SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F

|_| REGISTRATION STATEMENT PURSUANT TO SECTION 12(B) OR (G)
OF THE SECURITIES EXCHANGE ACT OF 1934
or
|X| ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934
for the fiscal year ended December 31, 1995
or
|_| TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934
for the transition period from to
Commission File number: 33-86320

SGS-THOMSON Microelectronics N.V.
(Exact name of Registrant as specified in its charter)

N/A	The Netherlands
(Translation of Registrant's name into English)	(Jurisdiction of incorporation or organization)

Technoparc du Pays de Gex - B.P. 112
165, rue Edouard Branly
01630 Saint Genis Pouilly
France
(Address of principal executive offices)

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

Title of each class:	Name of each exchange on which registered
Common Shares, nominal value NLG 13.75 per Common Share	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act:
None

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

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

Common Shares, nominal value NLG 13.75 per Common Share	138,208,680

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes |X| No |_|

Indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 |_| Item 18 |X|

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* Omitted because item is not applicable.

PART I

Item 1: Description of Business

The Company

SGS-THOMSON is a global independent semiconductor company that designs, develops, manufactures and markets a broad range of semiconductor integrated circuits and discrete devices used in a wide variety of microelectronic applications, including telecommunications systems, computer systems, consumer products, automotive products and industrial automation and control systems. On the basis of 1995 revenues, SGS-THOMSON was the world's leading supplier of analog ICs, mixed-signal ICs, power ICs and MPEG-2 decoder ICs. The Company currently offers more than 3,000 main types of products to more than 1,500 customers including Alcatel, Bosch, Creative Technology, Ford, Hewlett-Packard, IBM, Motorola, Nokia, Northen Telecom, Philips, Seagate Technology, Siemens, Sony, Thomson Multimedia and Western Digital.

The Company offers a diversified product portfolio and develops products for a wide range of market applications to reduce its dependence on any single product, industry or application market. The Company has focused on developing products that exploit its technological strengths, including differentiated ICs (which the Company defines as being its dedicated products, semicustom devices and microcontrollers). Differentiated ICs foster close relationships with customers, resulting in early knowledge of their evolving requirements and opportunities to access their markets for other products, and are less vulnerable to competitive pressures than standard commodity products. Differentiated ICs accounted for just over 51% of the Company's net revenues in 1995 compared to approximately 48% in 1994. SGS-THOMSON also targets applications that require substantial analog and mixed-signal content and can exploit the Company's system level expertise. In 1995, analog ICs (including mixed-signal ICs), the majority of which are also differentiated ICs, accounted for approximately 46% of the Company's net revenues (compared to approximately 43% in 1994), while discrete devices accounted for approximately 17% of the Company's net revenues (compared to approximately 15% in 1994). In recent years, analog ICs and discrete devices have experienced less volatility in sales growth rates and average selling prices than the overall semiconductor industry.

In 1995, the Company introduced a number of important new products, such as the STG2000 multimedia accelerator, the single-chip MPEG-2 decoder family, ST20 32-bit micro cores, as well as a digital processor (DSP 950) and 4 Mbit flash memory family. Most of these products address the rapidly growing markets for multimedia personal computers, television set top boxes and digital cellular telephones. The Company has also signed a licensing agreement with Bosch that grants the automotive component manufacturer the right to develop and manufacture smart power ICs using the Company's latest generation bipolar-CMOS-DMOS (1.2 micron, 60 volt) process. The Company entered into a multi-year agreement with Western Digital, pursuant to which the Company is to supply Western Digital with ICs based on CMOS standard cell methodologies (0.7 micron migrating to 0.5 micron by year end 1995). This agreement provides for the Company to supply products for disc controllers as well as new products under development.

In July 1995, the Company announced that the research and development center jointly operated by the Company and CNET, the research laboratory of France Telecom, had completed the development of the 0.35 micron CMOS process, only one year after the qualification of the 0.5 micron process. The 0.35 micron process, currently used in the assembly and development of a complex evaluation circuit of several million transistors, consists of five metal layers and involves more than 140 elementary operations. Other complex prototypes are being developed to further validate the process and accelerate the introduction of products based on this process, in particular a systolic processor for the estimation of movement in images, and a programmable video processor for the coding of images in accordance with the MPEG 4 standard (currently undergoing standardization).

