STMICROELECTRONICS NV
Form 6-K
August 01, 2017

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

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

Report on Form 6-K dated August 1, 2017

Commission File Number: 1-13546

STMicroelectronics N.V.
(Name of Registrant)

WTC Schiphol Airport
Schiphol Boulevard 265
1118 BH Schiphol Airport
The Netherlands
(Address of Principal Executive Offices)

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

Form 20-F Q Form 40-F £

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Yes £ No Q

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Yes £ No Q

Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3 2(b) under the Securities Exchange Act of 1934:

Yes £ No Q

If “Yes” is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-__________

Enclosure: STMicroelectronics N.V.’s Second Quarter and First Half 2017:

- Operating and Financial Review and Prospects;
- Unaudited Interim Consolidated Statements of Income, Statements of Comprehensive Income, Balance Sheets, Statements of Cash Flow, and Statements of Equity and related Notes for the three months and six months ended July 1, 2017; and
- Certifications pursuant to Sections 302 (Exhibits 12.1 and 12.2) and 906 (Exhibit 13.1) of the Sarbanes-Oxley Act of 2002, submitted to the Commission on a voluntary basis.

OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Overview

The following discussion should be read in conjunction with our Unaudited Interim Consolidated Statements of Income, Statements of Comprehensive Income, Balance Sheets, Statements of Cash Flows and Statements of Equity for the three months and six months ended July 1, 2017 and Notes thereto included elsewhere in this Form 6 K, and our annual report on Form 20 F for the year ended December 31, 2016 as filed with the U.S. Securities and Exchange Commission (the "Commission" or the "SEC") on March 3, 2017 (the "Form 20 F"). The following discussion contains statements of future expectations and other forward looking statements within the meaning of Section 27A of the Securities Act of 1933, or Section 21E of the Securities Exchange Act of 1934, each as amended, particularly in the sections "Business Overview" and "Liquidity and Capital Resources—Financial Outlook: Capital Investment". Our actual results may differ significantly from those projected in the forward looking statements. For a discussion of factors that might cause future actual results to differ materially from our recent results or those projected in the forward looking statements in addition to the factors set forth below, see "Cautionary Note Regarding Forward Looking Statements" and "Item 3. Key Information—Risk Factors" included in the Form 20 F. We assume no obligation to update the forward looking statements or such risk factors.

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

- Critical Accounting Policies using Significant Estimates.
- Business Overview, a discussion of our business and overall analysis of financial and other relevant highlights of the three months and six months ended July 1, 2017 designed to provide context for the other sections of the MD&A, including our expectations for selected financial items for the third quarter of 2017.
- Other Developments in the second quarter of 2017.
- Results of Operations, containing a year-over-year and sequential analysis of our financial results for the three months and six months ended July 1, 2017, as well as segment information.
- Legal Proceedings.
- Discussion of the impact of changes in exchange rates, interest rates and equity prices on our activity and financial results.
- Liquidity and Capital Resources, presenting an analysis of changes in our balance sheets and cash flows, and discussing our financial condition and potential sources of liquidity.
- Impact of Recently Issued U.S. Accounting Standards.
- Backlog and Customers, discussing the level of backlog and sales to our key customers.
- Disclosure Controls and Procedures.
- Cautionary Note Regarding Forward-Looking Statements.

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

Critical Accounting Policies Using Significant Estimates

There were no material changes in the first half of 2017 to the information provided under the heading "Critical Accounting Policies Using Significant Estimates" included in our Form 20-F.

Fiscal Year

Under Article 35 of our Articles of Association, our fiscal year extends from January 1 to December 31. The first quarter of 2017 ended on April 1, 2017 and the second quarter ended on July 1. The third quarter will end on September 30 and the fourth quarter will end on December 31, 2017. Based on our fiscal calendar, the distribution of our revenues and expenses by quarter may be unbalanced due to a different number of days in the various quarters of the fiscal year and can also differ from equivalent prior years' periods, as illustrated in the below table for the years 2016 and 2017.

