reduction of overall energy consumption. In 2005, we began to measure this contribution, and although it is just a start – in 2006 we will have better figures – we have already identified that products with energy-saving characteristics account for 4.3% of our total revenues.

Philippe Geyres

Executive Vice President, Home, Personal, Communication Groups (HPC)

Quality in everything we do

Once upon a time, the word quality meant adhering to specifications. Products were in or out. Somehow, quality was considered a static science. Today, quality is an intangible but, paradoxically, far more important concept. The commitment to quality as a company cultural mindset affects not just products, but enhances the efficiency and success of the company as a whole, and its ability to act responsibly. So, what do we mean by 'quality' today? Marie-Helene Sibille, Group Vice President, Corporate Quality Systems, part of the Total Quality and Corporate Responsibility organization, explains.

"Well, perfection is the aim. But the wider concept of quality has developed to include the level of service the customer expects, and delivering the right products or services exactly when and where they are needed. It means first, and at a bare minimum, that when something goes wrong we must immediately identify the cause, act to correct it, and prevent it from happening again. But more importantly, it means positive and continuous assessment and management of risks. So it's about checks, processes, and procedures, all in one quality management system, largely based on continuous improvement, one of ST's key business principles. So the extended concept of quality is really at the heart of corporate responsibility as we understand it, in the sense of Sustainable Excellence.

Our processes to ensure quality are first aimed at fulfilling customer expectations – any kind of expectations. So, what if our customers demand, or authorities decree, that our goods are produced in line with a code of ethical conduct? This is a tangible example of where the concept of managing quality meets that of corporate responsibility. Our design and production also take account of the need to guarantee respect for people and the environment.

Here, in the corporate responsibility spectrum, we can give another recent example very relevant to ST, where regulations require we change our technology to remove lead. This involved a huge program to find new substances and new manufacturing processes so we could respect the environment and the regulation while not compromising product quality – in this case solderability – and delivery. In this example we can see how the processes evolved for monitoring quality help us meet these new CR standards. The semiconductor sector has often shown the way where quality is concerned, defining increasingly rigorous standards, for example to meet the requirements of the automotive industry, and ST has a strong track record. To stay with the example of the car, it was our automotive work that initially demanded the ever-improving quality, as for these applications, defective components may put lives at risk.

It's not easy to describe everything in terms of processes, and at first we went for quality certification on a site-by-site basis, giving flexibility locally, but then allowing diversity on the way to describe processes. Then, in 2002, we decided to change this to a global approach – that is, certifying the processes at company level. We also decided to be certified to the more stringent ISO TS 16949 standard. This standardization contributes a lot to the overall efficiency of the company, as well as to reinforcing team spirit: if some part of the company fails, the whole company is affected.

Since the early 1990s we have based our business model on the European Foundation for Quality Management's framework. This model highlights the importance of processes and

enablers, while considering the necessary results for all our stakeholders. All the different subjects to be covered by a management system – quality, environment, health and safety, finance, wider corporate responsibility – are part of it with the same objective of continuous improvement. This is the ST Business Excellence model.

The challenge, of course, is the excellence, also called zero defects. But with this type of aim, quality and continuous improvement has to be not just part of company culture, but the culture itself. That's where communication of these values is important. And we have to find ways to get across what this means. Actually, the core communication about quality, for every part of the company, comes from the policy deployment and review process. Setting objectives and carrying out performance reviews and appraisals at each organizational level and for each individual are all part of the process – all employees get to see the objectives of their department and of the organization as a whole. This process is the backbone of our Total Quality culture, supported by a wide panel of training programs developed by ST University. Audits and certification are the way to measure our progress and set higher standards of quality, thus contributing to the move toward Total Quality.

So all in all, our aim as a company is to guarantee quality. What does this mean? It means everyone striving continuously for Sustainable Excellence, thus answering to customers' expectations."



Lab-on-Chip: an electronic chip that tells you if you're ill

Imagine being able to diagnose if a patient has a certain virus or disease while he's sitting in the doctor's waiting room? It could happen sooner than you might think as a result of one of our new products – Lab-on-Chip.



We've been developing it for the past year in partnership with Mobidiag of Finland, and it already has the capacity to diagnose disease. Essentially it works by holding strands of DNA and matching them against the characteristics of given, known pathogens. It then compares the DNA and if it recognises similarities, it tells you if specific microorganisms have been detected.

The chip runs on our In-Check™ platform and uses a diagnostic panel from Mobidiag that identifies 10 sepsis-causing bacterial species, as well as strains of Methicillin-resistant Staphylococcus aureus (MRSA) from positive blood culture samples.

Faster results, better treatment choices

As well as being incredibly small, Lab-on-Chip can provide faster, more reliable results at a fraction of the cost and complexity of conventional lab systems. It will enable early detection of disease, resulting in better treatment choices for patients and lower overall costs to national healthcare systems.

"We believe that such affordable, user-friendly, and portable devices are set to make a critical difference in a growing number of diagnostic applications," said Anton Hofmeister, Group Vice-President and General Manager for ST's Microfluidic Division. "The unique combination of ST's leading-edge semiconductor and MEMS expertise with Mobidiag's know-how in microbiological diagnostics opens new possibilities for effective detection and treatment of infectious diseases at the point of need."

Greater accuracy, reduced risks

Crucially, Lab-on-Chip has been designed to optimize the choice of antibiotic therapy using results from Gram-staining – an empirical way of differentiating bacterial species. As a result, it should also reduce the risks of antibiotic misuse, as well as help physicians to select the right treatment as early as possible. The risks of cross-contamination inherent in

conventional analysis methods are minimized too, as the analysis is performed on a chip in an encapsulated, self-contained unit.

