CITIGROUP INC
Form 424B2
April 12, 2018

The information in this preliminary pricing supplement is not complete and may be changed. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. This preliminary pricing supplement and the accompanying product supplement, prospectus supplement and prospectus are not an offer to sell these securities, nor are they soliciting an offer to buy these securities, in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED APRIL 12, 2018

Citigroup Global Markets Holdings Inc.	**April-----, 2018** **Medium-Term Senior Notes, Series N** **Pricing Supplement No. 2018-USNCH1115** **Filed Pursuant to Rule 424(b)(2)** **Registration Statement Nos. 333-216372 and 333-216372-01**

Single Observation ELKS® Based on the Common Stock of Adobe Systems Incorporated Due May-----, 2019

Overview

These Single Observation Equity LinKed Securities (ELKS®), which we refer to as the "securities," are unsecured senior debt securities issued by Citigroup Global Markets Holdings Inc. and guaranteed by Citigroup Inc. The securities offer a monthly coupon payment at a per annum rate that is generally higher than the rate we would pay on conventional debt securities of the same maturity. In exchange for this higher coupon, you will be exposed to the risk that, if a downside event (as described below) occurs, you will not receive the stated principal amount of your securities at maturity and, instead, will receive shares of common stock of Adobe Systems Incorporated (or, in our sole discretion, cash based on the value of those shares) that are worth significantly less than the stated principal amount and may be worth nothing.

Investors in the securities must be willing to accept (i) an investment that may have limited or no liquidity and (ii) the risk of not receiving any cash or underlying shares due under the securities if we and Citigroup Inc. default on our obligations. **All payments and/or deliveries on the securities are subject to the credit risk of Citigroup Global Markets Holdings Inc. and Citigroup Inc.**

KEY TERMS	
Issuer:	Citigroup Global Markets Holdings Inc., a wholly owned subsidiary of Citigroup Inc.
Guarantee:	All payments due on the securities are fully and unconditionally guaranteed by Citigroup Inc.
Underlying shares:	Shares of common stock of Adobe Systems Incorporated (NASDAQ symbol: "ADBE") (the "underlying share issuer")

Aggregate stated principal amount:	$
Stated principal amount:	$1,000 per security
Pricing date:	April , 2018 (expected to be April 27, 2018)
Issue date:	May , 2018 (three business days after the pricing date). See "Supplemental Plan of Distribution" in this pricing supplement for additional information.
Valuation date:	April , 2019 (expected to be April 29, 2019), subject to postponement if such date is not a scheduled trading day or if certain market disruption events occur
Maturity date:	May , 2019 (expected to be May 2, 2019)
Coupon:	7.00% to 8.00% per annum. The actual coupon rate will be determined on the pricing date.
Coupon payment dates:	Expected to be the 2nd day of each month, commencing June , 2018 (expected to be June 2, 2018) and ending on the maturity date
Payment at maturity:	For each $1,000 security you hold at maturity, you will be entitled to receive the final coupon payment *plus*: If a downside event occurs: a number of underlying shares equal to the equity ratio (or, in our sole discretion, cash in an amount equal to the equity ratio *multiplied by* the final share price) If a downside event does not occur: $1,000 in cash **If a downside event occurs, you will not receive the stated principal amount of your securities at maturity and, instead, will receive underlying shares (or, in our sole discretion, cash based on the value thereof) expected to be worth less than 80.00% of the stated principal amount and may be worth nothing. Although you are expected to be subject to the risk of a decline in the price of the underlying shares, you will not participate in any appreciation of the underlying shares over the term of the securities. The number of full underlying shares and any cash in lieu of a fractional underlying share that you receive at maturity will be calculated based on the aggregate number of securities you then hold.**
Downside event:	A downside event will occur if the final share price is less than the downside threshold price.
Downside threshold price:	$, 80.00% of the initial share price
Initial share price:	$, the closing price of the underlying shares on the pricing date

Final share price:	The closing price of the underlying shares on the valuation date		
Equity ratio:	, the stated principal amount *divided by* the initial share price		
Listing:	The securities will not be listed on any securities exchange		
CUSIP / ISIN:	17324XGK0 / US17324XGK00		
Underwriter:	Citigroup Global Markets Inc. ("CGMI"), an affiliate of the issuer, acting as principal		
Underwriting fee and issue price:	**Issue price(1)(2)**	**Underwriting fee(3)**	**Proceeds to issuer**
Per security:	$1,000.00	$10.00	$990.00
Total:	$	$	$

(1) Citigroup Global Markets Holdings Inc. currently expects that the estimated value of the securities on the pricing date will be at least $920.00 per security, which will be less than the issue price. The estimated value of the securities is based on CGMI's proprietary pricing models and our internal funding rate. It is not an indication of actual profit to CGMI or other of our affiliates, nor is it an indication of the price, if any, at which CGMI or any other person may be willing to buy the securities from you at any time after issuance. See "Valuation of the Securities" in this pricing supplement.

(2) The issue price for investors purchasing the securities in fee-based advisory accounts will be $990.00 per security, assuming no custodial fee is charged by a selected dealer, and up to $995.00 per security, assuming the maximum custodial fee is charged by a selected dealer. See "Supplemental Plan of Distribution" in this pricing supplement.

(3) For more information on the distribution of the securities, see "Supplemental Plan of Distribution" in this pricing supplement. In addition to the underwriting fee, CGMI and its affiliates may profit from expected hedging activity related to this offering, even if the value of the securities declines. See "Use of Proceeds and Hedging" in the accompanying prospectus.

Investing in the securities involves risks not associated with an investment in conventional debt securities. See "Summary Risk Factors" beginning on page PS-3.

Neither the Securities and Exchange Commission (the "SEC") nor any state securities commission has approved or disapproved of the securities or determined that this pricing supplement and the accompanying product supplement, prospectus supplement and prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

You should read this pricing supplement together with the accompanying product supplement, prospectus supplement and prospectus, each of which can be accessed via the hyperlinks below:

Product Supplement No. ES-01-06 dated April 7, 2017 **Prospectus Supplement and Prospectus each dated April 7, 2017**

The securities are not bank deposits and are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other governmental agency, nor are they obligations of, or guaranteed by, a bank.

Citigroup Global Markets Holdings Inc.
Single Observation ELKS® Based on the Common Stock of Adobe Systems Incorporated Due May-----, 2019

Additional Information

The terms of the securities are set forth in the accompanying product supplement, prospectus supplement and prospectus, as supplemented by this pricing supplement. The accompanying product supplement, prospectus supplement and prospectus contain important disclosures that are not repeated in this pricing supplement. For example, certain events may occur that could affect your payment at maturity or, in the case of a delisting of the underlying shares, could give us the right to call the securities prior to maturity for an amount that may be less than the stated principal amount. These events, including market disruption events and other events affecting the underlying shares, and their consequences are described in the accompanying product supplement in the sections "Description of the Securities—Consequences of a Market Disruption Event; Postponement of the Valuation Date," "—Dilution and Reorganization Adjustments" and "—Delisting of Underlying Shares (Other than Shares of an ETF)," and not in this pricing supplement. It is important that you read the accompanying product supplement, prospectus supplement and prospectus together with this pricing supplement before deciding whether to invest in the securities. Certain terms used but not defined in this pricing supplement are defined in the accompanying product supplement.

Hypothetical Examples

The table below illustrates what you will receive at maturity of the securities for a range of hypothetical closing prices of the underlying shares on the valuation date.

The table below is based on the following hypothetical values and assumptions in order to illustrate how the securities work (and does not reflect the actual initial share price, equity ratio, downside threshold price, coupon rate or dividend yield on the underlying shares):

Initial share price:	$220.00 (the hypothetical closing price of the underlying shares on the pricing date)
Equity ratio:	4.54545 (the $1,000 stated principal amount per security *divided by* the hypothetical initial share price)
Downside threshold price:	$176.00 (80.00% of the hypothetical initial share price)
Coupon:	7.00% per annum
Annualized dividend yield:	0.00% (the hypothetical dividend yield)
Term:	1 year

The following hypothetical examples assume that the closing price of the underlying shares on the valuation date is the same as the closing price of the underlying shares on the maturity date.

Hypothetical closing price of the underlying shares on the valuation date	**Hypothetical percentage change from the initial share price to the final share price**	**Value of the underlying shares or cash amount at maturity[(1)] per security**	**Total coupon payments per security**	**Total value received per security**	**Total return of the underlying shares[(2)]**	**Total return of the securities**
$0.00	-100.00%	$0.00	$70.00	$70.00	-100.00%	-93.00%
$110.00	-50.00%	$500.00	$70.00	$570.00	-50.00%	-43.00%
$175.99	-20.01%	$799.95	$70.00	$869.95	-20.01%	-13.01%
$176.00	-20.00%	$1,000.00	$70.00	$1,070.00	-20.00%	7.00%
$198.00	-10.00%	$1,000.00	$70.00	$1,070.00	-10.00%	7.00%
$220.00	0.00%	$1,000.00	$70.00	$1,070.00	0.00%	7.00%
$242.00	10.00%	$1,000.00	$70.00	$1,070.00	10.00%	7.00%
$275.00	25.00%	$1,000.00	$70.00	$1,070.00	25.00%	7.00%
$330.00	50.00%	$1,000.00	$70.00	$1,070.00	50.00%	7.00%
$440.00	100.00%	$1,000.00	$70.00	$1,070.00	100.00%	7.00%

(1) Based on the closing price on the valuation date. If we elect to deliver any underlying shares as payment at maturity, you will receive such underlying shares on the maturity date. Excludes final coupon payment.

(2) Includes hypothetical dividend yield. The return on the securities will not reflect dividends.

The above table does not illustrate all possible variations in what you will receive at maturity. The examples above are intended to illustrate how what you will receive at maturity will depend on whether the closing price of the underlying shares on the valuation date is less than the downside threshold price and, if less, by how much.

Citigroup Global Markets Holdings Inc.
Single Observation ELKS® Based on the Common Stock of Adobe Systems Incorporated Due May-----, 2019

Summary Risk Factors

An investment in the securities is significantly riskier than an investment in conventional debt securities. The securities are subject to all of the risks associated with an investment in our conventional debt securities (guaranteed by Citigroup Inc.), including the risk that we and Citigroup Inc. may default on our obligations under the securities, and are also subject to risks associated with the underlying shares. Accordingly, the securities are suitable only for investors who are capable of understanding the complexities and risks of the securities. You should consult your own financial, tax and legal advisors as to the risks of an investment in the securities and the suitability of the securities in light of your particular circumstances.

The following is a summary of certain key risk factors for investors in the securities. You should read this summary together with the more detailed description of risks relating to an investment in the securities contained in the section "Risk Factors Relating to the Securities" beginning on page ES-6 in the accompanying product supplement. You should also carefully read the risk factors included in the accompanying prospectus supplement and in the documents incorporated by reference in the accompanying prospectus, including Citigroup Inc.'s most recent Annual Report on Form 10-K and any subsequent Quarterly Reports on Form 10-Q, which describe risks relating to the business of Citigroup Inc. more generally. Citigroup Inc. will release quarterly earnings on April 13, 2018, which is during the marketing period and prior to the pricing date of these securities.

You may lose some or all of your investment. Unlike conventional debt securities, the securities do not provide for the repayment of the stated principal amount at maturity in all circumstances. If a downside event occurs, you will not receive the stated principal amount of your securities at maturity and, instead, will receive underlying shares (or, in our sole discretion, cash based on the value thereof) expected to be worth less than 80.00% of the stated principal amount and may be worth nothing.

The securities will be adversely affected by volatility in the price of the underlying shares. The more volatile the price of the underlying shares, the more likely it is that a downside event will occur and that you will not receive the full stated principal amount of your securities at maturity. In general, the higher the coupon on the securities, the greater the expected likelihood as of the pricing date that a downside event will occur and, as a result, that you will receive underlying shares at maturity (or, in our sole discretion, cash based on the value thereof) worth less than the stated principal amount.

The securities offer downside exposure, but no upside exposure, to the underlying shares. You will not participate in any appreciation in the price of the underlying shares over the term of the securities. Consequently, any positive return on the securities will be limited to the coupon payments and may be significantly less than the return on the underlying shares over the term of the securities. In addition, you will not receive any dividends or other distributions or have any other rights with respect to the underlying shares over the term of the securities.

The occurrence of a downside event depends on the closing price of the underlying shares on a single day, which makes the securities particularly sensitive to the volatility of the underlying shares. What you receive at maturity will depend solely on the final share price of the underlying shares on the valuation date, and not on any other day during the term of the securities. If the final share price of the underlying shares on the valuation date is less than the downside threshold price, a downside event will occur and you will not receive the full stated principal amount of your securities at maturity, even if the closing price of the underlying shares is greater than the downside threshold price on other dates during the term of the securities. Because the performance of the securities depends on the closing price of the underlying shares on a single day, the securities will be particularly sensitive to volatility in the closing price of the underlying shares. You should understand that the underlying shares have historically been highly volatile.