	Q1	Q2	Q3	Q4
	Days			
2016	93	91	91	91
2017	91	91	91	92

Business Overview

Our results of operations for each period were as follows:

	Three Months Ended			% Variation	
	July 1, 2017	April 1, 2017	July 2, 2016	Sequential	Year Over Year
	(In millions, except per share amounts)				
Net revenues	$1,923	$1,821	$1,703	5.6%	12.9%
Gross profit	736	685	577	7.4	27.6
Gross margin as percentage of net revenues	38.3%	37.6%	33.9%	+70bps	+440bps
Operating income (loss)	178	129	28	-	-
Net income (loss) attributable to parent company	151	108	23	-	-
Earnings per share	$0.17	$0.12	$0.03	-	-

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

Based on the data published by World Semiconductor Trade Statistics (WSTS), semiconductor industry revenues increased in the second quarter of 2017, on a sequential basis, by approximately 6% for the TAM and increased 4% for the SAM, to reach approximately $98 billion and $43 billion, respectively. On a year-over-year basis, the TAM increased by approximately 24% while the SAM increased by approximately 15%.

Second quarter 2017 revenues amounted to $1,923 million, a 5.6% sequential increase; a better than seasonal performance and 60 basis points higher than the midpoint of our released guidance. On a sequential basis, both Analog and MEMS Group (AMG) and Automotive and Discrete Group (ADG) performed better than our average, with AMG’s revenues up 8.9% and ADG’s revenues up 6.6%. Microcontrollers and Digital ICs Group (MDG) revenues were up 3.3% sequentially, led by general purpose microcontrollers which posted a record quarter sales level, offset in part by lower sales of Digital ICs including the businesses undergoing phase-out. Imaging Product Division revenues, reported in Others, decreased temporarily reflecting, as anticipated, the timing of new programs ramping.

On a year-over-year basis, second quarter net revenues increased by 12.9% on growth across all product groups and strong traction with new products. AMG second quarter revenues grew 28.3% year-over-year while MDG revenues increased 10.0% on double-digit growth for general purpose microcontrollers offset in part by lower sales of businesses undergoing phase-out. ADG second quarter revenues increased 4.7% compared to the year-ago quarter. Automotive industry growth was also reflected in the results of the Company's other businesses. Imaging Product Division second quarter revenues increased significantly year-over-year thanks to our Time-of-Flight technology.

Our revenue performance was above our served market (SAM) on a sequential basis but below on a year-over-year basis.

Our effective average exchange rate for the second quarter of 2017 was $1.09 for €1.00 compared to $1.08 for €1.00 in the first quarter of 2017 and $1.12 for €1.00 in the second quarter of 2016. For a more detailed discussion of our hedging arrangements and the impact of fluctuations in exchange rates, see "Impact of Changes in Exchange Rates".

Our second quarter 2017 gross profit was $736 million and gross margin was at 38.3%, 20 basis points above the mid-point of our guidance. On a sequential basis, gross margin increased 70 basis points, reflecting both our product and profitability initiatives, leading to a more favorable product mix and improved manufacturing efficiencies partially offset by normal price pressure. Gross margin increased 440 basis points year-over-year, mainly due to significant manufacturing efficiencies, improved fab loading and favorable product mix, as well as favorable currency effects, net of hedging, partially offset by normal price pressure.

Our aggregated selling, general and administrative (SG&A) and research and development (R&D) costs amounted to $567 million, substantially flat compared to $568 million in the prior quarter, and $565 million in the year-ago quarter. On a sequential basis, operating expenses were negatively impacted by unfavorable currency effects, net of hedging, and variable salary incentive increase offset by increased level of R&D tax credit and benefits from the set-top box restructuring plan. On a year-over-year basis, operating expenses were positively impacted by benefits from the set-top box restructuring plan, favorable currency effects, net of hedging, and increased level of R&D tax credit substantially offset by yearly salary and variable incentive increases.

Other income and expenses, net, amounted to $15 million, slightly decreasing compared to the previous quarter, and decreasing from $28 million in the year-ago quarter, mainly as a consequence of a reduced level of R&D grants.

Impairment, restructuring charges and other related closure costs in the second quarter of 2017 were $6 million, compared to $5 million and $12 million in the prior and year-ago quarter, respectively, and related mainly to the set-top box restructuring plan announced in January 2016. We continued to make progress on our restructuring of the set-top box business. Exiting the second quarter of 2017, the restructuring plan was on track and had achieved a run-rate of about $132 million of the total $170 million of targeted annualized savings expected upon completion.