"Early detection of systemic bacterial infections is essential for the successful management of antibiotic therapy," said Jaakko Pellosniemi, CEO of Mobidiag. "We look forward to addressing the needs of laboratories that perform millions of blood cultures every year in our target markets."

Detecting bird flu

We're now developing the Lab-on-Chip further to detect a specific disease in humans – bird flu – in conjunction with the Singapore company Veredus Laboratories.

They're developing an application, using our In-Check™ platform, that identifies whether a patient is infected with the avian flu (H5N1) or a subtype of influenza A or B, in a single test – instead of the many tests needed currently. To be available in time for the next flu season, the single test application will be a substantial breakthrough in rapid identification of the infectious agent to limit the spread of the disease.

"In light of the risk of a worldwide flu pandemic, and to limit its potential global impact, we aim to provide health care professionals with the capability to quickly differentiate avian flu or severe flu strains from milder strains by their subtypes," says Dr. Rosemary Tan, CEO of Veredus. "We are also actively developing chips to detect dengue, malaria, West Nile, yellow fever, typhoid fever, Japanese encephalitis, and other diseases, and we anticipate that our products will greatly improve treatment choices."

Based on the encouraging results so far and following extensive testing, the Veredus application, running on our In-Check™ platform, is expected to be commercially available to health care providers in the second half of 2006.

European award for Collaborative Innovation

A mobile multimedia project led by ST has won the prestigious award for European Collaborative Innovation in Microelectronics.

The award aims to stimulate innovation in the European microelectronics industry. It recognizes innovative, practical designs likely to have a major impact on the markets. The award was presented to the project leader Max Tournier, from Rousset, who represented our Imaging Division at the official ceremony in Barcelona, Spain. The project ran for four years with the aim of creating a common development environment for low-power, highly portable multimedia applications.

"This award is the recognition of an unswerving commitment to innovation and the outstanding R&D capabilities of all the project partners," said Tournier.



Product responsibility performance overview

DISCLOSURE ON MANAGEMENT APPROACH

Product responsibility is an integral part of our overall corporate responsibility, and it takes into consideration the quality of our products, and the impact they have in the design phase, while in use and at the end of their life-cycle. Beyond overall quality, the key issues in question are energy saving and chemical content. For more information on these different aspects, see <http://www.st.com/stonline/company/cr/product/index.htm>. Information regarding our management approach can be found throughout this section.

Note: this section as a whole covers **PR1** and **PR2**. Our Principles for Sustainable Excellence, which will become an official document in 2006, also cover product responsibility.

QUALITY

For us, product responsibility also includes product and process quality, which is one of the most fundamental responsibilities we have to our customers. ST as a company, including all of its sites and organizations, is fully certified to the ISO TS 16949 standard, which was originally introduced in response to the automotive industry's need to ensure superior quality systems beyond the traditional ISO 9001 standard. Certification to this standard at company level means that all of our company processes and management systems are formally certified throughout the organization, not just at local level. See the article on page 54 for more on this.

The chart below shows 2005 data for three of our performance indicators for quality: the number of customer complaints, the time it takes us to process failure analysis, and the number of customer returns of products. These results show consistent improvement throughout the year.

STPR2, STPR3, STPR4: Quality

	Q4'04	Q1'05	Q2'05	Q3'05	Q4'05
Customer complaints	100	101.9	99.1	88.9	86.2
Cycle time to process failure analysis	100	98.0	91.0	80.0	72.7
Customer returns	100	32.0	49.8	64.1	41.1

PRODUCTS IN USE

Design for energy efficiency

In 2005, our focus on product responsibility (see page 52), in particular energy-saving characteristics, reflected the intention to respond in a more formalized way to growing market demand for energy-saving products. Design for low energy consumption has been part of our approach to environmental management for many years, but it was felt that we need to have better visibility of the energy-saving products we produce. Energy-saving products fall into the domain of 'eco-efficiency', where there are both financial and environmental benefits to innovation. The decision was taken to track and measure our energy-saving products more closely.

EN17; STPR1

A preliminary evaluation carried out on products shipped in 2005 identified energy-saving products from our different product groups. These represent 4.3% of total ST revenues. The estimated energy saving resulting from these products is 1,220 GWh, which is the equivalent of half of ST's own energy consumption and represents a saving of approximately 600 kTons of CO₂.

In 2006, we will extend our internal information network in order to gather additional information and identify more existing products with energy-saving characteristics. We will also establish a monitoring system for new products and ensure a reliable annual consolidation of data.

Sales to the military

Our ST policy is not to sell products that we know will be included in weapons. We have no direct sales of this kind. We have direct sales to the civilian aerospace sector in Europe and we sell our products to distributors, with no control over subsequent sales. These products are standard, employed in hundreds of different applications and sectors, such as voltage regulators, diodes, and transistors that can be purchased from any distributors and employed in thousands of products. It is unlikely any of our standard products are used by military clients for use in weapons, as these usually require very specific, customized applications.

PRODUCT END-OF-LIFE

EN14; STEV78, STEV79

Understanding the impact our products can have at the end of their life-cycle involves rigorous collaboration with and monitoring of our suppliers and of our own operations to control the chemical substances that go into our products (see page 62 for more on this). We publish information on the chemical content of our products on our website: <http://www.st.com/stonline/company/cr/product/endoflife/index.htm>, and we also respond directly to the many detailed requests of our customers regarding chemical content. We are in compliance with all related legislation, which we track continuously.