In 1995, the Company established a design center in India, the Company's largest design center outside of Europe, which will principally cooperate in the design of advanced macrocells and libraries for the Company's analog, digital and mixed signal technologies.

In 1995, SGS-THOMSON adopted a plan to increase its manufacturing capacity through the addition of new 8-inch submicron fabrication plants that will be designed to meet the growing demand for VLSI devices. The Company also approved the building and equipping of a new 8-inch 0.5 micron front-end wafer fabrication plant (which will also be capable of 0.35 and 0.25 micron production) in Rousset, France.

The Company's business is organized into five principal product groups:

The Dedicated Products Group produces application-specific semiconductor products using advanced bipolar, CMOS, BiCMOS, mixed-signal and power technologies. The Group's dedicated products are used in all major end-user applications, including such new applications as mobile communications networks, asynchronous transfer mode communications systems and digital video compression systems. The breadth of the Group's customer and application base provides it with a source of stability in the cyclical semiconductor market, while its position as a strategic supplier of application-specific products provides it with opportunities to supply its customers' requirements for other products, including discrete devices, programmable products and memories.

The Discrete and Standard ICs Group produces discrete power devices, power transistors, standard linear and logic ICs and radio frequency ("RF") products. The Group's discrete and standard products are manufactured using mature technological processes that are less capital intensive than the Company's other principal products. The Group has a diverse customer base and broad product portfolio.

The Memory Products Group produces a broad range of memory products, including EPROMs, flash memories, EEPROMs, SRAMs, and chips for smartcards. The Company was the leading supplier of EPROMs in 1995, accounting for approximately 21.6% of worldwide EPROM sales. The Company is using its EPROM and EEPROM know-how to develop and produce a broad portfolio of flash memory devices. The Group does not produce DRAMS, a commodity memory product.

The Programmable Products Group produces microcomponents (including microcontrollers, microprocessors and digital signal processors), digital semicustom devices and mixed analog/digital semicustom devices.

The New Ventures Group identifies and develops new business opportunities to complement the Company's existing businesses and exploit its technological know-how, manufacturing capabilities and global marketing team. The Group was formed in May 1994, and its initial activities have focused on the manufacture and sale by the Company's wholly owned subsidiary in the United States, SGS-THOMSON Microelectronics, Inc. ("SGS-THOMSON U.S."), of x86 microprocessors designed by Cyrix Corporation ("Cyrix").

As part of its activities outside the five principal products groups, the Company also produces subsystems for industrial and other applications.

SGS-THOMSON's products are manufactured and designed using a broad range of manufacturing processes and proprietary design methods. SGS-THOMSON uses all of the prevalent function-oriented process technologies, including CMOS, bipolar and non-volatile memory technologies. In addition, by combining basic processes, the Company has developed advanced systems-oriented technologies that enable it to produce differentiated and application-specific products, including BiCMOS technologies (bipolar and CMOS) for mixed-signal applications and BCD technologies (bipolar, CMOS and DMOS) for intelligent power applications. This broad technology portfolio, a cornerstone of the Company's strategy for many years, enables the Company to meet the increasing demand for "systems-on-a-chip" solutions. To complement this depth and diversity of process and design technology, the Company also possesses a broad intellectual property portfolio that it has used to enter into cross-licensing agreements with many major semiconductor manufacturers.