The securities are subject to the credit risk of Citigroup Global Markets Holdings Inc. and Citigroup Inc. If we default on our obligations under the securities and Citigroup Inc. defaults on its guarantee obligations, you may not receive anything owed to you under the securities.

The securities will not be listed on any securities exchange and you may not be able to sell them prior to maturity. The securities will not be listed on any securities exchange. Therefore, there may be little or no secondary market for the securities. CGMI currently intends to make a secondary market in relation to the securities and to provide an indicative bid price for the securities on a daily basis. Any indicative bid price for the securities provided by CGMI will be determined in CGMI's sole discretion, taking into account prevailing market conditions and other relevant factors, and will not be a representation by CGMI that the securities can be sold at that price, or at all. CGMI may suspend or terminate making a market and providing indicative bid prices without notice, at any time and for any reason. If CGMI suspends or terminates making a market, there may be no secondary market at all for the securities because it is likely that CGMI will be the only broker-dealer that is willing to buy your securities prior to maturity. Accordingly, an investor must be prepared to hold the securities until maturity.

The estimated value of the securities on the pricing date, based on CGMI's proprietary pricing models and our internal funding rate, will be less than the issue price. The difference is attributable to certain costs associated with selling, structuring and hedging the securities that are included in the issue price. These costs include (i) the selling concessions paid in connection with the offering of the securities, (ii) hedging and other costs incurred by us and our affiliates in connection with the offering of the securities and (iii) the expected profit (which may be more or less than actual profit) to CGMI or other of our affiliates in connection with hedging our obligations under the securities. These costs adversely affect the economic terms of the securities because, if they were lower, the economic terms of the securities would be more favorable to you. The economic terms of the securities are also likely to be adversely affected by the use of our internal funding rate, rather than our secondary market rate, to price the securities. See "The estimated value of the securities would be lower if it were calculated based on our secondary market rate" below.

The estimated value of the securities was determined for us by our affiliate using proprietary pricing models. CGMI derived the estimated value disclosed on the cover page of this pricing supplement from its proprietary pricing models. In doing so, it may have made discretionary judgments about the inputs to its models, such as the volatility of the underlying shares, the dividend yield on the underlying shares and interest rates. CGMI's views on these inputs may differ from your or others' views, and as an underwriter in this offering, CGMI's interests may conflict with yours. Both the models and the inputs to the models may prove to be wrong and therefore not an accurate reflection of the value of the securities. Moreover, the estimated value of the securities set forth on the cover page of this pricing supplement may differ from the value that we or our affiliates may determine for the securities for other purposes, including for accounting purposes. You should not invest in the securities because of the estimated value of the securities. Instead, you should be willing to hold the securities to maturity irrespective of the initial estimated value.

The estimated value of the securities would be lower if it were calculated based on our secondary market rate. The estimated value of the securities included in this pricing supplement is calculated based on our internal funding rate, which is the rate at which we are willing to borrow funds through the issuance of the securities. Our internal funding rate is generally lower than our secondary market rate, which is the rate that CGMI will use in determining the value of the securities for purposes of any purchases of the securities from you in the secondary market. If the estimated value included in this pricing supplement were based on our secondary market rate, rather than our internal funding rate, it would likely be lower. We determine our internal funding rate based on factors such as the costs associated with the securities, which are generally higher than the costs associated with conventional debt securities, and our liquidity needs and preferences. Our internal funding rate is not an interest rate that we will pay investors in the securities.

Because there is not an active market for traded instruments referencing our outstanding debt obligations, CGMI determines our secondary market rate based on the market price of traded instruments referencing the debt obligations of Citigroup Inc., our parent company and the guarantor of all payments due on the securities, but subject to adjustments that CGMI makes in its sole discretion. As a result, our secondary market rate is not a market-determined measure of our creditworthiness, but rather reflects the market's perception of our parent company's creditworthiness as adjusted for discretionary factors such as CGMI's preferences with respect to purchasing the securities prior to maturity.

The estimated value of the securities is not an indication of the price, if any, at which CGMI or any other person may be willing to buy the securities from you in the secondary market. Any such secondary market price will fluctuate over the term of the securities based on the market and other factors described in the next risk factor. Moreover, unlike the estimated value included in this pricing supplement, any value of the securities determined for purposes of a secondary market transaction will be based on our secondary market rate, which will likely result in a lower value for the securities than if our internal funding rate were used. In addition, any secondary market price for the securities will be reduced by a bid-ask spread, which may vary depending on the aggregate stated principal amount of the securities to be purchased in the secondary market transaction, and the expected cost of unwinding related hedging transactions. As a result, it is likely that any secondary market price for the securities will be less than the issue price.

The value of the securities prior to maturity will fluctuate based on many unpredictable factors. The value of your securities prior to maturity will fluctuate based on the price and volatility of the underlying shares and a number of other factors, including the dividend yield on the underlying shares, interest rates generally, the time remaining to maturity and our and Citigroup Inc.'s creditworthiness, as reflected in our secondary market rate. Changes in the price of the underlying shares may not result in a comparable change in the value of your securities. You should understand that the value of your securities at any time prior to maturity may be significantly less than the issue price.

Immediately following issuance, any secondary market bid price provided by CGMI, and the value that will be indicated on any brokerage account statements prepared by CGMI or its affiliates, will reflect a temporary upward adjustment. The amount of this temporary upward adjustment will steadily decline to zero over the temporary adjustment period. See "Valuation of the Securities" in this pricing supplement.

Our offering of the securities does not constitute a recommendation of the underlying shares. The fact that we are offering the securities does not mean that we believe that investing in an instrument linked to the underlying shares is likely to achieve favorable returns. In fact, as we are part of a global financial institution, our affiliates may have positions (including short positions) in the underlying shares over the term of the securities or in instruments related to the underlying shares over the term of the securities and may publish research or express opinions, that in each case are inconsistent with an investment linked to the underlying shares. These and other activities of our affiliates may affect the price of the underlying shares in a way that has a negative impact on your interests as a holder of the securities.

The price of the underlying shares may be adversely affected by our or our affiliates' hedging and other trading activities. We expect to hedge our obligations under the securities through CGMI or other of our affiliates, who may take positions directly in the underlying shares and other financial instruments related to the underlying shares and may adjust such positions during the term of the securities. Our affiliates also trade the underlying shares and other financial instruments related to the underlying shares on a regular basis (taking long or short positions or both), for their accounts, for other accounts under their management or to facilitate transactions on behalf of customers. These activities could affect the price of the underlying shares in a way that negatively affects the value of the securities. They could also result in substantial returns for us or our affiliates while the value of the securities declines.

We and our affiliates may have economic interests that are adverse to yours as a result of our affiliates' business activities. Our affiliates may currently or from time to time engage in business with the underlying share issuer, including extending loans to, making equity investments in or providing advisory services to the underlying share issuer. In the course of this business, we or our affiliates may acquire non-public information about the underlying share issuer, which we will not disclose to you. Moreover, if any of our affiliates is or becomes a creditor of the underlying share issuer, they may exercise any remedies against the underlying share issuer that are available to them without regard to your interests.

You will have no rights and will not receive dividends with respect to the underlying shares unless and until you receive underlying shares at maturity. As of April 10, 2018, the underlying share issuer does not pay regular dividends. However, that may change, and if the underlying share issuer starts to pay dividends during the term of the securities, you should understand that you will not receive such dividend payments under the securities. In addition, if any change to the underlying shares is proposed, such as an amendment to the underlying share issuer's organizational documents, you will not have the right to vote on such change, but you will be subject to such change in the event you receive underlying shares at maturity. Any such change may adversely affect the market price of the underlying shares.

Even if the underlying share issuer pays a dividend that it identifies as special or extraordinary, no adjustment will be required under the securities for that dividend unless it meets the criteria specified in the accompanying product supplement. In general, an adjustment will not be made under the terms of the securities for any cash dividend paid on the underlying shares unless the amount of the dividend per underlying share, together with any other dividends paid in the same fiscal quarter, exceeds the dividend paid per underlying share in the most recent fiscal quarter by an amount equal to at least 10% of the closing price of the underlying shares on the date of declaration of the dividend. Any dividend will reduce the closing price of the underlying shares by the amount of the dividend per underlying share. If the underlying share issuer pays any dividend for which an adjustment is not made under the terms of the securities, holders of the securities will be adversely affected. See "Description of the Securities—Dilution and Reorganization Adjustments—Certain Extraordinary Cash Dividends" in the accompanying product supplement.

The securities will not be adjusted for all events that could affect the price of the underlying shares. For example, we will not make any adjustment for ordinary dividends or extraordinary dividends that do not meet the criteria described above, partial tender offers or additional public offerings of the underlying shares. Moreover, the adjustments we do make may not fully offset the dilutive or adverse effect of the particular event. Investors in the securities may be adversely affected by such an event in a circumstance in which a direct holder of the underlying shares would not.

If the underlying shares are delisted, we may call the securities prior to maturity for an amount that may be less than the stated principal amount. If we exercise this call right, you will receive the amount described under "Description of the Securities—Delisting of Underlying Shares (Other than Shares of an ETF)" in the accompanying product supplement. This amount may be less, and possibly significantly less, than the stated principal amount of the securities.

The securities may become linked to shares of an issuer other than the original underlying share issuer upon the occurrence of a reorganization event or upon the delisting of the underlying shares. For example, if the underlying share issuer enters into a merger agreement that provides for holders of underlying shares to receive shares of another entity, the shares of such other entity will become the underlying shares for all purposes of the securities upon consummation of the merger. Additionally, if the underlying shares are delisted and we do not exercise our call right, the calculation agent may, in its sole discretion, select shares of another issuer to be the underlying shares. See "Description of the Securities—Dilution and Reorganization Adjustments" and "Delisting of Underlying Shares (Other than Shares of an ETF)" in the accompanying product supplement.

The calculation agent, which is an affiliate of ours, will make important determinations with respect to the securities. If certain events occur, such as market disruption events, corporate events with respect to the underlying share issuer that may require a dilution adjustment or the delisting of the underlying shares, CGMI, as calculation agent, will be required to make discretionary judgments that could significantly affect what you receive at maturity. In making these judgments, the calculation agent's interests as an affiliate of ours could be adverse to your interests as a holder of the securities.

The U.S. federal tax consequences of an investment in the securities are unclear. There is no direct legal authority regarding the proper U.S. federal tax treatment of the securities, and we do not plan to request a ruling from the Internal Revenue Service (the "IRS"). Consequently, significant aspects of the tax treatment of the securities are uncertain, and the IRS or a court might not agree with the treatment of the securities as described in "United States Federal Tax Considerations" below. If the IRS were successful in asserting an alternative treatment, the tax consequences of ownership and disposition of the securities might be materially and adversely affected. As described in the accompanying product supplement under "United States Federal Tax Considerations," in 2007 the U.S. Treasury Department and the IRS released a notice requesting comments on various issues regarding the U.S. federal income tax treatment of "prepaid forward contracts" and similar instruments. While it is not clear whether the securities would be viewed as similar to the typical prepaid forward contract described in the notice, it is possible that any Treasury regulations or other guidance promulgated after consideration of these issues could materially and adversely affect the tax consequences of an investment in the securities, including the character and timing of income or loss and the degree, if any, to which income realized by non-U.S. persons should be subject to withholding tax, possibly with retroactive effect. You should read carefully the discussion under "United States Federal Tax Considerations" and "Risk Factors Relating to the Securities" in the accompanying product supplement and "United States Federal Tax Considerations" in this pricing supplement. You should also consult your tax adviser regarding the U.S. federal tax consequences of an investment in the securities, as well as tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction.

As described in "United States Federal Tax Considerations" below, in connection with any information reporting requirements we may have in respect of the securities under applicable law, we intend to treat a portion of each coupon payment as attributable to interest and the remainder to option premium. However, in light of the uncertain treatment of the securities, it is possible that other persons having withholding or information reporting responsibility in respect of the securities may treat a security differently, for instance, by treating the entire coupon payment as ordinary income at the time received or accrued by a holder and/or treating some or all of each coupon payment on a security to a non-U.S. investor as subject to withholding tax at a rate of 30%.

In addition, Section 871(m) of the Internal Revenue Code of 1986, as amended (the "Code"), imposes a withholding tax of up to 30% on "dividend equivalents" paid or deemed paid to non-U.S. investors in respect of certain financial instruments linked to U.S. equities. In light of Treasury regulations, as modified by an IRS notice, that provide a general exemption for financial instruments issued in 2018 that do not have a "delta" of one, as of the date of this preliminary pricing supplement the securities should not be subject to withholding under Section 871(m). However, information about the application of Section 871(m) to the securities will be updated in the final pricing supplement. Moreover, the IRS could challenge a conclusion that the securities should not be subject to withholding under Section 871(m).

If withholding applies to the securities, we will not be required to pay any additional amounts with respect to amounts withheld.