In order to give greater visibility to our activities to reduce the environmental impact of our products, in 2000 we introduced our strategic 'Ecopack[®]' program, which labels those of our products that are compliant with the RoHS directive (see below).

European Union RoHS Directive 2002/95/EC

The RoHS Directive requires us to eliminate specific hazardous materials, the most critical of which for us is lead (Pb). The RoHS Directive comes into force on July 1, 2006. In line with our Decalogue target to be in compliance with new legislation at least one year before it is introduced, for more than two years now, ST has been in a position to issue a compliance certificate declaring that its lead-free products are RoHS compliant. This compliance has gradually been extended to all ST products manufactured in all of our production facilities, not just in Europe.

Today, more than 95% of our production is conducted in full compliance with RoHS. Any exceptions are for those customers in health and automotive sectors making products with specific safety-related applications (e.g. pacemakers, airbags) that are exempt from the directive. For more details on RoHS and the phasing out of lead, see <http://www.st.com/stonline/company/cr/product/endoflife/rohs.htm>.

EU proposed directive REACH

The proposed REACH (Registration, Evaluation and Authorization of Chemicals) directive will require us to strive to eliminate specific toxic substances from our products and production processes. ST fully supports REACH and we plan to be compliant well before the directive comes into force, both in our European sites and in the rest of our production and research facilities around the world. We are working in close partnership with other semiconductor companies on the identification and phasing out of the potentially harmful substances that we know to be concerned. In the specific case of PFOS, this substance is only used in critical applications in compliance with the EU directive for the marketing and use of PFOS. We will phase this substance out of non-critical applications by the end of 2006. For more details on REACH and our activities to prepare for it, see <http://www.st.com/stonline/company/cr/product/endoflife/reach.htm>.

WEEE

EN15

As a supplier of components to the electronics industry (not manufacturers of electronic equipment), we are not directly affected by the European Directive 2002/96/EC Waste of Electrical and Electronic Equipment (WEEE).

"I believe ST is already taking the proper actions to make smart use of the right materials and of the natural resources required to build its products. Sustaining these actions is required moving forward."

Maurizio Paganini – Design, Grenoble

Successful chain reaction

As outlined earlier in this report, purchasing costs are an integral part of ST's strategy to reduce costs, one of the key initiatives of 2005. We asked Otto Kosgalwies, Corporate Vice President, Infrastructure and Services, which combines Purchasing, IT, and Logistics at a worldwide level, for a progress report on this specific Execution Excellence campaign, particularly from the perspective of corporate responsibility. Of course, while we were there, we also asked him about other responsibility issues affecting the supply chain.

"To start with a brief overview, the campaign to reduce purchasing costs in 2005 was a great success and achieved its financial objectives. I will describe it in more detail shortly. It may appear that we have been concentrating on our financial imperatives in 2005, before returning in 2006 to our social obligations, which, as Carlo Bozotti has said, are never far from the surface of our company culture. However, I believe our reorganizational work of 2005 has also gone a long way toward enhancing the way we manage our social and environmental impact, and in this short article I hope to show you how. At the same time, our work will build on efforts made by the electronics industry as a whole to integrate wider social and environmental considerations.

The 2005 procurement costs campaign

Over the years, ST has grown organically, and through mergers and acquisitions, but until now we had never reorganized or consolidated our purchasing activity. Our new Global Sourcing and Purchasing organization does this. By sourcing we mean the strategic approach, such as choice of suppliers, whereas purchasing involves the local day-to-day placing and handling of orders, and is now organized into four geographic regions. So, without being centralized, our sourcing and purchasing activity has gone from being fragmented to being directly connected to the global organization. There is a third, and very important pillar: staff functions, which includes supplier quality, control and compliance, purchasing administration, and supplier innovation.

Our short-term objective for 2005 was to reduce costs. But rather than simply cutting purchasing costs, we were aiming to increase our overall efficiency. We also wanted to ensure that given our size and global presence, we were known by the supplier market and that our sourcing strategy was clear.

How did we do all this?

Firstly we introduced second sourcing where we didn't yet have it, to avoid over-dependence on single suppliers. Then we combined more volumes at global and regional levels, increasing the purchasing volume for a smaller overall number of service and material suppliers. While aggregating groups of suppliers, we also assigned special responsibilities to the largest among them. The third area was to analyze our suppliers to focus on those with greater efficiency (quality-price ratio) with whom it would be beneficial to work long term.

Working closely with suppliers

One of the main things we needed to consider was communicating with our major suppliers to ensure they felt comfortable with both the short-term needs of our cost-reduction strategy and with the medium- and long-term benefits of working with us. We were very pleased with their proactive response, and with each we made an individual business decision. This also included working with smaller local suppliers to explore how they could grow by working with us.

Our financial objective for cost saving through procurement was US\$100m a quarter by Q4 2005, and it was clear by mid-year that we were on target to achieve this. So this campaign has had a very positive impact on ST's social performance, in helping avoid the need to cut jobs. At the same time, we did not need to make critical changes to our supplier base. In only a few cases did we introduce new suppliers, and we focused for the most part on reinforcing the strong partnerships we have developed over the years, which we consider vital for good business.

Taking the work from 2005 forward into 2006

Our reorganization has allowed us to strengthen the foundations of our responsible approach – in essence by simplifying and reinforcing our processes and lines of communication, both internal and external, so everyone can be absolutely clear about our expectations, and by having clear areas of focus and alignment for our departments.

"I believe our reorganizational work of 2005 has gone a long way toward enhancing the way we manage our social and environmental impact."