In the second quarter of 2017, our operating income was $178 million, improving from an income of $129 million in the first quarter of 2017 and from an income of $28 million in the year-ago quarter. Excluding restructuring and impairment charges, the second quarter of 2017 operating income was $184 million (9.6% of net revenues), compared to an income of $134 million in the previous quarter and an income of $40 million in the year-ago period. Sequentially, the improvement of our operating result before impairment and restructuring charges was mainly due to higher revenues and higher gross margin. On a year-over-year basis, operating income before impairment and restructuring charges improved by $144 million reflecting higher revenues, improved product mix, manufacturing efficiencies and better fab loading.

Our net cash from operating activities was positive at $369 million and net cash used in investing activities was $317 million, allowing us to generate a positive free cash flow (non U.S GAAP measure) of $52 million for the second quarter of 2017. In the period, our net cash variation, including the net cash used in financial activities which includes the dividend payment of $48 million, was positive $13 million.

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Based on current booking activity and visibility on our key anticipated new program, we expect third quarter revenues to increase about 9.0% on a sequential basis, plus or minus 3.5 percentage points, representing year-over-year growth of about 16.6% at the mid-point of our guidance range. We expect this growth to come from all of our businesses, regions and sales channels. For our three Product Groups, we anticipate revenue growth in the third quarter to reflect higher than normal seasonality. In our Imaging business, we anticipate strong sequential growth, as the key new program ramps in the third quarter, followed by further revenue acceleration in the fourth quarter of this year. Looking at 2017 overall and based on current visibility, we expect our revenues to be at the high-end of the range that we gave at the Capital Markets Day (14% year-over-year revenue growth, plus or minus 1.5 percentage points). We anticipate another quarter of margin expansion with third quarter gross margin of about 39.0% plus or minus 2.0 percentage points, leading to strong year-over-year improvement in operating and net income.

This outlook is based on an assumed effective currency exchange rate of approximately $1.12 = €1.00 for the 2017 third quarter and includes the impact of existing hedging contracts. The third quarter will close on September 30, 2017.

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

Other Developments in the second quarter of 2017

On April 27, we announced the appointment of Jean-Marc Chery as Deputy CEO, effective July 1, 2017 upon shareholder approval of the reappointment of Carlo Bozotti as the sole member of the Managing Board and President and CEO of ST at our June 20, 2017 Annual General Meeting of Shareholders. In his new role, Chery holds overall responsibility for Technology and Manufacturing as well as for Sales and Marketing and continues to report to Carlo Bozotti. Also effective July 1, we have begun operating under a new organization and the Executive Team is now composed of:

- Jean-Marc Chery, Deputy CEO
- Orio Bellezza, President, Global Technology and Manufacturing
- Marco Cassis, President, Global Sales and Marketing
- Claude Dardanne, President, Microcontrollers and Digital ICs Group
- Carlo Ferro, Chief Financial Officer and President, Finance, Legal, Infrastructure and Services
- Marco Monti, President, Automotive and Discrete Group
- Georges Penalver, Chief Strategy Officer and President, Strategy, Communication, Human Resources and Quality
- Benedetto Vigna, President, Analog, MEMS and Sensors Group.

On May 24, we announced the publication of our 2017 Sustainability Report. The report contains details and highlights of our sustainability strategy and our 2016 performance, in alignment with the United Nations Global Compact Ten Principles and Sustainable Development Goals.

On June 20, we announced that all the resolutions were approved at our Annual General Meeting of Shareholders (AGM). The main resolutions approved by the shareholders were:

- The adoption of the Company's Statutory Annual Accounts for the year ended December 31, 2016, prepared in accordance with International Financial Reporting Standards (IFRS) and filed with the Netherlands Authority for the Financial Markets (AFM) on April 27, 2017;
- 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 2017 and first quarter of 2018 to shareholders of record in the month of each quarterly payment;
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- The appointment of Mr. Frederic Sanchez as a new member of the Supervisory Board, for a three-year term expiring at the 2020 Annual General Meeting of Shareholders, in replacement of Mr. Didier Lombard whose mandate expired as of the 2017 AGM;

- The reappointment, for a three-year term expiring at the 2020 Annual General Meeting of Shareholders, of the following members of the Supervisory Board: Ms. Heleen Kersten and Messrs. Jean-Georges Malcor, Alessandro Rivera and Maurizio Tamagnini;

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- The reappointment of Mr. Carlo Bozotti as the sole member of the Managing Board for a one-year term;
- The approval of a new four-year Unvested Stock Award Plan for Management and Key Employees;
- The approval of the stock-based portion of the compensation of the President and CEO;
- The authorization to the Managing Board, for eighteen months following the AGM, to repurchase shares, subject to the approval of the Supervisory Board; and
- 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.