Citigroup Global Markets Holdings Inc.
Single Observation ELKS® Based on the Common Stock of Adobe Systems Incorporated Due May-----, 2019

Information About Adobe Systems Incorporated

Adobe Systems Incorporated offers a line of products and services used by creative professionals, marketers, knowledge workers, application developers, enterprises and consumers for creating, managing, delivering, measuring, optimizing and engaging with content and experiences across personal computers, devices and media. The common stock of Adobe Systems Incorporated is registered under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Information provided to or filed with the SEC by Adobe Systems Incorporated pursuant to the Exchange Act can be located by reference to the SEC file number 000-15175 through the SEC's website at http://www.sec.gov. In addition, information regarding Adobe Systems Incorporated may be obtained from other sources including, but not limited to, press releases, newspaper articles and other publicly disseminated documents. The common stock of Adobe Systems Incorporated trades on the NASDAQ Global Select Market under the ticker symbol "ADBE."

This pricing supplement relates only to the securities offered hereby and does not relate to the common stock of Adobe Systems Incorporated or other securities of Adobe Systems Incorporated. We have derived all disclosures contained in this pricing supplement regarding Adobe Systems Incorporated from the publicly available documents described above. In connection with the offering of the securities, none of Citigroup Global Markets Holdings Inc., Citigroup Inc. or CGMI has participated in the preparation of such documents or made any due diligence inquiry with respect to Adobe Systems Incorporated.

The securities represent obligations of Citigroup Global Markets Holdings Inc. (guaranteed by Citigroup Inc.) only. Adobe Systems Incorporated is not involved in any way in this offering and has no obligation relating to the securities or to holders of the securities.

Neither we nor any of our affiliates make any representation to you as to the performance of the common stock of Adobe Systems Incorporated.

Historical Information

The graph below shows the closing price of the shares of common stock of Adobe Systems Incorporated for each day such price was available from January 2, 2013 to April 10, 2018. The table that follows shows the high and low closing prices of, and dividends paid on, the shares of common stock of Adobe Systems Incorporated for each quarter in that same period. We obtained the closing prices and other information below from Bloomberg L.P., without independent verification. If certain corporate transactions occurred during the historical period shown below, including, but not limited to, spin-offs or mergers, then the closing prices of the shares of common stock of Adobe Systems Incorporated shown below for the period prior to the occurrence of any such transaction have been adjusted by Bloomberg L.P. as if any such transaction had occurred prior to the first day in the period shown below. **You should not take the historical prices of the shares of common stock of Adobe Systems Incorporated as an indication of future performance.**

Common Stock of Adobe Systems Incorporated – Historical Closing Prices
January 2, 2013 to April 10, 2018

* The red line indicates a hypothetical downside threshold price of $179.624, assuming the closing price on April 10, 2018 were the initial share price.

Citigroup Global Markets Holdings Inc.
Single Observation ELKS® Based on the Common Stock of Adobe Systems Incorporated Due May-----, 2019

Common Stock of Adobe Systems Incorporated	**High**	**Low**	**Dividends**
2013			
First Quarter	$43.51	$37.73	$0.00000
Second Quarter	$47.01	$42.43	$0.00000
Third Quarter	$52.58	$44.89	$0.00000
Fourth Quarter	$60.89	$49.45	$0.00000
2014			
First Quarter	$69.92	$58.09	$0.00000
Second Quarter	$73.08	$58.63	$0.00000
Third Quarter	$73.57	$66.94	$0.00000
Fourth Quarter	$76.02	$60.88	$0.00000
2015			
First Quarter	$79.79	$69.99	$0.00000
Second Quarter	$83.94	$73.15	$0.00000
Third Quarter	$86.77	$74.27	$0.00000
Fourth Quarter	$95.56	$80.65	$0.00000
2016			
First Quarter	$93.80	$73.85	$0.00000
Second Quarter	$100.17	$90.85	$0.00000
Third Quarter	$109.70	$94.73	$0.00000
Fourth Quarter	$110.81	$99.51	$0.00000
2017			
First Quarter	$130.13	$103.48	$0.00000
Second Quarter	$145.41	$129.05	$0.00000
Third Quarter	$156.87	$138.41	$0.00000
Fourth Quarter	$185.40	$147.94	$0.00000
2018			
First Quarter	$229.75	$177.70	$0.00000
Second Quarter (through April 10, 2018)	$225.05	$212.28	$0.00000

The closing price of the shares of common stock of Adobe Systems Incorporated on April 10, 2018 was $224.53.

We make no representation as to the amount of dividends, if any, that may be paid on the shares of common stock of Adobe Systems Incorporated in the future. In any event, as an investor in the securities, you will not be entitled to receive dividends, if any, that may be payable on the shares of common stock of Adobe Systems Incorporated.

United States Federal Tax Considerations

You should read carefully the discussion under “United States Federal Tax Considerations” and “Risk Factors Relating to the Securities” in the accompanying product supplement and “Summary Risk Factors” in this pricing supplement. The discussion herein does not address the consequences to taxpayers subject to special tax accounting rules under Section 451(b) of the Code.

Due to the lack of any controlling legal authority, there is substantial uncertainty regarding the U.S. federal tax consequences of an investment in the securities. In connection with any information reporting requirements we may have in respect of the securities under applicable law, we intend (in the absence of an administrative determination or judicial ruling to the contrary) to treat a security as a put option (the “Put Option”) written by you with respect to the underlying shares, secured by a cash deposit equal to the stated principal amount of the security (the “Deposit”). In the opinion of our counsel, Davis Polk & Wardwell LLP, which is based on current market conditions, this treatment of the securities is reasonable under current law; however, our counsel has advised us that it is unable to conclude affirmatively that this treatment is more likely than not to be upheld, and that alternative treatments are possible. Under this treatment:

- a portion of each coupon payment made with respect to the securities will be attributable to interest on the Deposit; and

- the remainder will represent premium attributable to your grant of the Put Option (“Put Premium”).

We will specify in the final pricing supplement the portion of each coupon payment that we will allocate to interest on the Deposit and to Put Premium, respectively.

Assuming the treatment of a security as a Put Option and a Deposit is respected, amounts treated as interest on the Deposit should be taxed as ordinary interest income, while the Put Premium should not be taken into account prior to maturity or disposition of the securities. See "United States Federal Tax Considerations—Tax Consequences to U.S. Holders" in the accompanying product supplement.

Subject to the discussions below under "Possible Withholding Under Section 871(m) of the Code" and in the section of the accompanying product supplement entitled "United States Federal Tax Considerations," if you are a Non-U.S. Holder (as defined in the accompanying product supplement) of the securities, under current law you generally should not be subject to U.S. federal withholding or income tax in respect of any amount paid to you with respect to the securities, provided that (i) income in respect of the securities is not effectively connected with your conduct of a trade or business in the United States, and (ii) you comply with the applicable certification requirements.

We do not plan to request a ruling from the IRS regarding the treatment of the securities, and the IRS or a court might not agree with the treatment described herein. In addition, the U.S. Treasury Department and the IRS have released a notice requesting comments on the U.S. federal income tax treatment of "prepaid forward contracts." While it is not clear whether the securities would be viewed as similar to the typical prepaid forward contract described in the notice, it is possible that any Treasury regulations or other guidance promulgated after consideration of these issues could materially and adversely affect the tax consequences of an investment in the securities, including the character and timing of income or loss and the degree, if any, to which income realized by non-U.S. persons should be subject to withholding tax, possibly with retroactive effect.

Possible Withholding Under Section 871(m) of the Code. As discussed under "United States Federal Tax Considerations – Tax Consequences to Non-U.S. Holders – Possible Withholding Under Section 871(m) of the Code" in the accompanying product supplement, Section 871(m) of the Code and Treasury regulations promulgated thereunder ("Section 871(m)") generally impose a 30% withholding tax on dividend equivalents paid or deemed paid to Non-U.S. Holders with respect to certain financial instruments linked to U.S. equities ("U.S. Underlying Equities") or indices that include U.S. Underlying Equities. Section 871(m) generally applies to instruments that substantially replicate the economic performance of one or more U.S. Underlying Equities, as determined based on tests set forth in the applicable Treasury regulations (a "Specified Security"). However, the regulations, as modified by an IRS notice, exempt financial instruments issued in 2018 that do not have a "delta" of one. Based on the terms of the securities and representations provided by us, our counsel is of the opinion that the securities should not be treated as transactions that have a "delta" of one within the meaning of the regulations with respect to any U.S. Underlying Equity and, therefore, should not be Specified Securities subject to withholding tax under Section 871(m).

A determination that the securities are not subject to Section 871(m) is not binding on the IRS, and the IRS may disagree with this treatment. Moreover, Section 871(m) is complex and its application may depend on your particular circumstances. For example, if you enter into other transactions relating to a U.S. Underlying Equity, you could be subject to withholding tax or income tax liability under Section 871(m) even if the securities are not Specified Securities subject to Section 871(m) as a general matter. You should consult your tax adviser regarding the potential application of Section 871(m) to the securities.

This information is indicative and will be updated in the final pricing supplement or may otherwise be updated by us in writing from time to time. Non-U.S. Holders should be warned that Section 871(m) may apply to the securities based on circumstances as of the pricing date for the securities and, therefore, it is possible that the securities will be subject to withholding tax under Section 871(m).

While we currently do not intend to withhold on payments on the securities to Non-U.S. Holders (subject to compliance with the applicable certification requirements and the discussion in the accompanying product supplement regarding "FATCA"), in light of the uncertain treatment of the securities other persons having withholding or information reporting responsibility in respect of the securities may treat some or all of each coupon payment on a security as subject to withholding tax at a rate of 30%. Moreover, it is possible that in the future we may determine that we should withhold at a rate of 30% on coupon payments on the securities. We will not be required to pay any additional amounts with respect to amounts withheld.

You should read the section entitled "United States Federal Tax Considerations" in the accompanying product supplement. The preceding discussion, when read in combination with that section, constitutes the full opinion of Davis Polk & Wardwell LLP regarding the material U.S. federal tax consequences of owning and disposing of the securities.

You should also consult your tax adviser regarding all aspects of the U.S. federal income and estate tax consequences of an investment in the securities and any tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction.

Supplemental Plan of Distribution

CGMI, an affiliate of Citigroup Global Markets Holdings Inc. and the underwriter of the sale of the securities, is acting as principal and will receive an underwriting fee of $10.00 for each $1,000 security sold in this offering (or up to $5.00 for each $1,000 security in the case of sales to fee-based advisory accounts). The actual underwriting fee will be equal to $10.00 for each $1,000 security sold by CGMI directly to the public and will otherwise be equal to the selling concession provided to selected dealers as described in this paragraph. From this underwriting fee, CGMI will pay selected dealers not affiliated with CGMI a fixed selling concession of $10.00 for each $1,000 security they sell to accounts other than fee-based advisory accounts. CGMI will pay selected dealers not affiliated with

CGMI, which may include dealers acting as custodians, a variable selling concession of up to $5.00 for each $1,000 security they sell to fee-based advisory accounts. Certain broker-dealers affiliated with CGMI, including Citi International Financial Services, Citigroup Global Markets Singapore Pte. Ltd. and Citigroup Global Markets Asia Limited, will receive a fixed selling concession, and financial advisers employed by such affiliated broker-dealers will receive a fixed selling concession, of $10.00 for each $1,000 security they sell. CGMI will pay the registered representatives of CGMI a fixed selling concession of $10.00 for each $1,000 security they sell directly to the public.

CGMI is an affiliate of ours. Accordingly, this offering will conform with the requirements addressing conflicts of interest when distributing the securities of an affiliate set forth in Rule 5121 of the Financial Industry Regulatory Authority. Client accounts over which Citigroup Inc. or its subsidiaries have investment discretion will not be permitted to purchase the securities, either directly or indirectly, without the prior written consent of the client.

Secondary market sales of securities typically settle two business days after the date on which the parties agree to the sale. Because the issue date for the securities is more than two business days after the pricing date, investors who wish to sell the securities at any time prior to the second business day preceding the issue date will be required to specify an alternative settlement date for the secondary market sale to prevent a failed settlement. Investors should consult their own investment advisors in this regard.

See “Plan of Distribution; Conflicts of Interest” in the accompanying product supplement and “Plan of Distribution” in each of the accompanying prospectus supplement and prospectus for additional information.

A portion of the net proceeds from the sale of the securities will be used to hedge our obligations under the securities. We expect to hedge our obligations under the securities through CGMI or other of our affiliatesrease compared to the first half of 2015.

2.2. Segment information

We operate in two business areas: Semiconductors and Subsystems.

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

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

Our reportable segments are as follows:

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

- Analog and MEMS Group (AMG), comprised of low-power analog ICs, both general purpose and high-end, smart power products for industrial and power conversion, and micro-machinery activity.

- Microcontrollers and Digital ICs Group (MDG), comprised of general purpose and secure microcontrollers, EEPROM memories, and digital ICs outside of automotive.