Otto Kosgalwies – Corporate Vice President, Infrastructure and Services



For example, one of our priorities in 2005 was the strategic categorization of suppliers. Our new supplier quality department has grouped suppliers into categories, such as 'high-risk' or 'strategic.' Suppliers in each group must perform according to a specific dashboard of indicators. In 2006, we will review suppliers' performance regularly against the new dashboard and we will continue to see how we can integrate Electronics Industry Code of Conduct tools into our approach. Also, in 2005, we revised the company Quality Manual to integrate new requirements, for example that all key suppliers must be 100% in line with industry standards, from finance and quality to environment and social. In 2006, we will need to focus on how to communicate this to our suppliers, and monitor their performance accordingly, beyond what we already do today.

Sometimes suppliers propose to reduce costs by transferring facilities to another country, and ask us to qualify a plant, say, in China (this is part of the evolution of our industry). In these cases, we always maintain the same high standards, with no compromise on quality, appropriateness of materials, or environmental standards.

So we do focus strongly on maintaining and reinforcing ethical standards in a cost-cutting climate. And for me, this is another link between the efficiency derived from the reorganization and social benefits. Our Control and Compliance department was created to show the importance of complying with business ethics. The spirit we have followed is to make processes simpler. If the rules are many and complex, you risk infringing them without even realizing it. The message to our buyers on this subject is never to compromise on business integrity.

"Our short-term objective was to reduce costs. But rather than simply cutting purchasing costs, we were aiming to increase our overall efficiency."

Otto Kosgalwies – Corporate Vice President, Infrastructure and Services

Last year, all of our purchasing employees signed our company Conflict of Interests Policy and were required to declare any personal links they may have with suppliers. This visibility helps ensure we take a transparent decision on how our business is awarded. Suppliers feel there is an open-book policy about our expectations and our cost structure. Positive compliance such as this is one way of meeting the principles of our Business Conduct and Ethics Policy. Here again, the globalization of our activity is helping spread the right messages, and our suppliers appreciate the fact that we now have this process in place.

I would like to highlight, in addition, two important areas where we have made good progress in 2005 and will continue to work in 2006: supporting our suppliers with the elimination of lead from our products to ensure we comply with the RoHS directive; and tackling the root causes of delayed payment to suppliers. For the latter, most causes were purely administrative. Of the 10% of purchases for which payment was late, we resolved two-thirds of cases in 2005 and we are working on our systems to tackle root causes.

Thanks for a great team effort

As managers, we have traveled to all of our countries to support the reorganization program and this has given us the opportunity to communicate our strategy. We have also spread our cultural message that we support our suppliers in helping them reach the relevant industry standards, from quality to environment and health and safety, but that we will be tough with those that do not act with integrity.

We have also focused on building strong links with our people so they understand the importance of their work and its positive financial and social impact on the company. To draw my own conclusion, employees feel proud about the contribution they make, even though it is hard work. I truly appreciate this tremendous effort and success in 'Execution Excellence', which has already been mentioned by the CEO and COO."

Otto Kosgalwies

Corporate Vice President,
Infrastructure and Services

Managing non-financial risks in the supply chain



A new global ICT supply chain initiative could significantly improve social, economic, and environmental conditions for workers in the supply chain. And, by introducing a single set of agreed high standards, it could also reduce the cost and time involved in compliance for suppliers like ST.

The initiative brings together about 30 companies from two working groups, one set up by the Electronic Industry Code of Conduct (EICC) initiative, the other by the Global e-Sustainability Initiative (GeSI).

The EICC initiative was launched in late 2004 by a coalition of technology companies including HP, IBM, Dell, Celestica, and Flextronics. Designed to ensure that working conditions are safe, that workers are treated with respect and dignity, and that manufacturing processes are environmentally responsible, it outlines new common standards in ethics, labor practices, environmental impact, and health and safety. For its part, the GeSI is an international coalition of ICT companies supported by the United Nations Environment Programme. Members include BT, Nokia, Vodafone, Alcatel, Deutsche Telekom, and Telefonica.

Both groups are now collaborating on the basic tools that can be used by companies in the ICT sector to monitor and support their suppliers in improving their social and environmental performance – for example, risk assessment, self-assessment, and a shared audit results database.

How ST became involved

ST became involved in the EICC initiative in November 2005 after closely following the development of the EICC and wider issues relating to the management of the supply chain in the ICT sector. As a key supplier of several of the EICC companies, we had already been asked to confirm our acceptance of the EICC in the USA and Asia-Pacific region. We were particularly attracted by the idea of the enhanced efficiency and synergies that could result from a sector-wide initiative covering environment, health and safety, labor, and ethics, especially since many of the companies involved are major customers of ours. This was because our own experience told us that filling in lengthy self-assessment forms from our many customers and complying with countless different codes of conduct was extremely time-consuming. By reducing the time spent complying with different codes and audits, we can focus our resources on actually improving the conditions in our facilities.

Bringing a supplier's perspective

However, we did have questions about how a single framework might work in practice and we have contributed to the development of the EICC implementation tools by sharing our unique supplier perspective. How, for example, would the industry supply chain organize and distribute the costs of shared audits? What about suppliers who already make a big effort to achieve environmental and social certification to internationally recognized standards such as ISO 14001 and OHSAS 18001? Would these efforts be recognized? And would the new risk assessment and other industry tools be sufficiently flexible to allow companies to adapt them to their existing processes and procedures? These are all questions that we have raised since joining the initiative, questions that have brought a 'supplier' perspective to discussions.