Following the conclusion of our Annual General Meeting, the members of the Supervisory Board appointed Mr. Nicolas Dufourcq as the Chairman and Mr. Maurizio Tamagnini as the Vice-Chairman of the Supervisory Board, respectively.

On June 22, we announced the pricing of a $1.5 billion offering of senior unsecured bonds convertible into new or existing ordinary shares of STMicroelectronics. The New Convertible Bonds were issued in two tranches, one of $750 million with a maturity of 5 years and one of $750 million with a maturity of 7 years. The offering proceeds, net of costs (including costs in respect of the share buy-back program), will be used for general corporate purposes, including the early redemption of the outstanding $600 million Zero Coupon Convertible Bonds due 2019 and the future redemption of the outstanding $400 million 1.00% Convertible Bonds due 2021. We also announced the launch of a share buy-back program of up to 19 million shares for an amount up to $297 million intended to meet obligations arising from debt financial instruments that are exchangeable into equity instruments and to meet obligations arising from share award programs and the early redemption of the 2019 Convertible Bonds.

Results of Operations

Segment Information

We operate in two business areas: Semiconductors and Subsystems.

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

Our reportable segments are as follows:

- Automotive and Discrete Group (ADG), comprised of all dedicated automotive ICs (both digital and analog), and discrete and power transistor products.
- Analog and MEMS Group (AMG), comprised of low-power high-end analog ICs (both custom and general purpose) for all markets, smart power products for Industrial, Computer and Consumer markets, Touch Screen Controllers, Low Power Connectivity solutions (both wireline and wireless) for IoT, power conversion products, metering solutions for Smart Grid and all MEMS products, either sensors or actuators.
- Microcontrollers and Digital ICs Group (MDG), comprised of general purpose and secure microcontrollers, EEPROM memories, and digital ASICs as well as restructured businesses such as set-top box ICs or former ST-Ericsson products.

“Others” includes all the financial values related to the Imaging Product Division (including the sensors and modules from our Time-of-Flight technology), Subsystems and other products, as well as items not allocated to 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 litigations, and other costs that are not allocated to the segments.

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

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

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

Second Quarter 2017 vs. First Quarter 2017 and Second Quarter 2016

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

	Three Months Ended					
	July 1, 2017		April 1, 2017		July 2, 2016	
	$ million	% of net revenues	$ million	% of net revenues	$ million	% of net revenues
Net sales	$1,911	99.4 %	$1,818	99.8 %	$1,698	99.7 %
Other revenues	12	0.6	3	0.2	5	0.3
Net revenues	1,923	100.0	1,821	100.0	1,703	100.0
Cost of sales	(1,187)	(61.7)	(1,136)	(62.4)	(1,126)	(66.1)
Gross profit	736	38.3	685	37.6	577	33.9
Selling, general and administrative	(240)	(12.5)	(234)	(12.8)	(229)	(13.5)
Research and development	(327)	(17.0)	(334)	(18.3)	(336)	(19.7)
Other income and expenses, net	15	0.8	17	0.9	28	1.6
Impairment, restructuring charges and other related closure costs	(6)	(0.3)	(5)	(0.3)	(12)	(0.7)
Operating income (loss)	178	9.3	129	7.1	28	1.6
Interest expense, net	(4)	(0.3)	(4)	(0.3)	(6)	(0.3)
Income (loss) on equity method investments	(2)	(0.1)	-	-	9	0.5
Income (loss) before income taxes and noncontrolling interest	172	8.9	125	6.8	31	1.8
Income tax benefit (expense)	(19)	(0.9)	(16)	(0.8)	(6)	(0.4)
Net income (loss)	153	8.0	109	6.0	25	1.4
Net loss (income) attributable to noncontrolling interest	(2)	(0.2)	(1)	(0.1)	(2)	-
Net income (loss) attributable to parent company	$151	7.8 %	$108	5.9 %	$23	1.4 %

Net revenues

	Three Months Ended			% Variation	
	July 1, 2017	April 1, 2017	July 2, 2016	Sequential	Year Over Year
	(In millions)				
Net sales	$1,911	$1,818	$1,698	5.1 %	12.5 %
Other revenues	12	3	5	260.1	154.8
Net revenues	$1,923	$1,821	$1,703	5.6 %	12.9 %

Our second quarter 2017 net revenues increased sequentially by 5.6%, 60 basis points above the midpoint of our guidance. The sequential increase resulted from an increase in volume of approximately 9%, partially offset by a decrease of approximately 3% in average selling prices, entirely due to product mix.