“Others” includes all the financial values related to the Imaging Product Division, Subsystems and other products, as well as items not allocated to the segments such as impairment, restructuring charges and other related closure costs, unused capacity charges, strategic or special research and development programs and other minor unallocated expenses such as: certain corporate-level operating expenses, patent claims and litigation, and other costs that are not allocated to the segments.

In the Subsystems business area, we design, develop, manufacture and market subsystems and modules for the telecommunications, automotive and industrial markets including mobile phone accessories, battery chargers, ISDN power supplies and in-vehicle equipment for electronic toll payment. Based on its immateriality to its business as a whole, the Subsystems business area does not meet the requirements for a reportable segment as defined in the IFRS guidance.

Please refer to note 3.6.5 of the Semi Annual Financial Statements for further information.

2.3. Liquidity and financial position

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

During the first half of 2016, the evolution of our net cash decreased by $89 million, due to the net cash used in investing activities and financing activities, including $145 million dividends paid to stockholders, exceeding the net cash from operating activities.

The evolution of our cash flow for the comparable periods is set forth below:

	(unaudited)	
In millions of USD	July 2, 2016	June 27, 2015
Net cash from operating activities	464	540
Net cash used in investing activities	(386)	(466)
Net cash used in financing activities	(167)	(196)
Effect of change in exchange rates	-	(8)
Net cash decrease	(89)	(130)

Net cash from operating activities

The net cash from operating activities for the first half of 2016 was $464 million, decreasing compared to the prior year period as a result of a decrease of the net result adjusted for non-cash items and unfavorable changes in assets and liabilities. Net cash from operating activities is the sum of (i) the net result adjusted for certain non-cash items and (ii) changes in assets and liabilities.

- Net result adjusted for non-cash items generated $437 million of cash during the first half of 2016 compared to $476 million in the prior year period.
- Changes in assets and liabilities generated cash for a total amount of $27 million in the first half of 2016 while it generated cash for a total amount of $64 million in the prior year period.

Net cash used in investing activities

Investing activities used $386 million of net cash in the first half of 2016, mainly due to investment in intangible assets for $150 million of which the largest part is related to capitalization of development costs, as well as payments for tangible asset, net of proceeds, for a total of $236 million. Investing activity in the first half of 2015 used $466 million of cash mainly due to investment in intangible assets for $183 million of which the largest part is related to capitalization of development costs, as well as payments for tangible asset, net of proceeds, for a total of $250 million.

Net cash used in financing activities

Net cash used in financing activities was $167 million in the first half of 2016, compared to $196 million in the first half of 2015. The first half of 2016 included $145 million of dividends paid to stockholders, compared to $175 million in the prior year period.

Free cash flow (non GAAP measure)

Our free cash flow was positive $78 million for the first half of 2016, compared to positive $94 million for the first half of 2015.

Free Cash Flow, a non GAAP measure, is defined as (i) net cash from operating activities plus (ii) net cash used in investing activities, excluding payment for purchases (and proceeds from the sale) of marketable securities, and net cash variation for joint ventures deconsolidation, which are considered as temporary financial investments. The result of this definition is ultimately net cash from operating activities plus payment for purchase and proceeds from sale of tangible, intangible and financial assets and proceeds received in the sale of businesses. We believe Free Cash Flow provides useful information for investors and management because it measures our capacity to generate cash from our operating and investing activities to sustain our operations. Free Cash Flow is not a GAAP measure and does not represent total cash flow since it does not include the cash flows generated by or used in financing activities.

Free Cash Flow reconciles with the total cash flow and the net cash increase (decrease) by including the payment for purchases (and proceeds from the sale) of marketable securities and net cash variation from joint ventures deconsolidation, the net cash from (used in) financing activities and the effect of changes in exchange rates. In addition, our definition of Free Cash Flow may differ from definitions used by other companies.

Financial position

As at July 2, 2016, our total financial resources amounted to $2,027 million and were comprised of:

- $1,682 million of cash and cash equivalents,
- $345 million invested in U.S. Government Treasury Bonds with an average rating of Aaa/AA+/AAA from Moody's, S&P and Fitch, respectively, reported at fair value.

As at July 2, 2016, the aggregate amount of our interest bearing loans and borrowings, including the current portion, was $1,603 million, which included:

- $678 million in European Investment Bank loans (the "EIB Loans"),
- $917 million in the Senior Bonds,
- $8 million in other long-term loans and loans from other funding programs.

The EIB Loans are comprised of four long-term amortizing credit facilities as part of R&D funding programs. The first, for R&D in France, drawn for a total amount of $341 million, was fully amortized in the first half of 2016. The second for R&D projects in Italy, was drawn for a total amount of $380 million, of which $54 million remained outstanding as of July 2, 2016. The third, a €350 million multi-currency loan to support our industrial and R&D programs, was drawn mainly in U.S. dollars for an amount of $321 million and only partially in Euros for an amount of €100 million, of which the equivalent of $271 million remained outstanding as of July 2, 2016. The fourth, a €350 million multicurrency loan supporting our R&D programs, was drawn in U.S. dollars for an amount of $471 million, of which $353 million is outstanding as of July 2, 2016. At July 2, 2016, the amounts available under our back-up and uncommitted credit facilities were unutilized.

The Senior Bonds were issued on July 3, 2014, for a principal amount of $1,000 million (Tranche A for $600 million and Tranche B for $400 million), due 2019 and 2021, respectively, for net proceeds of approximately $994 million. Tranche A bonds were issued as zero-coupon bonds while Tranche B bonds bear a 1% per annum nominal interest, payable semi-annually. The conversion price at issuance was approximately $12 on each tranche. The Senior Bonds are convertible by the bondholders if certain conditions are satisfied on a net-share settlement basis, except if an alternative settlement is elected by us. We can also redeem the Senior Bonds prior to their maturity in certain circumstances. Upon initial recognition, the proceeds were allocated between host debt and embedded components by determining the fair value of the embedded non-equity derivative instruments using an income approach. The liability component will accrete to par value until maturity based on the effective interest rate (Tranche A: 2.54% and Tranche B: 3.13%, including 1% p.a. nominal interest).

2.4. Business and financial outlook

Our backlog is currently underpinned by a healthy demand in the markets we serve and this makes us confident we can grow revenues in the second half of 2016, year-over-year. We expect that in the second half of 2016, power discretes and AMG (Analog and MEMS Group) will restart year-over-year growth and that automotive, microcontrollers and imaging will continue their positive revenue momentum. At the same time we remain vigilant due to the macro-economic uncertainties, especially in Europe, which could impact overall GDP and semiconductor demand.

Our policy is to modulate our capital spending according to the evolution of the semiconductor market. Based on market recovery forecast and ongoing strategic initiatives, our capital expenditure is estimated to be within the range of $600 million to $670 million for 2016, to be adjusted based on demand thereafter. The most important of our 2016 capital expenditure projects are expected to be : (a) for our front end facilities: (i) in our 300 mm fab in Crolles, R&D, technology evolution and, based on demand of new products, new specialized capacity to support the production ramp up of new technologies;

(ii) mix evolution, and a few selected programs of capacity growth and infrastructure preparation, mainly in the area of mixed signal and discrete processes, in particular in the Silicon Carbide (SiC) technology; (iii) qualification and ramp-up of technologies in 200 mm in Singapore, Agrate, Italy and expansion of the 200 mm fab in Catania, Italy; and (iv) quality, safety, maintenance, and productivity and cost savings investments in both 150 mm and 200 mm front end fabs; (b) for our back end facilities: (i) capacity growth on certain package families, to sustain market demand and secure service and ramp up of specialty products for strategic customers; (ii) modernization and rationalization of package lines targeting cost savings benefits; and (iii) specific investments in the areas of factory automation, quality, environment and energy savings; and (c) an overall capacity adjustment in final testing and wafers probing (EWS) to meet increased demand and a changed product mix.

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

In support of our R&D activities, we signed the Nano2017 program with the French government, which was approved by the European Union in the second quarter of 2014 and, in our role as Coordinator and Project Leader of Nano2017, we have been allocated an overall funding budget of about €400 million for the period 2013-2017, subject to the conclusion of agreements every year with the public authorities and linked to the achievement of technical parameters and objectives. Based on the activity of each sponsored project, from the beginning of the program to the end of the second quarter of 2016, we have recognized grants for an aggregate amount of €315 million. The Nano2017 contract contains certain covenants which, in the event they are not fulfilled, may affect our ability to access such funding.

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

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

2.5. Other developments in the First Half of 2016

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

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

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

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

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

- The delegation to the Supervisory Board of the authority to issue new common and preference shares, to grant rights to subscribe for such shares and to limit and/or exclude existing shareholders' pre-emptive rights on common shares for a period of eighteen months; and

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

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

On July 29, 2016, we announced the acquisition of ams' (SIX: AMS) assets related to Near-Field Communication (NFC) and Radio-frequency identification (RFID) reader business. We acquired intellectual property, technologies, products and business highly complementary to our secure microcontroller solutions serving mobile devices, wearables, banking, identification, industrial, automotive and IoT markets. The ams' assets were acquired in exchange for a (i) cash payment of $77.8 million (funded with available cash), and (ii) deferred earn-out contingent on future results for which we currently estimates will be about $13 million but which in any case will not exceed $37 million.

2.6. Related party transactions

Please refer to note 3.6.18 of the Semi Annual Financial Statements.

2.7. Financial Risk Management

STMicroelectronics and its subsidiaries (together "the Group") are exposed to changes in financial market conditions in the normal course of business due to its operations in different foreign currencies and its ongoing investing and financing activities. The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures. See note 3.6.9.4 of the Semi Annual Financial Statements for further information.

Financial risk management is carried out by a central treasury department (Corporate Treasury). Additionally, a Treasury Committee, chaired by the CFO, steers treasury activities and ensures compliance with corporate policies. Treasury activities are thus regulated by the Company's policies, which define procedures, objectives and controls. The policies focus on the management of financial risk in terms of exposure to market risk, credit risk and liquidity risk. Treasury controls are subject to internal audits. Most treasury activities are centralized, with any local treasury activities subject to oversight from Corporate Treasury. Corporate Treasury identifies, evaluates and hedges financial risks in close cooperation with the Group's operating units. It provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, price risk, credit risk, use of derivative financial instruments, and investments of excess liquidity. The majority of cash and cash equivalents is held in U.S. dollars and is placed with financial institutions rated at least a single "A" long-term rating from two of the major rating agencies, meaning at least A3 from Moody's Investor Service and A- from Standard & Poor's and Fitch Ratings, or better. These ratings are closely and continuously monitored in order to manage exposure to the counterparty's risk. Foreign currency operations and hedging transactions are performed only to hedge exposures deriving from operating, investing and financing activities in the normal course of business.

The Semi Annual Financial Statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the group's annual financial statements as at December 31, 2015. There have been no changes in the risk management department or in any risk management policies since year end.

Foreign exchange risk

The Group conducts its business on a global basis in various major international currencies. As a result, the Group is exposed to adverse movements in foreign currency exchange rates, primarily with respect to the Euro and the Singapore dollar. Foreign exchange risk mainly arises from future commercial transactions and recognized assets and liabilities at the Group's subsidiaries.

Cash flow and fair value interest rate risk

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

Credit risk

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and cash equivalents and marketable securities, the availability of funding from committed credit facilities and the ability to close out market positions. The Group's objective is to maintain a significant cash position and a low debt to equity ratio, which ensure adequate financial flexibility. Liquidity management policy is to finance the Group's investments with net cash provided from operating activities. Compared to year end, there was no material change in the contractual undiscounted cash out flows for financial liabilities.

2.8. Business risk information

Below is a list of the main risks factors related to the semiconductor industry and specifically related to our operations, which may affect the result and performance of STMicroelectronics and the ability of management to predict the future:

- Uncertain macro-economic and industry trends, which may impact end-market demand for our products;
- Customer demand that differs from projections;
- The ability to design, manufacture and sell innovative products in a rapidly changing technological environment;
- Unanticipated events or circumstances, which may impact our ability to execute the planned reductions in our net operating expenses and / or meet the objectives of our R&D Programs, which benefit from public funding;
- Changes in economic, social, labor, political, or infrastructure conditions in the locations where we, our customers, or our suppliers operate, including as a result of macro-economic or regional events, military conflicts, social unrest, labor actions, or terrorist activities;
- The Brexit vote and the perceptions as to the impact of the withdrawal of the U.K. from the EU may adversely affect business activity, political stability and economic conditions in the U.K., the Eurozone, the EU and elsewhere. While we do not have material operations in the U.K. and have not experienced any material impact from Brexit on our underlying business to date, we cannot predict its future implications;
- Financial difficulties with any of our major distributors or significant curtailment of purchases by key customers;
- The loading, product mix, and manufacturing performance of our production facilities;
-

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

- Variations in the foreign exchange markets and, more particularly, the U.S. dollar exchange rate as compared to the Euro and the other major currencies we use for our operations;
- The impact of intellectual property (“IP”) claims by our competitors or other third parties, and our ability to obtain required licenses on reasonable terms and conditions;
- The ability to successfully restructure underperforming business lines and associated restructuring charges and cost savings that differ in amount or timing from our estimates;
- Changes in our overall tax position as a result of changes in tax laws, the outcome of tax audits or changes in international tax treaties which may impact our results of operations as well as our ability to accurately estimate tax credits, benefits, deductions and provisions and to realize deferred tax assets;
- The outcome of ongoing litigation as well as the impact of any new litigation to which we may become a defendant;
- Product liability or warranty claims, claims based on epidemic or delivery failure, or other claims relating to our products, or recalls by our customers for products containing our parts;
- Natural events such as severe weather, earthquakes, tsunamis, volcano eruptions or other acts of nature, health risks and epidemics in locations where we, our customers or our suppliers operate; and
- Availability and costs of raw materials, utilities, third-party manufacturing services and technology, or other supplies required by our operations.