Integrating EICC with existing processes

At the same time, we have started to look at how far our existing management systems and performance measure up to the EICC. We began by integrating EICC-related criteria into our internal performance self-assessment, beSTick, which integrates all aspects of corporate responsibility for internal assessment and auditing purposes. So far, progress at the two pilot sites has been good, with the integration of EICC considerations enriching our existing processes. In 2006, we plan to take the experiment one step further, receiving external audits on one or two of our own sites using the new EICC tools.

Applying the tools to suppliers

To date, we have concentrated largely on how we can comply with the EICC within our own facilities rather than applying the tools to our suppliers. This is because we feel we have a responsibility to demonstrate that our performance reaches the industry standard before we have the right to expect or demand this of our suppliers. However, in 2006, we will send the code to our key suppliers and track their acceptance, and we will ask them to fill in a risk assessment questionnaire based on the GeSI/EICC tool. Our Global Sourcing and Purchasing organization will also develop communications and training to raise awareness of the code internally.

Safety in numbers

The road ahead is still challenging for many companies wishing to tackle CR issues in their supply chain. For many, including ST, it will be a case of small steps and gradual improvement over time. But there are encouraging signs suggesting that sustainable procurement is here to stay, and the drive for efficiency and synergies in the sector is clearly one of them. By acting together with other industry partners, we can share best practice and minimize the costs. "Industry collaboration is the most effective way to raise standards in a way that avoids 'first-mover disadvantage'," says Claudia Kruse, Associate Director, Governance and Socially Responsible Investment, one of many stakeholders invited to comment on the code. David Logan, a consultant on socially responsible

sourcing quoted in an article by *The Financial Times* on supply chain management, puts it slightly more succinctly: "There is safety in numbers," he says.

FabNet – traceability in the fabs

After successfully testing Air Liquide's FabNet in our fab in Carrollton, US, we decided at the end of 2005 to adopt the information system for five more sites, including fabs in Singapore, Italy, and France. FabNet is a new system that tracks in real time the supply chain of all substances circulating in the fab, particularly gas and ultra-pure chemical liquids.

This total traceability of substances allows us an instant picture of the production parameters and supplies for both process and facility teams. The information is also accessible to the Air Liquide teams managing the use of fluids in the fabs. It means if there is a production problem, the search for its cause can be narrowed down fast, which greatly improves the problem resolution time and the service Air Liquide provides us.

"Air Liquide has made sustainable growth an underlying principle of its business strategy. Our commitment to protecting people means first of all ensuring the day-to-day safety of our employees. We commit to the environment by providing customers with innovative solutions to enable them to manufacture more 'cleanly.' Just as ST is growing, we too are building our global network and our knowledge of new markets. The long-term partnership between ST and Air Liquide is founded on a sense of trust between us, based on our mutual commitment to corporate responsibility."

Christophe Fontaine – Air Liquide Electronics Vice President, Air Liquide Group

Supply chain management performance overview

DISCLOSURE ON MANAGEMENT APPROACH

Our aim at ST is to work closely with our customers and suppliers to tackle sustainable development issues more effectively. We are increasingly aware of the importance of responsible supply chain management, both in terms of its key contribution to wider sustainable development and to the success of our company. Our new Principles for Sustainable Excellence, which will become an official document in 2006, cover this area of corporate responsibility. Information regarding our management approach for the supply chain can be found in this section and at <http://www.st.com/stonline/company/cr/supply/index.htm>.

Customer requirements for corporate responsibility

We have extensive management systems in place to meet our customers' expectations in relation to quality, environmental, health and safety, and wider corporate responsibility issues. These systems are particularly robust in the case of quality (see page 56 for 2005 quality results, including customer complaints, cycle time to process failure analysis, and customer returns) and environment, which includes the management and control of the material content of our products, and banned substances in accordance with and beyond the legislation in force (see page 57 of the Product responsibility section). More recently, we have been focusing on strengthening our management systems across the company for responding to customer requirements and requests regarding corporate responsibility in general, including social and ethical aspects.

In 2005, we saw a significant increase in the number of requirements relating to wider corporate responsibility, including codes of conduct to be signed or accepted, self-assessment questionnaires, and quality audits that also covered some CR aspects. In particular, our customers are concerned about the management of social, ethical, and environmental risks in their supply chain and they increasingly expect us to monitor our suppliers' performance through self-assessment and audit.

In some cases we have found the demands of our customers to be excessive, notably regarding the responsibility they would like to attribute to us for controlling the CR performance of our suppliers, including ensuring them (our customers) access to our suppliers' facilities in order to check performance. As shown in our letter to customers demonstrating support for the Electronics Industry Code of Conduct (<http://www.st.com/stonline/company/cr/company/governance/code.htm>), we are able to promote CR standards among our suppliers and support them in improving within our sphere of influence, but since we have many thousands of suppliers we cannot rely on extensive direct monitoring to achieve this.

STSC9: Customer CR requirements

	2005
Number of customer requirements for CR (including environment) received at company level	165

(*) Last year we published data that did not include customer requirements related to the environment (e.g. banned substances).

In 2005, we became increasingly aware of the need to communicate internally to our sales regions so that they understand the importance of tracking CR requirements and providing visibility on these at corporate level. Some improvements were made in this direction in 2005, and in 2006 we will seek a more formalized solution.

Management of suppliers

The information given in this section relates solely to suppliers, not to subcontractors. Our on-site subcontractors are subject to compliance with the same rigorous management systems for environment, health and safety, and general well-being as our employees. In the case of health and safety, in order to adhere to the OHSAS 18001 standard to which all of our manufacturing sites are certified, on-site subcontractors must receive health and safety training on the specific risks associated with the area they are requested to work in, irrespective of their primary activity.