On a year-over-year basis, our net revenues increased by 12.9% as a result of an approximate 25% increase in volume, partially offset by a 12% decrease in average selling prices, mainly due to the product mix and, to a lesser extent, to price pressure. Excluding the impact of certain businesses undergoing a phase-out (mobile legacy products and set-top box), our revenues increased by 14.1%.

No customer exceeded 10% of our total net revenues in the second quarter of 2017 or in the prior and year-ago quarter.

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Net revenues by product group

	Three Months Ended			% Variation	
	July 1, 2017	April 1, 2017	July 2, 2016	Sequential	Year-Over-Year
	(In millions)				
Automotive and Discrete Group (ADG)	$755	$708	$721	6.6%	4.7 %
Analog and MEMS Group (AMG)	482	443	376	8.9	28.3
Microcontrollers and Digital ICs Group (MDG)	612	593	556	3.3	10.0
Others	74	77	50	-	-
Total consolidated net revenues	$1,923	$1,821	$1,703	5.6%	12.9 %

Sequentially, all product groups experienced a revenue increase. ADG revenues increased 6.6%, with volumes increasing by around 13% partially offset by a decrease in average selling prices of 6%, mainly due to product mix impacted by a higher weight of power discrete products. AMG revenues increased 8.9% due to higher volumes of 8% and, to a lesser extent, to higher average selling prices of 1%, driven by improved product mix. Both analog and MEMS products contributed to the increase. MDG revenues increased 3.3% mainly due to higher volumes of 6%, partially offset by lower average selling prices of 3%. MDG performance was supported by general purpose microcontrollers which posted a record quarter sales level, offset in part by lower sales of Digital ICs including businesses undergoing phase-out.

On a year-over-year basis, AMG revenues increased 28.3%, impacted by both higher volumes of 23% and an increase in average selling prices of 5%, driven by richer product mix. MDG revenues increased 10.0% on double-digit growth for general purpose microcontrollers, offset in part by lower sales of businesses undergoing phase-out. As a result, MDG experienced an increase of 19% in volumes partially offset by a decrease in average selling prices of 9%. ADG revenues were higher by 4.7%, led by power discrete and, to a lesser extent, by automotive products. In ADG, on a year-over-year basis, volume increased by 34%, partially offset by lower average selling prices of 29%, mainly driven by product mix.

“Others”, mainly including revenues of our Imaging Product Division and of Subsystem products, declined revenues sequentially by 4% but increased revenues by around $24 million on a year-over-year basis thanks to revenues of our Time-of-Flight imaging products.

Net Revenues by Market Channel (1)

	Three Months Ended		
	July 1, 2017	April 1, 2017	July 2, 2016
OEM	66 %	66 %	66 %
Distribution	34	34	34
Total	100%	100 %	100 %

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

By market channel, our second quarter revenues in Distribution amounted to 34% of our total revenues, stable sequentially and compared to the prior year quarter.

Net Revenues by Location of Shipment [1]

	Three Months Ended			% Variation	
	July 1, 2017	April 1, 2017	July 2, 2016	Sequential	Year-Over-Year
	(In millions)				
EMEA	$522	$501	$485	4.1 %	7.5 %
Americas	250	260	270	(3.7)	(7.2)
Asia Pacific[2]	1,151	1,060	948	8.6	21.4
Total	$1,923	$1,821	$1,703	5.6 %	12.9 %

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

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(2) Since 2016, we have 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.

On a sequential basis, all regions except the Americas experienced revenues increases. In Asia Pacific, the increase of 8.6% was supported by all product groups. On a year-over-year basis, Asia Pacific registered an increase in revenues of 21.4% mainly supported by AMG and MDG, while EMEA grew 7.5% with ADG being the main contributor to the increase. The Americas experienced a revenue decrease of 7.2%, mainly due to lower sales in MDG.

Gross profit

	Three Months Ended			Variation	
	July 1, 2017	April 1, 2017	July 2, 2016	Sequential	Year Over Year
	(In millions)				
Cost of sales	$(1,187)	$(1,136)	$(1,126)	(4.5)%	(5.4)%
Gross profit	$736	$685	$577	7.4 %	27.6 %
Gross margin (as percentage of net revenues)	38.3 %	37.6 %	33.9 %	+70 bps	+440 bps