2.9. Auditor’s involvement

The Interim Condensed Consolidated Financial Statements and interim Report of the Managing Board have not been audited or reviewed by an external auditor.

This report of the Managing Board is dated August 23, 2016.

3. Interim Condensed Consolidated Financial Statements (“Semi Annual Financial Statements”)

The Semi Annual Financial Statements of the Group for the six months ended July 2, 2016, as presented by the Managing Board, have not been audited nor reviewed by an external auditor.

3.1. Consolidated income statement

		(unaudited) Six-month period ended	
In millions of USD, except per share amounts	Notes	July 2, 2016	June 27, 2015
Sales		3,303	3,447
Other revenues		13	18
Total revenues	3.6.5	3,316	3,465
Cost of sales	3.6.15	(2,307)	(2,469)
Gross profit		1,009	996
Selling, general and administrative	3.6.15	(469)	(455)
Research and development	3.6.15	(580)	(576)
Other income	3.6.16	66	77
Other expenses	3.6.16	(4)	(37)
Operating profit (loss)		22	5
Finance income		9	9
Finance costs		(23)	(31)
Share of profit (loss) of associates and jointly controlled entities		9	12
Profit (loss) before income tax		17	(5)
Income tax benefit (expense)		(5)	38
Net profit (loss)		12	33
Attributable to:			
The equity holders of the parent		9	31
Non-controlling interests		3	2
Net profit (loss)		12	33
Earnings per share attributable to the equity holders of the parent			
Earnings per share (Basic)	3.6.17	0.01	0.04
Earnings per share (Diluted)	3.6.17	0.01	0.04

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

3.2. Consolidated statement of comprehensive income

In millions of USD	(unaudited) Six-month period ended July 2, 2016	June 27, 2015
Net result	12	33
Other comprehensive income (loss), net of tax:		
Items that will not be reclassified to profit or loss		
Re-measurements of employee benefit obligations	-	-
Income tax effect	-	-
Re-measurements of employee benefit obligations, net of tax	-	-
Total items that will not be reclassified to profit or loss	-	-
Items that may be subsequently reclassified to profit or loss		
Exchange differences on translation of foreign operations	35	(160)
Cash flow hedges	23	17
Income tax effect	-	-
Net movement on cash flow hedges	23	17
Gain (loss) on available-for-sale financial assets	11	-
Income tax effect	(2)	-
Net gain (loss) on available-for-sale financial assets	9	-
Total items that may be reclassified subsequently to profit or loss	67	(143)
Other comprehensive income (loss), net of tax	67	(143)
Total comprehensive income (loss), net of tax	79	(110)
Attributable to:		
The equity holders of the parent	76	(112)
Non-controlling interests	3	2
Total comprehensive income (loss), net of tax	79	(110)

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

3.3. Consolidated statement of financial position

In millions of USD	Notes	July 2, 2016 (unaudited)	December 31, 2015
Assets			
Non-current assets			
Property, plant and equipment	3.6.7	2,295	2,326
Goodwill	3.6.8	59	58
Intangible assets	3.6.7	1,034	1,021
Investments in associates and jointly controlled entities	3.6.6	44	44
Other non-current financial assets	3.6.9.1	32	33
Deferred tax assets		693	654
Other non-current assets		368	434
Total non-current assets		4,525	4,570
Current assets			
Inventories	3.6.10	1,266	1,251
Trade accounts receivable		886	820
Other current financial assets	3.6.9.1	357	344
Other receivable and assets		412	402
Cash and cash equivalents	3.6.11	1,682	1,771
Total current assets		4,603	4,588
Assets held for sale		-	1
Total assets		9,128	9,159
Equity			
Equity attributable to the equity holders of the parent		5,218	5,335
Non-controlling interests		64	61
Total equity	3.6.13	5,282	5,396
Non-current liabilities			
Interest-bearing loans and borrowings	3.6.9.3	1,432	1,424
Other non-current financial liabilities	3.6.9.2	61	56
Employee benefits		426	414
Deferred tax liabilities		15	15
Non-current provisions		258	238
Other non-current liabilities		34	55
Total non-current liabilities		2,226	2,202
Current liabilities			
Interest-bearing loans and borrowings – current portion	3.6.9.3	171	191
Trade accounts payable		597	525
Other payables and accrued liabilities		405	347
Employee benefits – current portion		379	403
Current provisions		32	30
Other current financial liabilities	3.6.9.2	9	25
Income tax payable		27	40
Total current liabilities		1,620	1,561
Total equity and liabilities		9,128	9,159

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

3.4. Consolidated statement of changes in equity

For the six-month period ended July 2, 2016

In millions of USD	Ordinary shares	Capital surplus	Treasury shares	Other reserves	Retained earnings	Equity attributable to the equity holders of the parent	Non-controlling interests	Total equity
As at January 1, 2016	1,157	2,433	(289)	970	1,064	5,335	61	5,396
Net result	-	-	-	-	9	9	3	12
Other comprehensive income, net of tax	-	-	-	67	-	67	-	67
Total comprehensive income	-	-	-	67	9	76	3	79
Employee share award scheme, net of tax	-	-	46	19	(46)	19	-	19
Dividends	-	-	-	-	(212)	(212)	-	(212)
As at July 2, 2016 (unaudited)	1,157	2,433	(243)	1,056	815	5,218	64	5,282

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

For the six-month period ended June 27, 2015

In millions of USD	Ordinary shares	Capital surplus	Treasury shares	Other reserves	Retained earnings	Equity attributable to the equity holders of the parent	Non-controlling interests	Total equity
As at January 1, 2015	1,157	2,433	(334)	1,108	1,285	5,649	61	5,710
Net result	-	-	-		31	31	2	33
Other comprehensive income, net of tax	-	-	-	(143)	-	(143)	-	(143)
Total comprehensive income	-	-	-	(143)	31	(112)	2	(110)
Employee share award scheme, net of tax	-	-	45	20	(45)	20	-	20
Dividends	-	-	-	-	(349)	(349)	-	(349)
As at June 27, 2015 (unaudited)	1,157	2,433	(289)	985	922	5,208	63	5,271

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

3.5. Consolidated statement of cash flows

In millions of USD	Note	(unaudited) Six-month period ended July 2, 2016	June 27, 2015
Cash flows from operating activities			
Cash generated from operations	3.6.12	498	562
Interests paid		(6)	(6)
Income tax paid		(28)	(16)
Net cash from operating activities		464	540
Cash flows from investing activities			
Payments for purchases of tangible assets		(238)	(251)
Proceeds from sale of tangible assets		2	1
Payments for purchase of intangible assets		(150)	(183)
Restricted cash		-	(20)
Payment for disposal of associates		-	(13)
Net cash used in investing activities		(386)	(466)
Cash flows from financing activities			
Repayment of interest-bearing loans and borrowings		(21)	(21)
Dividends paid to equity holders of the parent Company		(145)	(175)
Other financing activities		(1)	-
Net cash used in financing activities		(167)	(196)
Effect of changes in exchange rates		-	(8)
Net cash decrease		(89)	(130)
Cash and cash equivalents at the beginning of the period		1,771	2,017
Cash and cash equivalents at the end of the period	3.6.11	1,682	1,887

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

3.6. Notes to the consolidated financial statements

3.6.1. Corporate information

STMicroelectronics N.V. is organized under the laws of the Netherlands with its corporate legal seat in Amsterdam, the Netherlands, and head offices at WTC Schiphol Airport, Schiphol Boulevard 265, 1118 BH Schiphol, the Netherlands. Headquarters and operational offices are managed through STMicroelectronics International N.V., a wholly owned subsidiary of STMicroelectronics N.V., and are located at 39, chemin du Champ des Filles, 1228 Plan-les-Ouates, Geneva, Switzerland.

STMicroelectronics and its subsidiaries (together "the Group") are a global independent semiconductor group that designs, develops, manufactures and markets a broad range of products, including discrete and standard commodity components, application-specific integrated circuits ("ASICs"), full custom devices and semi-custom devices and application-specific standard products ("ASSPs") for analog, digital and mixed-signal applications. In addition, the Group participates in the manufacturing value chain of Smartcard products, which includes the production and sale of both silicon chips and Smartcards. The Group's intelligent and energy-efficient products and solutions are used in a wide variety of applications that power the electronics at the heart of everyday life. The Group enables smarter driving by making vehicles safer, greener and more connected. The Group helps make homes and cities smarter though the evolution of devices and systems to become more efficient, intelligent, aware and connected. Our products make workplaces and factories more efficient and flexible, and allow them to operate in a more sustainable manner while becoming safer for the people working there. In doing this, the Group's products are found everywhere microelectronics make a positive and innovative contribution to people's lives. By getting more from technology to get more from life, ST stands for life.augmented.

STMicroelectronics is a publicly traded company, listed on the New York Stock Exchange, on Euronext Paris and on the Borsa Italiana (Italian Stock Exchange).

These unaudited Semi Annual Financial Statements were approved by the Supervisory Board on August 23, 2016.

3.6.2. Basis of preparation

These unaudited Semi Annual Financial Statements for the six-month period ended July 2, 2016 have been prepared in accordance with IAS 34, "Interim Financial Reporting", as adopted in the European Union.

The unaudited Semi Annual Financial Statements do not include all the information and disclosures required in the annual financial statements. They should be read in conjunction with the annual financial statements for the year ended December 31, 2015, prepared in accordance with IFRS, as adopted in the European Union, filed with the AFM (Autoriteit Financiële Markten) on April 1, 2016 and adopted by our Annual General Meeting of Shareholders on May 25, 2016.

3.6.3. Significant accounting policies

The accounting policies adopted in the preparation of the Semi Annual Financial Statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2015.

Standards, amendments to standards and interpretations effective in 2016

Amendments to IAS 1: Disclosure Initiative: The amendments address materiality, disaggregation and subtotals in the statement of consolidation position or the income statement and the statement of comprehensive income. The amendments became effective on January 1, 2016 and had no material impact on the Group's financial statements.

The following amended standards became effective on January 1, 2016 with no significant impact on the accounting policies, financial position or performance of the Group:

IFRS 11 Joint Arrangements (amendment): Accounting for Acquisitions of Interests in Joint Operations
Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization
Amendment to IAS 19: Employee Benefits – Employee contributions
Improvements to IFRS (2012-214 cycle)

Standards, amendments to standards and interpretations issued but not yet effective

IFRS 9 Financial Instruments: The IASB completed in 2014 its comprehensive work on the replacement of IAS 39, which included three phases: classification and measurement of financial assets and financial liabilities, with the issuance of the original IFRS 9; impairment of financial assets; and hedge accounting, with the issuance of the corresponding amendments to IFRS 9. The final standard has not yet been endorsed by the European Union. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, together with the assessment of their impairment but will potentially have no impact on classification and measurements of financial liabilities. The new approach to hedge accounting will also have an effect on the way hedged transactions and derivatives designated as hedging instruments are reported. The Group is reviewing the effect the comprehensive version of IFRS 9 will have on its financial position and performance.

IFRS 15 Revenue from contracts with customers: The new standard on revenue recognition, updated in 2016 with finalized amendments addressing implementation issues, sets forth a single revenue accounting model, which calls to more professional judgment and includes expanded disclosures. According to the new guidance, revenue recognition depicts the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled for these goods and services. Revenue is recognized when (or as) control of the goods and services is transferred to the customer. Even if IFRS 15 is not a five-step model, the following steps can be identified in order to apply the new revenue accounting model: (i) identification of the contracts with customers; (ii) identification of the purchase obligations in the contract; (iii) determination of the transaction price; (iv) allocation of the transaction price to purchase obligations and; (v) revenue recognition for each purchase obligation. IFRS 15 has not been ratified by the European Union yet. The areas on which IFRS 15 may create significant changes are: (i) changes in the timing of revenue recognition; (ii) inclusion of variable consideration in the transaction price; (iii) allocation of the transaction price based on standalone selling prices. The Group will adopt IFRS 15 when effective and is currently assessing its impact on existing contracts, transactions and business practices.