Our approach to embedding corporate responsibility in our purchasing activities has, until recently, focused on the general environmental performance of our suppliers and on the material product content that they supply us with. This reflects the fact that the use of hazardous chemicals in our industry has significant implications for the environment.

"ST is reviewing the new Electronics Industry Code of Conduct (and pressures from key customers) and should seize this as an opportunity to assert itself as a leader in this area."

Reassurance Network – assurance provider

A summary of our management systems for monitoring and supporting suppliers with regard to corporate responsibility STSC4

Selection and approval process for new suppliers includes:

- The requirement to provide an Agreement of Compliance with our 'Regulated Banned Substances List', an ST specification based on the most recent and stringent international rules and guidelines regarding hazardous substances, which can be found at: www.st.com/corporateresponsibility
- The request for ISO 14001 certification/EMAS validation or the commitment to be certified
- The request to be certified to the international standard for health and safety (OHSAS 18001).

STSC5

Improvement process for all suppliers is based on:

- The overall EHS performance assessed twice a year according to suppliers' ability to obtain and maintain ISO 14001 certification or EMAS validation, OHSAS 18001 certifications, and the compliance to our EHS Decalogue

- The suppliers below the minimum level of performance are required to demonstrate a recovery plan. In case the containment actions do not reach the minimum score, ST will assist them through training, support, and auditing
- The local sites have the responsibility for auditing critical suppliers. Our target is to audit 90% of all critical material suppliers over a rolling period for adherence to quality, environment, and health and safety standards. Audits are mainly performed by local ST people, by delegation from the corporate organization. The audits are based on ISO 9001 requirements, with an additional few ST-specific items on environment and health and safety. A questionnaire is sent to suppliers for self-assessment one month before the audit.

STSC3

We also provide general support to our suppliers through the assistance of local plant experts such as the environmental champions in each of our manufacturing sites, a CD-ROM training tool developed by ST University, and the availability to suppliers of our internal training courses on environmental issues.

STSC4b: Supplier environmental performance

Suppliers of	Number of suppliers			ISO 14001 certified/ EMAS validated (%)			Certification in progress (%)			With no certification (%)		
	2003	2004	2005	2003	2004	2005	2003	2004	2005	2003	2004	2005
Materials	92	99	97	71	70	64	18	8	6	11	22	30
Equipment/facilities	61	61	61	54	69	76	43	28	21	3	3	3
Total	153	160	158	64.2	69.6	68.6	28	15.6	11.8	7.8	14.8	19.6

2005 CR performance of our suppliers

This table shows how many suppliers are certified to ISO 14001 or EMAS validated compared with previous years. The fall in certification reflects the turnover of suppliers since 2003.

STSC4a

In 2005, 98% of our material suppliers confirmed their compliance to the regulated banned substances list.

In 2005, we did not make any significant progress in tracking key company suppliers' acceptance of our Business Conduct and Ethics Policy, and in monitoring the certification of suppliers to OHSAS 18001. Local audit teams continued to check the status of suppliers in line with corporate procedures, but results were not consolidated at company level. This was largely due to limited resources available as a result of the reorganization of our purchasing activities throughout the year. Tracking of acceptance of our Business Conduct and Ethics Policy will be replaced in 2006 onwards by the Electronics Industry Code of Conduct (see right).

We are not yet in a position to report against these GRI indicators:

HR2

Evidence of consideration of human rights impact as part of investment and procurement decisions, including selection of suppliers/contractors.

HR3

Description of policies and procedures to evaluate and address human rights performance within the supply chain and contractors, including monitoring systems and results of monitoring.

2005 general supply chain performance

Regarding more general performance in our supply chain activities, in 2005 we achieved our target of saving US\$100m on a quarterly basis in the last quarter of the year.

EC4; STSC1

We also made progress in tackling the root causes of late payments to suppliers. In 2005, we calculated that payment was late for 10% of purchases (in US\$). In one-third of these cases ST was able to find a solution independently and so these were resolved immediately.

In the other two-thirds of cases, supplier action was also required to find a solution. One-third were due to logistical error, for example as a result of manual handling. And the final third mostly depended on the supplier finding a solution (e.g. providing correct/complete information). Overall we resolved two-thirds of these cases in 2005 and we are working on our systems to further tackle root causes as effectively as possible.

STSC6

Finally, we made progress in transforming our exchanges with key material suppliers from a manual system to an electronic one. In 2005, 25% of our order cycle (in terms of volume) was by electronic exchange with our key material suppliers. The objective for 2006 is 50%, and 80% by 2007. Improvement in this area will have a positive effect both on overall efficiency and timely payment of suppliers.

Work within the context of the Electronics Industry Code of Conduct

For a detailed description of our participation in the EICC initiative in 2005, see the article on page 60.

In 2006, we plan to begin aligning our internal procedures and processes with the EICC standard and some of the related tools for implementation. We have set the following targets for 2006:

- Formal communication on the EICC, including the code itself and ST-specific requirements, to our 200 key suppliers.
- Formal communication and training on the EICC and related requirements for our internal Purchasing and Supplier Quality teams across the company.

BVQI verification statement to the management of STMicroelectronics NV

Bureau Veritas Quality International, France, has been engaged to provide assurance services to STMicroelectronics.

Introduction

This Attestation Statement applies to the STMicroelectronics Corporate Responsibility Report 2005 (the 'Report'). The preparation of the Report and its content is the responsibility of STMicroelectronics. BVQI's responsibility is to attest the validity of the data reported herein within the confines of the scope of work set out below.

