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STMicroelectronics NV. Q4 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions). First question comes from Mr. Tristan Gerra, Robert Baird. Please go ahead, sir.

Tristan Gerra - Robert Baird

Hi. Could you give us a break down of the \$700 million savings that you expect by quarter in terms of ramp by quarters, is it going to be deeper more often, first half unloaded or second half and also expectation between COGS and SG&A?

Carlo Bozotti

Yeah. Carlo Ferro with you take the question.

Carlo Ferro

Yeah. Hi, Tristan. Starting from the second part of your question about the manufacturing and cost of goods sold and OpEx break down of the savings I pull to revert on the presentation which I believe is on the web. Now that we sure did more (inaudible) where at on page 23 you may find the break down of the \$700 million by the major initiative, and quickly wrap up on these numbers. \$120 million are associated with the manufacturing initiatives, and those relate fully to cost of goods sold.

\$200 million are associated with the ST-NXP Wireless cost synergies, indeed these are derived mostly – I'd entirely in OpEx and within OpEx the R&D portion is larger than the SG&A portion.

Then there is \$140 million of rationalization of SG&A and R&D, again operating expenses. Then we had \$120 million for the rationalization of number of sites, extra savings on procurement, and labor cost dynamic. This I would split about 50/50 in the two categories, eventually a little bit higher in cost of goods sold given there is a ramp of the savings procurement.

And finally, we are incorporating the reduction of the R&D cost. It needs higher grants in 2009, and this is – accounting wise this is against R&D; in reality accounting wise you will see this number in the line other income and expenses.

Carlo Ferro

In respect to the allocation – to the distribution by quarter, so what we shared this morning is that the \$700 million is the effect of the difference of cost structure in 2009 in respect to the annualized

Q4 2008, and does not fully reflect the overall impact to what these initiatives will be fully completed during the year, since it's net of NXP's ramp-up.

And what also this morning we've shared is that at the end we may consider some 15% reduction due to this ramp-up in the year, so the overall effect is more in the range of \$800 million. I will see the overall effect of that in or substantially in the last quarter of the year, and then on this basis you can model the ramp up from Q1 to the next quarter.

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