IFRS 16 Leases: The new standard on lease accounting no longer distinguishes for the lessee between a finance lease and an operating lease. It sets forth a single lease accounting model for virtually all lease contracts. The lessee recognizes a lease liability reflecting future lease payments and a "right of use" asset, as economically, a lease contract is equal to acquiring the right to use an asset with the purchase price paid in installments. Lessees recognize interest expense on the lease liability and a depreciation charge on the "right of use" asset. The standard includes optional exemptions, as for short-term leases (twelve months or less). If one of the exemptions is elected, the lease contract is accounted for in a way that is similar to current operating lease accounting. Lessor accounting is similar to current practice. However, significant new disclosures are required. IFRS 16 has not been ratified by the European Union yet. The Group will adopt IFRS 16 when effective and is currently assessing its impact on existing contracts, transactions and business practices, almost exclusively as a lessee.

The following amendments are not expected to have a material impact on the accounting policies, financial position or performance of the Group:

- Amendments to IFRS 2: Share-based payment
- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses
- Amendments to IAS 7: Disclosure Initiative
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate and Joint Venture

3.6.4. Estimates

The preparation of the Semi Annual Financial Statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amount of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these Semi Annual Financial Statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated Financial Statements for the year ended December 31, 2015, with the exception of changes in estimates and assumptions that are required in determining the provision for income taxes.

3.6.5. Operating segment information

The Group operates in two business areas: Semiconductors and Subsystems.

In the Semiconductors business area, the Group designs, develops, manufactures and markets a broad range of products, including discrete and standard commodity components, application-specific integrated circuits ("ASICs"), full-custom devices and semi-custom devices and application-specific standard products ("ASSPs") for analog, digital and mixed-signal applications. In addition, the Group further participates in the manufacturing value chain of Smartcard products, which includes the production and sale of both silicon chips and Smartcards.

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

The Group's reportable segments are as follows:

- Automotive and Discrete Group (ADG), comprised of all automotive dedicated ICs, both digital and analog, and discrete products.
- Analog and MEMS Group (AMG), comprised of low-power analog ICs, both general purpose and high-end, smart power products for industrial and power conversion, and micro-machinery activity.
- Microcontrollers and Digital ICs Group (MDG), comprised of general purpose and secure microcontrollers, EEPROM memories, and digital ICs outside of automotive.

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

In the Subsystems business area, the Group designs, develops, manufactures and markets subsystems and modules for the telecommunications, automotive and industrial markets including mobile phone accessories, battery chargers, ISDN power supplies and in-vehicle equipment for electronic toll payment. Based on its immateriality to its business as a whole, the Subsystems business area does not meet the requirements for a reportable segment as defined in the IFRS guidance.

For the computation of the segments' internal financial measurements, the Group uses certain internal rules of allocation for the costs not directly chargeable to the segments, including cost of sales, selling, general and administrative expenses and a part of research and development expenses. In compliance with the Group's internal policies, certain cost items are not allocated to the segments, including impairment, restructuring charges and other related closure costs, unused capacity charges, phase-out and start-up costs of certain manufacturing facilities, certain one-time corporate items, strategic and special research and development programs or other corporate-sponsored initiatives, including certain corporate-level operating expenses and certain other miscellaneous charges. In addition, depreciation and amortization expense is part of the manufacturing costs allocated to the segments and is neither identified as part of the inventory variation nor as part of the unused capacity charges; therefore, it cannot be isolated in the costs of goods sold. Finally, R&D grants are allocated to the segments proportionally to the incurred R&D expenses on the sponsored projects.

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

The following tables present the Group's consolidated net revenues by reportable segment and by location of shipment:

	(unaudited) Six-month period ended	
In millions of USD	July 2, 2016	June 27, 2015
Net revenues by reportable segment:		
Automotive and Discrete Group (ADG)	1,392	1,388
Analog and MEMS Group (AMG)	745	890
Microcontrollers and Digital ICs Group (MDG)	1,089	1,088
Others	90	99
Total consolidated net revenues	3,316	3,465

	(unaudited) Six-month period ended	
In millions of USD	July 2, 2016	June 27, 2015
Net Revenues by Location of Shipment: 1		
EMEA	949	914
Americas	516	547
Asia Pacific 2	1,851	2,004
Total	3,316	3,465

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

2 As of the first half of 2016, the Group has three regional sales organizations: EMEA; Americas; and Asia Pacific. Asia Pacific was created from the merger of the Japan & Korea and Greater China-South Asia regional sales

organizations.

Net operating profit (loss) by reportable segment and reconciliation to operating profit (loss) are as follows:

In millions of USD	(unaudited) Six-month period ended July 2, 2016	(unaudited) Six-month period ended June 27, 2015
Automotive and Discrete Group (ADG)	100	82
Analog and MEMS Group (AMG)	3	68
Microcontrollers and Digital ICs Group (MDG)	5	(29)
Sub-total operating profit (loss) of reportable segments	108	121
Impairment, restructuring charges and other related closure costs	(40)	(50)
Manufacturing results	(21)	(28)
Operating results of other businesses	(49)	(48)
Strategic and other research and development programs and other non-allocated provisions[3]	(3)	(2)
IFRS/US GAAP Adjustments:		
Net impact of capitalized development costs	26	18
Derivative instruments not designated as hedge instruments under IFRS	6	13
IFRIC 21 adjustment on levies	(7)	(7)
IAS 19R adjustment on defined benefit plans	2	1
Other non-allocated expenses and IFRS adjustments impact	-	(13)
Sub-total Operating loss Others and US GAAP to IFRS adjustments impact on operating profit (loss)	(86)	(116)
Total operating profit (loss)	22	5

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

3.6.6. Investments in associates and jointly controlled entities

Investments in associates and jointly controlled entities as at July 2, 2016 and December 31, 2015 were as follows:

	(unaudited) July 2, 2016		December 31, 2015	
In millions of USD	Carrying amount	% of interests	Carrying amount	% of interests
ST-Ericsson SA, in liquidation	44	50.0 %	44	50.0 %
Total	44		44	

ST-Ericsson SA, in liquidation

On February 3, 2009, the Group announced the closing of a transaction to combine the businesses of Ericsson Mobile Platforms and ST-NXP Wireless into a new venture, named ST-Ericsson. As part of the transaction, the Group received an interest in ST-Ericsson Holding AG in which the Group owned 50% plus a controlling share. In 2010, ST-Ericsson Holding AG was merged in ST-Ericsson SA. The Group used to consolidate ST-Ericsson SA.

On September 9, 2013, the Group sold 1 ST-Ericsson SA share to Ericsson for its nominal value changing the ownership structure of ST-Ericsson SA to bring both partners to an equal ownership proportion. As a result and in combination with the new shareholder agreement, the Group lost the control of ST-Ericsson SA and as such ST-Ericsson SA was deconsolidated from the Group's financial statements as of September 1, 2013. The deconsolidation of ST-Ericsson SA did not result in a gain or loss for the Group. The fair value of the Group's retained non-controlling interest was evaluated at $55 million. In addition, the Group and its partner signed funding commitment letters, capped at $149 million each partner, to the residual joint wind-down operations to ensure solvency. These are not drawn as of July 2, 2016.

Before the deconsolidation of ST-Ericsson SA, certain assets and companies of the ST-Ericsson SA group of companies were transferred to both partners for their net book value which was representative of their fair value. The transactions did not result in cash exchange between the partners. ST-Ericsson SA entered into liquidation on April 15, 2014.

3.6.7. Property, plant and equipment and intangible assets

Changes in the net carrying amount of property, plant and equipment and intangible assets are detailed as follows:

In millions of USD	Property, plant and equipment	Intangible assets
Net book value as at January 1, 2016	2,326	1,021
Additions	280	152
Disposals	(1)	-
Impairment / Write-Offs	-	(36)
Amortization / Depreciation expense	(334)	(103)
Foreign currency translation	24	-
Net book value as at July 2, 2016 (unaudited)	2,295	1,034

The Group has commitments to purchase property, plant and equipment after the end of the interim period in the amount of $170 million.

The impairment and write-offs for the first half of 2016 amounted to $36 million (first half 2015: $61 million), of which $33 million recorded in cost of sales and $3 million in research and development, and are mainly resulting from the write-offs of the capitalized development costs related to certain projects that were cancelled.

3.6.8. Goodwill

Goodwill allocated to reportable segments and changes in the carrying amount of goodwill were as follows:

In millions of USD	Automotive and Discrete Group (ADG)	Microcontrollers and Digital ICs Group (MDG)	Analog and MEMS Group (AMG)	Total
As at January 1, 2016	-	56	2	58
Foreign currency translation	-	1	-	1
As at July 2, 2016 (unaudited)	-	57	2	59

As described in Note 3.6.5, during the first half of fiscal year 2016, the organization changed to align with the Group's strategic focus on Smart Driving and on Internet of Things applications and this resulted in a change in the Group's reportable segments. Goodwill was allocated to the new reportable segments following the allocation of the reporting units for which it was related. The Group also completed an assessment of any potential goodwill impairment indicators immediately prior to the reallocation and determined that no impairment indicators existed.

3.6.9. Other financial assets and financial liabilities

3.6.9.1. Other financial assets

In millions of USD	(unaudited) July 2, 2016	December 31, 2015
Other financial assets (including derivatives)		
Other financial assets		
Available-for-sale investments – quoted debt and equity securities	356	346
Available-for-sale investments – unquoted equity securities	13	13
Restricted cash	-	4
Other	8	8
Total other financial assets	377	371
Current	345	339
Non-current	32	32
Derivative financial instruments		
Cash flow hedges		
Foreign exchange forward contracts	5	2
Currency collars	2	1
Derivatives not designated as hedges (held for trading)		
Foreign exchange forward contracts	4	2
Currency collars	1	1
Total derivatives financial instruments	12	6
Current	12	5
Non-current	-	1
Total other financial assets (including derivatives)	389	377
Total current	357	344
Total non-current	32	33

Movements in other financial assets (excluding derivatives) recorded in the first half of 2016 a

In millions of USD	Jan 1, 2016	Change in fair value included in OCI*	Change in fair value included in income statement	Increase	Sale / Settlement	Foreign exchange result recognized in OCI*	(unaudited) July 2, 2016
Government bonds issued by the U.S. Treasury Department	335	10	-	-	-	-	345
Quoted equity instruments	11	-	-	-	-	-	11
Sub-total Available-for-sale investments – quoted debt and equity securities	346	10	-	-	-	-	356
Available-for-sale investments – unquoted equity securities	13	-	-	-	-	-	13
Restricted cash	4	-	-	-	(4)	-	-
Other trading financial assets	8	-	-	-	-	-	8
Total other financial assets (excluding derivatives)	371	10	-	-	(4)	-	377

*OCI: Other comprehensive income

Available-for-sale investments – quoted debt and equity securities

As at July 2, 2016 the Group held $345 million in U.S. Treasury bonds. The bonds have an average rating of Aaa/AA+/AAA from Moody’s, S&P and Fitch, respectively, with a weighted average maturity of 3.8 years. The debt securities were reported as current assets on the consolidated balance sheet as at July 2, 2016, since they represented investments of funds available for current operations. The bonds are classified as available-for-sale and recorded at fair value as at July 2, 2016. The Group estimated the fair value of these financial assets based on publicly quoted market prices, which corresponded to a Level 1 fair value measurement hierarchy.

As at July 2, 2016, the Group also had investments in quoted equity securities for an aggregate value of $11 million (December 31, 2015: $11 million).

3.6.9.2. Other financial liabilities

In millions of USD	(unaudited) July 2, 2016	December 31, 2015
Derivative financial instruments		
Cash flow hedges		
Foreign exchange forward contracts	4	12
Currency collars	-	4
Derivatives not designated as hedges		
Foreign exchange forward contracts	4	7
Currency collars	1	2
Embedded conversion option	61	56
Total other financial liabilities (including derivatives)	70	81
Total current	9	25
Total non-current	61	56

3.6.9.3. Interest-bearing loans and borrowings

In millions of USD	(unaudited) July 2, 2016	December 31, 2015
Funding program loans with European Investment Bank		
0.38% due 2016, floating interest rate at Libor + 0.052%	-	19
1.10% due 2016, floating interest rate at Libor + 0.477%	25	26
1.01% due 2016, floating interest rate at Libor + 0.373%	29	29
1.83% due 2020, floating interest rate at Libor + 1.199%	63	63
1.74% due 2020, floating interest rate at Libor + 1.056%	138	138
0.67% due 2020, floating interest rate at Euribor + 0.917%	70	68
1.44% due 2021, floating interest rate at Libor + 0.525%	180	180
1.54% due 2021, floating interest rate at Libor + 0.572%	173	173
Dual tranche senior unsecured convertible bonds		
Zero-coupon, due 2019 (Tranche A)	557	549
1.0% due 2021 (Tranche B)	360	358
Other Funding program loans		
0.39% (w.a.*), due 2016-2023, fixed interest rate	3	4
Other long-term loans		
1.95% (w.a.*), due 2017, fixed interest rate	2	4
0.79% (w.a.*), due 2018, fixed interest rate	1	1
0.87% (w.a.*), due 2020, fixed interest rate	2	2
Finance leases		
9.85% (w.a.*), due 2017-2019, fixed interest rate	-	1
Total interest-bearing loans and borrowings	1,603	1,615
Total current	171	191
Total non-current	1,432	1,424

* Weighted average

3.6.9.4. Hedging activities and derivatives

Derivative instruments not designated as hedges

The Group conducts its business on a global basis in various major international currencies. As a result, the Group is exposed to adverse movements in foreign currency exchange rates, primarily with respect to the Euro. Foreign exchange risk mainly arises from future commercial transactions and recognized assets and liabilities at the Group’s subsidiaries. The Group enters into currency forward contracts and currency options to reduce its exposure to changes in exchange rates and the associated risk arising from the denomination of certain assets and liabilities in foreign currencies at the Group's subsidiaries. These instruments do not qualify as hedging instruments and are marked-to-market at each period-end with the associated changes in fair value recognized in “Other income” or “Other expenses” in the consolidated income statement.