Scope of work

The scope of BVQI's work was determined following the discussions with STMicroelectronics, as follows:

1. Review of the environmental and social performance data for the period 1st January 2005 to 31st December 2005
2. Information reported, including that against the GRI indicators
3. Review of systems and procedures for the collection, compilation and consolidation of environmental and social data
4. Review of internal quality and consistency controls against such data
5. An overview of the complete CR Report to ensure its consistency with the findings of our work.

Exclusions from the scope of our work

The following exclusions apply to the scope of our work:

- Data falling outside the 2005 reporting period, as defined above
- The information hyperlinked from the 2005 CR Report.

Basis of our opinion


BVQI's work was planned and carried out to provide reasonable, rather than absolute, assurance and we believe that the work conducted as described in the scope of work above provides a reasonable basis for our conclusions. We relied on the presentations made to us during the course of our work by STMicroelectronics personnel through interview, selective sampling and review of documentary evidence incorporating visits to Agrate (Italy), Crolles (France) and Geneva (Switzerland) sites of STMicroelectronics.¹

Assurance conclusions

It is our opinion that:

- The management of environmental and social data for inclusion within the Report is based on systematic procedures and controls
- Such systems are adequately embedded at the STMicroelectronics sites that we visited, to ensure quality and consistency of the reported information

- During the course of our work nothing came to our attention to indicate that there was any material error, omission or misstatement
- The reported data is reliable and free from significant error or bias, and provides a fair representation of STMicroelectronics' environmental and social performance.

KPIs are highlighted in the ST indicator index on the flap inside the back cover of this Report and throughout the Report as .

Areas for ongoing improvement

The internal indicators come from different databases and internal software. STMicroelectronics should establish a formal link between those databases and the published indicators, i.e. same name, same unity.

Considerations and limitations

In relation to our work and conclusions the following considerations and limitations should be noted:

- Certain information is excluded from the scope of our work, as stated above
- Environmental and social data are subject to inherent limitations due to their nature and the methods used for determining, calculating or estimating such data. Therefore this independent attestation statement should not be relied upon to detect all errors, omissions or misstatements in the reported data
- Attestation of data relating to greenhouse gas emissions does not provide a level of verification sufficient for the purpose of emissions trading.



Romain Petit

General Manager, BVQI France



¹ The evaluation of corporate data collection/consolidation systems and relevant data was carried out at company headquarters in Geneva (for social data) and at the Agrate production site in Italy (for environmental data). Evaluation of local data collection/consolidation systems and relevant data was carried out at the production site in Crolles, France (covering social and environmental data).

Reassurance Network statement

We have engaged The Reassurance Network to provide ongoing assessment of corporate responsibility and also a range of specialist advice. Last year, as part of this service they carried out a formal internal review of CR at ST. Below is an edited version from the executive summary. We have chosen to publish the full version on our website. See <http://www.st.com/stonline/company/cr/reports/reassurance.htm>.

REVIEW OF CORPORATE RESPONSIBILITY AT STMICROELECTRONICS Executive Summary, July 2005

1. Introduction

The Reassurance Network was contracted by STMicroelectronics to review their corporate responsibility programme. The main purpose is to provide independent feedback on the implementation of corporate policies in key areas of non-financial business risk.

We have assessed business processes, staff capabilities and the effectiveness of existing management programmes for implementing corporate policies in these areas, and also the scope and reliability of performance monitoring and internal assurance processes.

2. Strengths

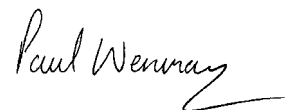
There has been strong commitment towards many aspects of corporate responsibility from senior management in ST for a long time. ST has a number of strengths, which will provide a solid platform for improving its CR management to meet emerging and future stakeholder demands:

- Senior management has already recognised the importance of the challenge by establishing a Corporate Responsibility Steering Committee to drive CR as one of the official company programmes for 2005.
- The existing framework of values, policies, Standard Operating Procedures (SOPs) and Local Operating Procedures (LOPs) is widely implemented and already embraces many of the issues which need to be managed. Together with the certification process for environmental, health and safety, and quality management, it provides an excellent vehicle for introducing any new or revised requirements for ST's business processes.
- At both the corporate and operational levels there is a good understanding of the scope of CR challenges and an enthusiasm to embrace these challenges.
- Various elements of an assurance system are in place, including third-party audits for environment, health and safety, internal auditing of some financial aspects and a selection of KPIs, particularly for EHS.

3. Areas for improvement

Nevertheless, there remain a number of areas where current management practice should be improved if ST is to rise to the new CR challenge being presented:


- The meaning and importance of CR to ST should be recomunicated across the company to place it in the context of other short-term and longer-term business challenges.
- CR business priorities should be developed consistently across the company and translated into targets and individual objectives.
- Responsibilities for implementation and accountabilities for performance should exist at corporate and site levels, as well as across the core business functions, procurement, communications, human resources, etc. Appropriate reward systems should be considered to encourage appropriate behaviour.
- Current policies, SOPs and LOPs should be reviewed and revised to ensure comprehensive coverage of CR issues.
- The international exchange of good practice and appropriate local interpretation of policies and requirements should be supported.
- The overall assurance framework for CR should be revised to ensure that there is clarity over which performance data and other information should be collected and reported in order to report both compliance and non-compliance. Business and corporate responsibilities should be assigned for monitoring CR performance against policies and specific targets and reporting periodically to the board.
- A pilot programme should test the options for local and/or regional CR reporting.