To reduce its exposure to U.S. dollar exchange rate fluctuations, the Group hedges certain Euro-denominated forecasted transactions that cover at reporting date a large part of its research and development, selling, general and administrative expenses through the use of currency forward contracts and currency options, including collars. These instruments do not qualify as hedging instruments and are marked-to-market at each period-end with the associated changes in fair value recognized in “Other income” or “Other expenses” in the consolidated income statement.

The main currencies covered are the Euro, the Singapore Dollar, the Swiss Franc, the Indian rupee, the Malaysian Ringgit, the Philippine peso and the China Yuan Renminbi.

Derivative instruments designated as cash flow hedges

To reduce its exposure to U.S. dollar exchange rate fluctuations, the Group hedges certain Euro-denominated forecasted transactions that cover at reporting date a portion of its front-end manufacturing costs of semi-finished goods through the use of currency forward contracts and currency options, including collars. The Group also hedges certain manufacturing transactions denominated in Singapore dollars.

The principles regulating the hedging strategy for derivatives designated as cash flow hedge is to hedge up to 70% of the total forecasted transactions for manufacturing costs. In order to follow a dynamic hedge strategy, the Group may change the percentage of the designated hedged item within the limit of 100% of the forecasted transaction. The maximum length of time over which the Group hedges its exposure to the variability of cash flows for forecasted transactions is 24 months.

These derivative instruments are designated and qualified as cash flow hedges. They are reflected at their fair value in the consolidated statement of financial position. The unrealized gain or loss from the effective portion of the hedge is reported in the statement of comprehensive income and is reclassified into earnings in the same period in which the hedged transaction affects earnings, and within the same consolidated income statement line item as the impact of the hedged transaction.

As at July 2, 2016, the Group had the following outstanding derivative instruments that were entered into to hedge Euro-denominated and Singapore-Dollar-denominated forecasted transactions:

	Notional amount for hedge on forecasted manufacturing costs transactions	
	In millions of Euros	In millions of Singapore Dollars
Forward contracts	304	91
Currency collars	362	-

Cash flow and fair value interest rate risk

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group analyzes its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. The Group invests primarily on a short-term basis and the majority of the Group's liquidity is invested in floating interest rate instruments. As a consequence the Group is exposed to interest rate risk due to potential mismatch between the return on its short term floating interest rate investments and the portion of its long term debt issued at fixed rate.

Offsetting financial assets and financial liabilities

The Group entered into currency collars as combinations of two options, which are reported, for accounting purposes, on a net basis. The fair value of these collars represented as at July 2, 2016 assets totaling a net amount of $2 million (composed of a $3 million assets and $1 million of liabilities). In addition, the Group entered into other derivative instruments, primarily forward contracts, which are governed by standard International Swaps and Derivatives Association ("ISDA") agreements, which are not offset in the statement of financial position, and representing total assets of $9 million and liabilities totaling $8 million as at July 2, 2016.

3.6.9.5. Fair values

Set out below is a comparison by class of the carrying amounts and fair value of the Group's financial instruments that are carried in the financial statements.

In millions of USD	Carrying amount (unaudited) July 2, 2016	Carrying amount December 31, 2015	Fair value (unaudited) July 2, 2016	Fair value December 31, 2015
Financial assets				
Trade receivables	886	820	886	820
Other receivables and assets	412	402	412	402
Available for sale financial investments	369	359	369	359
Other financial assets	20	14	20	14
Restricted cash	-	4	-	4
Cash equivalents (1)	1,189	1,099	1,189	1,099
Financial liabilities				
Interest-bearing loans and borrowings (excluding senior unsecured convertible bonds)	686	708	686	708
Senior unsecured convertible bonds (2)	917	907	932	960
Trade accounts payable	597	525	597	525
Other payables and accrued liabilities	405	347	405	347
Other current financial liabilities	9	25	9	25
Other non-current financial liabilities	61	56	61	56

(1) Cash equivalents primarily correspond to deposits at call with banks.

(2) The carrying amount of the senior unsecured convertible bonds as reported above corresponds to the liability component only, since, at initial recognition, an amount of $118 million was separately recognized as derivative financial instruments embedded in the issued convertible bonds.

The fair value of financial assets and liabilities are included at the price at which the instrument could be sold in an orderly transaction between market participants at the measurement date. The following methods and assumptions were used to estimate fair value:

- For trade accounts receivable, cash equivalents, trade accounts payable, other payables and accrued liabilities, the carrying amounts reflected in the consolidated financial statements are reasonable estimates of fair value due to the relatively short period of time between the origination of the instruments and their expected realization.
- Other receivables and assets approximate their carrying amounts due either to their short-term maturities or to the fact that they are recorded at their net present value.
- Available for sale financial investments:
  - The fair value quoted debt and equity securities is determined based upon quoted market prices for identical instruments.
  - The fair value of unquoted equity securities is based on the valuation of the underlying instruments on a new round of third party financing or upon liquidation.
- The fair value of interest-bearing loans and borrowings, excluding senior unsecured convertible bonds, is determined by estimating future cash flows on a borrowing-by-borrowing basis and discounting these future cash flows using the Group's incremental borrowing rates for similar types of borrowing arrangements.
- The senior unsecured convertible bonds have been trading on the open market segment on the Frankfurt Stock Exchange since issuance on July 3, 2014. The fair value of these instruments is the observable price of the bonds on that market.
- The fair value of derivatives instruments is determined based upon quoted market prices for similar instruments.

- Other non-current financial liabilities correspond to the bondholders' conversion option embedded in the senior unsecured convertible bonds issued on July 3, 2014. The value of the issuer's call option was nil at inception and as at July 2, 2016. These embedded derivative instruments were measured at fair value based on an income approach using Bloomberg's option pricing model, which can be assimilated to a Black & Scholes model for pricing stock options. This model was elected as the best indication of fair value since it maximized the use of observable market-based inputs.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As at July 2, 2016, the Group held the following financial instruments measured at fair value:

In millions of USD	(unaudited) July 2, 2016	Level 1	Level 2	Level 3
Assets measured at fair value				
Financial assets at fair value through profit or loss				
Foreign exchange forward contracts	4	-	4	-
Currency collars	1	-	1	-
Trading securities	8	8	-	-
Cash flow hedges				
Foreign exchange forward contracts	5	-	5	-
Currency collars	2	-	2	-
Available-for-sale financial assets				
Available-for-sale investments – quoted equity securities	356	356	-	-
Available-for-sale investments – unquoted equity securities	13	-	-	13
Total assets measured at fair value	389	364	12	13
Liabilities measured at fair value				
Derivatives at fair value through profit or loss				
Foreign exchange forward contracts	4	-	4	-
Currency collars	1	-	1	-
Embedded conversion option	61	-	-	61
Cash flow hedges				
Foreign exchange forward contracts	4	-	4	-
Total liabilities measured at fair value	70	-	9	61

Financial instruments in Level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the closing price. These instruments are included in Level 1.

Financial instruments in Level 2

The fair value of financial instruments that are not traded in active markets (for example over the counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data when available and rely as little as possible on entity's specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3. Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer's quotes for similar instruments;
- The fair value of foreign exchange forward contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.

During the reporting period ending July 2, 2016, there was no transfer between Level 1 and Level 2 fair value measurements. There was no transfer into and out of Level 3 fair value measurements.

Financial instruments in Level 3

For other financial assets and liabilities measured at fair value using significant unobservable inputs (Level 3), the reconciliation between January 1, 2016 and July 2, 2016 is presented as follows:

In millions of USD	Fair value measurements using significant unobservable inputs (Level 3)
As at January 1, 2016	(43)
Change in fair value of the embedded derivative instruments	(5)
As at July 2, 2016 (unaudited)	(48)
Amount of total unrealized losses included in the 2016 income statement attributable to assets (liabilities) still held at the reporting date	(5)

The change in fair value amounting to $5 million was reported as "Finance costs" in the consolidated income statement for the period ended July 2, 2016.

The model used to price the derivative instruments embedded in the senior unsecured convertible bonds issued on July 3, 2014 included the following inputs:

- o The risk-free interest rate for comparable maturities;
- o The reference price for STMicroelectronics ordinary shares as traded on the New York Stock Exchange;
- o The exercise price;

- o The dividend expected to be paid on STMicroelectronics ordinary shares over the life of the option;
- o The volatility of STMicroelectronics ordinary shares (48.9% and 48.0% for Tranche A and Tranche B, respectively);
- o The duration of the option.

Volatility should be considered an unobservable input. The figure is, therefore, an assumption based on the volatility implied by the price of the financial instrument, as negotiated at the issue stage, and market volatility for the nearest time horizon. The prices of the issuer's call option and the bondholder's conversion option are sensitive to implied volatility. For the issuer's call option, sensitivity analysis show that the value of the embedded derivative instrument remains immaterial. The table below shows a sensitivity analysis of the net carrying amount of the embedded conversion option in relation to a series of changes expressed in percentage point terms of volatility:

Change in volatility of STMicroelectronics ordinary shares	-10 p.p.	- 8 p.p.	-5 p.p.	+5 p.p.	+8 p.p.	+10 p.p.
Change in the net carrying amount of the bondholders' conversion option	(29)	(24)	(16)	15	25	31
Net carrying amount of the embedded conversion option	32	37	45	76	86	92

For nonfinancial assets measured at fair value, the reconciliation between January 1, 2016 and July 2, 2016 is presented as follows:

In millions of U.S. dollars	Fair value measurements using significant unobservable inputs (Level 3)
As at January 1, 2016	1
Impairment charge on Assets held for sale	(1)
As at July 2, 2016 (unaudited)	-
Amount of total losses for the period included in earnings attributable to assets still held at the reporting date	(1)

There were no changes in valuation techniques during the periods.

3.6.10. Inventories

Inventories consisted of the following:

In millions of USD	(unaudited) July 2, 2016	December 31, 2015
Raw materials	81	74
Work-in-process	828	804
Finished products	357	373
Total	1,266	1,251

3.6.11. Cash and cash equivalents

Cash and cash equivalents consisted of the following:

In millions of USD	(unaudited) July 2, 2016	December 31, 2015
Cash at bank and in hand	493	672
Money market deposits with banks	1,189	1,099
Total	1,682	1,771

3.6.12. Cash generated from operations

Cash generated from operations is detailed as follows:

In millions of USD	(unaudited) July 2, 2016	June 27, 2015
Net result	12	33
Depreciation and amortization	437	444
Interests and amortization of issuance costs on convertible bonds	11	10
Fair value variation of convertible bonds conversion option	5	12
Share-based compensation	18	20
Other non-cash items	(63)	(72)
Deferred income tax	(15)	(58)
Share of (profit) loss of associates, impairments or reversal of impairments on investments in associates	(9)	(12)
Impairment, restructuring and other related closure costs	41	99
Movement of trade receivables, net	(57)	(81)
Movement of inventories, net	(2)	(14)
Movement of trade payables	15	147
Movement of other assets and liabilities, net	105	34
Cash generated from operations	498	562

3.6.13. Equity

3.6.13.1. Outstanding shares

The authorized share capital of STMicroelectronics is EUR 1,810 million consisting of 1,200,000,000 common shares and 540,000,000 preference shares, each with a nominal value of EUR 1.04. As at July 2, 2016, the number of common shares issued was 910,970,920 shares (December 31, 2015: 910,967,920 shares).

As at July 2, 2016, the number of common shares outstanding was 883,268,414 shares (December 31, 2015: 878,537,339 shares).

3.6.13.2. Preference shares

The 540,000,000 preference shares, when issued, will entitle a holder to full voting rights and to a preferential right to dividends and distributions upon liquidation.

We are a party to an option agreement with Stichting Continuïteit ST (the "Stichting"), entered into on January 22, 2007, with a duration of ten years, regarding our preference shares. Our Managing Board and our Supervisory Board, along with the board of the Stichting, have declared that they are jointly of the opinion that the Stichting is independent of us. The option agreement provides for the issuance of up to a maximum 540,000,000 preference shares. Any such shares would be issued to the Stichting upon its request and in its sole discretion and upon payment of at least 25% of the par value of the preference shares to be issued. The shares would be issuable in the event of actions which the board of the Stichting determines would be contrary to our interests, our shareholders or other stakeholder, such as a creeping acquisition or an offer on our common shares, which are unsupported by our Managing Board and our Supervisory Board. The preference shares may remain outstanding for no longer than two years. No preference shares have been issued to date. The effect of the preference shares may be to deter potential acquirers from effecting an unsolicited acquisition resulting in a change of control as well as to create a level-playing field in the event actions as described above occur.

3.6.13.3. Treasury shares

The treasury shares have been designated for allocation under the Company's share based remuneration programs of non-vested shares. As of July 2, 2016, 35,217,714 of these treasury shares were transferred to employees under the Company's share based remuneration programs of which 4,728,075 in the first half of 2016.

As of July 2, 2016, the Company owned a number of treasury shares equivalent to 27,702,506.

3.6.13.4. Other reserves

Other reserves include the following components as at July 2, 2016:

In millions of USD	Share-based compensation reserve	Available-for-sale (AFS) reserve	Cash Flow Hedge (CFH) reserve	Employee benefit plan reserve	Foreign currency translation reserve	Share of OCI of associates and jointly controlled entities	Total other reserves
As at January 1, 2015	567	1	(52)	(143)	735	-	1,108
Share-based compensation expense for the year	20	-	-	-	-	-	20
Net movement recognized in the statement of comprehensive income	-	-	17	-	(160)	-	(143)
As at June 27, 2015 (unaudited)	587	1	(35)	(143)	575	-	985
As at January 1, 2016	608	1	(21)	(138)	520	-	970
Share-based compensation expense for the year	19	-	-	-	-	-	19
Net movement recognized in the statement of comprehensive income		9	23	-	35	-	67
As at July 2, 2016 (unaudited)	627	10	2	(138)	555	-	1,056

Share-based compensation reserve: The share-based compensation reserve is used to recognize the value of equity-settled share-based payment transactions provided to employees, including key management personnel, as part of their remuneration.

Available-for-sale (AFS) reserve: This reserve records fair value changes on available-for-sale financial assets.

Cash Flow hedge reserve: The cash flow hedge reserve contains the effective portion of the cash flow hedge relationship incurred as at the reporting date.

Employee benefit plan reserve: The employee benefit plan reserve is used to recognize the actuarial gains and losses and past service cost of post-employment pension plans.

Foreign currency translation reserve: The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Share of OCI of associates and jointly controlled entities: This reserve records the share of other comprehensive income of associates or jointly controlled entities.

3.6.13.5. Dividends

In the Annual General Meeting of Shareholders held on May 25, 2016, the distribution of a cash dividend of $0.24 per outstanding share of the Company's common stock was authorized, to be distributed in quarterly installments of $0.06 in each of the second, third and fourth quarters of 2016 and first quarter of 2017. The first installment, amounting to $47 million, was paid during the second quarter of 2016. The remaining $0.18 per share cash dividend totaled $165 million and is presented in the line "Other payables and accrued liabilities" in the consolidated statement of financial position as of July 2, 2016.

In the Annual General Meeting of Shareholders held on May 27, 2015, the distribution of a cash dividend of $0.40 per outstanding share of the Company's common stock was authorized, to be distributed in quarterly installments of $0.10 in each of the second, third and fourth quarters of 2015 and first quarter of 2016. The first three installments were paid during 2015. The fourth installment of $88 million was paid in the first quarter of 2016 and the remaining portion of $10 million was paid in April 2016.

On December 4, 2014, the Supervisory Board authorized the distribution of a semi-annual cash dividend per common share of $0.10 in the fourth quarter of 2014 and $0.10 in the first quarter of 2015, to be paid in December 2014 and March 2015, respectively. The first payment, totaling $87 million, was executed in December 2014 and January 2015. The second payment, totaling $87 million, was executed in March and April 2015.

3.6.14. Provisions for restructuring

As at July 2, 2016, provisions for restructuring amounted to $41 million, of which $27 million was included in "Current provisions" in the consolidated statement of financial position. Movements during the first half of 2016 were as follows:

In millions of USD	$600-650 million net opex plan	EPS restructuring plan	Set-top Box restructuring plan	Other restructuring initiatives	Total
As at January 1, 2016	12	18	-	10	40
Expenses recognized during the period	-	1	37	-	38
Liability settlement	-	-	-	(3)	(3)
Amounts paid	(1)	(10)	(22)	-	(33)
Currency translation effect	-	(1)	-	-	(1)
As at July 2, 2016 (unaudited)	11	8	15	7	41

- EPS restructuring plan

In 2014, the Group committed to a plan affecting around 450 employees worldwide. The Group recorded in the first half of 2016 $1 million of restructuring charges for this plan, which is substantially completed.

- Set-top Box restructuring plan

In January 2016, the Group announced its decision to cease the development of new platforms and standard products for set-top-box and home gateway products. This decision implied a global workforce review that is affecting approximately 1,400 employees worldwide, which includes about 430 in France through a voluntary departure plan, about 670 in Asia and about 120 in the United States of America. The Group recorded in the first half of 2016 $37 million of restructuring charges for this plan, of which $10 million related to contracts that will continue with no future economic benefits to the Group and $27 million related to employee ongoing termination benefits, primarily for involuntary terminations in the United States and Asia.

3.6.15. Expenses by nature

Expenses recorded as cost of sales and research and development and selling, general and administrative are detailed as follows:

	(unaudited)	
In millions of USD	July 2, 2016	June 27, 2015
Depreciation and amortization	437	444
Employee benefit expenses	1,324	1,322
Purchase of materials and subcontracting services	1,252	1,327
Changes in inventories	(2)	(14)
Transportation	38	37
Royalties and patents	42	48
Advertising costs	6	4
Other expenses	259	332
Total cost of sales, research and development, and selling, general and administrative	3,356	3,500

Employee benefit expenses are detailed as follows:

	(unaudited)	
In millions of USD	July 2, 2016	June 27, 2015
Wages and salaries	964	957
Payroll taxes and other social contribution charges	286	283
Share-based compensation expense	18	20
Pensions and other long-term benefits expense	56	62
Total employee benefit expenses	1,324	1,322
Of which included in:		
Cost of sales	571	575
Selling, general and administrative	320	309
Research and development	433	438

3.6.16. Other income / expenses

Other income consisted of the following:

	(unaudited)	
In millions of USD	July 2, 2016	June 27, 2015
Research and development funding	51	71
Net foreign exchange gain	4	-
Gain on sale of non-current assets	1	2
Other income	10	4
Total other income	66	77

Other expenses consisted of the following:

	(unaudited)	
In millions of USD	July 2, 2016	June 27, 2015
Start-up / Phase-out costs	(3)	(2)
Foreign exchange forward contracts and other currency derivatives	-	(32)
Net foreign exchange loss	-	(1)
Other expenses	(1)	(2)
Total other expenses	(4)	(37)

The Group receives significant public funding from governmental agencies in several jurisdictions. Public funding for research and development is recognized ratably as the related costs are incurred once the agreement with the respective governmental agency has been signed and all applicable conditions have been met.

Start-up costs represent costs incurred in the start-up and testing of the Group's new manufacturing facilities, before reaching the earlier of a minimum level of production or six months after the fabrication line's quality certification. Phase-out costs are costs incurred during the closing stage of a Group's manufacturing facility.

Patent costs include legal and attorney fees and payment for claims, patent pre-litigation consultancy and legal fees.

3.6.17. Earnings per share

For the six-month period ended July 2, 2016 and June 27, 2015, earnings per share ("EPS") were calculated as follows:

	(unaudited)	
In millions of USD	July 2, 2016	June 27, 2015
Basic EPS		
Net result attributable to the equity holder of the parent	9	31
Weighted average shares outstanding	879,187,101	874,413,301
Basic EPS	0.01	0.04
Diluted EPS		
Net result	9	31
Net result adjusted	9	31
Weighted average shares outstanding	879,187,101	874,413,301
Dilutive effect of stock awards	1,923,815	2,170,511
Number of shares used for diluted EPS	881,110,916	876,583,812
Diluted EPS	0.01	0.04

3.6.18. Related-party transactions

Transactions with related parties were as follows:

	(unaudited)	
In millions of USD	July 2, 2016	June 27, 2015
Sales and other services	3	3
Purchases	1	55
Accounts receivable	8	8
Accounts payable	52	61

For the six-month period ended July 2, 2016 and June 27, 2015, the related party transactions were primarily with companies in which management of the Group perform similar policymaking functions as well as significant shareholders of the Company, or their subsidiaries. These include, but are not limited to: Thales, Technicolor, Aeneas and Incard do Brazil. The related party transactions presented in the table above also include transactions between the Group and its associates and jointly controlled entities as listed in Note 3.6.6. Each of the aforementioned arrangements and transactions is negotiated without the personal involvement of the Supervisory Board members and are made in line with market practices and conditions.

3.6.19. Contingencies, claims and legal proceedings

The Group is subject to possible loss contingencies arising in the ordinary course of business. These include but are not limited to: warranty cost on the products of the Group, breach of contract claims, claims for unauthorized use of third-party intellectual property, tax claims beyond assessed uncertain tax positions as well as claims for environmental damages. In determining loss contingencies, the Group considers the likelihood of impairing an asset or the incurrence of a liability at the date of the financial statements as well as the ability to reasonably estimate the amount of such loss. The Group records a provision for a loss contingency when information available before the financial statements are issued or are available to be issued indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements and when the amount of loss can be reasonably estimated. The Group regularly re-evaluates claims to determine whether provisions need to be readjusted based on the most current information available to the Group. Changes in these evaluations could result in an adverse material impact on the Group's results of operations, cash flows or its financial position for the period in which they occur.

The Group has received and may in the future receive communications alleging possible infringements of third party patents or other third party intellectual property rights. Furthermore, the Group from time to time enters into discussions regarding a broad patent cross license arrangement with other industry participants. There is no assurance that such discussions may be brought to a successful conclusion and result in the intended agreement. The Group may become involved in costly litigation brought against the Group regarding patents, mask works, copyrights, trademarks or trade secrets. In the event that the outcome of any litigation would be unfavorable to the Group, the Group may be required to take a license to third party patents and/or other intellectual property rights at economically unfavorable terms and conditions, and possibly pay damages for prior use and/or face an injunction, all of which individually or in the aggregate could have a material adverse effect on the Group's results of operations, cash flows, financial position and/or ability to compete.

The Group is otherwise also involved in various lawsuits, claims, investigations and proceedings incidental to its business and operations.

The Group regularly evaluates claims and legal proceedings together with their related probable losses to determine whether they need to be adjusted based on the current information available to the Group. There can be no assurance that its recorded reserves will be sufficient to cover the extent of its potential liabilities. Legal costs associated with claims are expensed as incurred. In the event of litigation which is adversely determined with respect to the Group's interests, or in the event the Group needs to change its evaluation of a potential third-party claim, based on new evidence or communications, a material adverse effect could impact its operations or financial condition at the time it were to materialize. As of July 2, 2016, provisions for estimated probable losses with respect to claims and legal proceedings were not considered material.

3.6.20. Events occurring after the reporting period

On July 29, 2016, the Group announced the acquisition of ams' (SIX: AMS) assets related to Near-Field Communication (NFC) and Radio-frequency identification (RFID) reader business. The Group acquired intellectual property, technologies, products and business highly complementary to its secure microcontroller solutions serving mobile devices, wearables, banking, identification, industrial, automotive and IoT markets. The ams' assets were acquired in exchange for a (i) cash payment of $77.8 million (funded with available cash), and (ii) deferred earn-out contingent on future results for which the Group currently estimates will be about $13 million but which in any case will not exceed $37 million.

4. Sole Member of the Managing Board's statement

The sole member of the Managing Board hereby declares that, to the best of his knowledge, the Semi Annual Financial Statements, which have been prepared in accordance with IAS 34 Interim Financial Reporting, give a true and fair view of the assets, liabilities, financial position and profit or loss of STMicroelectronics N.V. and the undertakings included in the consolidation as a whole, and the Semi Annual Management Report of the Managing Board gives a true and fair overview of the information required pursuant to section 5:25d, subsection 8 and subsection 9 of the Dutch Financial Markets Supervision Act (Wet op het Financieel toezicht).

Date: August 23, 2016

By: /s/ Carlo Bozotti

Name: Carlo Bozotti
Title: Sole member of the Managing Board,
President and Chief Executive Officer

5. About STMicroelectronics

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

In 2015, the Company’s net revenues were $6.90 billion, serving more than 100,000 customers worldwide. Further information on ST can be found at www.st.com.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

STMicroelectronics N.V.

Date: August 23, 2016

By: /s/ Carlo Ferro

Name: Carlo Ferro
Title: Chief Financial Officer
Executive Vice President
Finance, Legal, Infrastructure and Services