Malcolm Guy/Paul Wenman

July 2005

www.re-assurance.co.uk

This index shows where to find full or partial information relating to the Global Reporting Initiative (GRI) core elements and indicators in this report and on ST's website www.st.com/corporateresponsibility. GRI indicators are shown in the color of the section in which they belong. This index also shows where to find information relating to ST's own performance indicators. These are all prefixed 'ST' and shown in **black italics**. ST has identified a number of Key Performance Indicators (KPIs), which are shown as **●**. All KPIs have been verified and validated by Bureau Veritas Quality International, France . Information about the Global Compact principles can be found at www.st.com/cr.

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The following indicators are not reported because the information is commercially sensitive: EC3, EC5, EC8, EC9, LA2 (partially reported). The following indicators are not reported because we do not yet have reliable enough systems in place to provide the data: EN4, LA8, HR2, HR3. The following indicators are not reported because they are not applicable to our operations: EN6, EN7, EN15, PR3. The following indicators are partially reported due to the nature of our data-gathering systems: LA1, SO1, EN1, EN2, PR1.

Glossary

AL	Air Liquide
APG	Automotive Products Group
BE	Back-end
beSTick	Internal self-assessment tool
BLIHR	Business Leaders in Human Rights
BLS	US Bureau of Labor Statistics
BVQI	Bureau Veritas Quality International, France
CCX	Chicago Climate Exchange
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CMOS	Complementary MOS (Metal Oxide Semiconductor)
CMP	Centre Microélectronique de Provence
CMR	Carcinogenic, Mutagenic, toxic for Reproduction
COD	Chemical Oxygen Demand
COO	Chief Operating Officer
CPG	Computer Peripherals Group
CR	Corporate Responsibility
CSR	Corporate Social Responsibility
DART	Days Away from work, job Restriction, job Transfer
dB	Decibel
DFE	Design For Environment
DVFS	Dynamic Voltage Frequency Scaling
Ecopack®	Lead-free labelling for RoHS-compliance (the EU Directive on Restriction on Use of Hazardous Substances).
EFQM	European Foundation of Quality Management
EGIM	Ecole Généraliste d'Ingénieurs de Marseille
EICC	Electronics Industry Code of Conduct
EHS	Environmental, Health and Safety
EMAS	Community Eco-Management and Audit Scheme
EOC	Employer of Choice
ePA	Online performance appraisal tool.
EXCO	Executive Committee
FabNet	A new system managed by Air Liquide that tracks in real time the supply chain of all substances circulating in the fab, particularly gas and ultra-pure chemical liquids.
FE	Front-end
GAAP	Generally Accepted Accounting Principles
GeSI	Global e-Sustainability Initiative
GHG	Greenhouse Gases
GRI	Global Reporting Initiative
H5N1	Influenza A virus subtype. The H5N1 flu is what is commonly meant when speaking of 'bird flu' or 'avian influenza'.
HPC	Home, Personal and Communication (ST Product Group)

HR	Human Resources
H&S	Health and Safety
ICB	Informatics & Computer Basics
ICO	Institute of Contemporary Observation
ICT	Information and Communication Technologies
IFRS	International Financial Reporting Standards
ILO	International Labor Organization
In-Check™	ST Lab-on-Chip platform.
IP	Intellectual Property
INAIL	Italian national institute of insurance for work-related injuries.
ISO	International Organization for Standardization
KPI	Key Performance Indicator
LOP	Local Operating Procedures
MEMS	Micro-Electro-Mechanical Systems
MIPI	Mobile Industry Processor Interface
MPA	Micro, Power, Analog Group
MPG	Memory Products Group
MRSA	Methicillin-resistant Staphylococcus aureus
MTCE	Metric Tons of Carbon Equivalent
NGO	Non-Governmental Organization
OHS	Occupational Health and Safety
OHSAS	Occupational Health and Safety Assessment Series (OHSAS 18001)
OSHA	Occupational Safety and Health Administration in the United States
PFCs	Perfluorinated Compounds
PFOS	Perfluoro-octane Sulfonate
POC	Products of Combustion
PSM	Programmable Systems Memories
R&D	Research & Development
R11	ChloroFluoroCarbon(CFC) and is also called CFC 11. It is an Ozone Depleting Substance. Its chemical name is Trichlorofluoromethane.
RC	Recordable Case Rate
REACH	Registration, Evaluation and Authorization of Chemicals
RoHS	Restriction of Hazardous Substances
SAM	Serviceable Available Market
SCS	Secured Communication Solutions
SIA	Semiconductor Industry Association
SOP	Standard Operating Procedures
SRI	Socially Responsible Investment
STU	ST University
TCE	Tons of Carbon Equivalent
TQCR	Total Quality Corporate Responsibility
TQM	Total Quality Management
UNEP	United Nations Environment Program
USAs	Unvested Stock Awards
US GAAP	US Generally Accepted Accounting Principles
VIP	Variable Incentive Plan
VOcs	Volatile Organic Compounds

WBCSD	World Business Council for Sustainable Development
WEEE	Waste of Electrical and Electronic Equipment
WSC	World Semiconductor Council
20-F	Annual report filed with the Securities and Exchange Commission.

GRI indicator prefixes

EC	Economic Impact
EN	Environment
HR	Human Rights
LA	Employment
SO	Society

ST indicator prefixes

ST	Company
STE	Economic
STEV	Environment
STHR	Human Rights
STHS	Health and Safety
STS	Social
STSC	Supply Chain
STSO	Company
STPR	Product Responsibility

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Printed by Arti Grafiche Colombo.



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