In 1995, SGS-THOMSON has expanded its diversified manufacturing infrastructure while improving the cost, quality and versatility of its operations. SGS-THOMSON has applied 1994 and 1995 investments to build and equip two 8-inch front-end manufacturing facilities in Crolles, France and Phoenix, Arizona currently in operation, is applying 1995 investments to build and equip an additional 8-inch front-end manufacturing facility in Catania, Italy, not yet in operation, and to build a new back-end facility and design center in Shenzhen, China through its joint venture created in 1994 with a subsidiary of the Shenzhen Electronics Group. The Company also converted 4-inch and 5-inch water fabs to 5-inch and 6-inch production and is commencing the conversion and expansion from 6-inch to 8-inch production of a front-end fabrication facility in Agrate, Italy. In addition, the Company has identified two other 8-inch front-end wafer fabrication facilities, one of which will be in Singapore, with the other one in Italy now under consideration. In 1995, the Company approved the building and equipping of a new 8-inch 0.5 micron front-end wafer fabrication plant (which will also be capable of 0.35 and 0.25 micron production) in Rousset, France. The Company has many back-end manufacturing activities in large and modern facilities in lower-cost areas in the Mediterranean and Asia Pacific regions and has focused on continually improving the productivity of all of its manufacturing facilities. SGS-THOMSON has also centralized the management of its manufacturing operations and implemented computer-integrated manufacturing systems and statistical process control techniques. The Company is fostering a corporate-wide Total Quality Management ("TQM") culture that defines a common set of objectives and

performance measurements for employees in all geographic regions, at every stage of product design, development and production for all product lines.

SGS-THOMSON is international in scope, operating front-end and/or back-end manufacturing facilities in Europe, the United States, the Mediterranean and Asia Pacific regions, and conducting research and development primarily in France and Italy, and design, marketing and sales activities in each of the electronic industry's major economic regions: Europe, the United States, the Asia Pacific region and Japan. In 1995, approximately 46% of the Company's net revenues originated in Europe (compared to approximately 46% in 1994), approximately 24% in the Americas (compared to approximately 26% in 1994), 26% in the Asia Pacific region (compared to approximately 23% in 1994) and approximately 4% in Japan (compared to approximately 5% in 1994). In 1995, approximately one-third of the 6-inch equivalent wafers manufactured by the Company were manufactured outside of Europe and more than one-half of the Company's employees were located outside of Europe.

SGS-THOMSON believes that strategic alliances are critical to success in the semiconductor industry, and has entered into strategic alliances with customers, other semiconductor manufacturers and a major supplier of design software. The Company has entered into several strategic customer alliances, including alliances with Alcatel, Seagate Technology and Thomson Multimedia. Customer alliances provide the Company with valuable systems and application know-how and access to markets for key products, while allowing the Company's customers to share some of the risks of product development with the Company and gain access to the Company's process technologies and manufacturing infrastructure. Alliances with other semiconductor manufacturers permit costly research and development and manufacturing resources to be shared to mutual advantage for joint technology development. The Company has also entered into technology development alliances with customers and other manufacturers, including Northern Telecom in North America to develop advanced 0.5 micron BiCMOS mixed-signal technologies and Mitsubishi Electric Corporation ("Mitsubishi") in Japan to develop a family of 16 Mbit flash memories for mass storage applications. The Company has also entered into an agreement with Philips Semiconductors to jointly develop sub-micron CMOS logic processes in Crolles, France through 1997.

History

The Company was formed in June 1987 as a result of the combination of the non-military business of Thomson Semiconducteurs, the microelectronics business of the French state-controlled defense electronics company Thomson-CSF, and SGS Microelettronica, the microelectronics business owned by STET-Societa Finanziaria Telefonica S.p.A. ("STET"), the Italian state-controlled telephone company. Since its formation, the Company has significantly broadened and upgraded its range of products and technologies and has strengthened its manufacturing and distribution capabilities in Europe, North America, and the Asia Pacific region, while at the same time restructuring its operations to improve efficiency.

At the time of the Company's formation, SGS Microelettronica was the 20th largest semiconductor company in the world by revenues and the non-military semiconductor business of Thomson Semiconducteurs was of comparable size. At its inception, the Company was among the world's leading suppliers of intelligent power devices and bipolar power transistors and a leading supplier to the telecommunications industry. SGS Microelettronica's

strengths in power products, industrial products and automotive products and its presence in the emerging Asia Pacific market complemented Thomson Semiconducteurs' strengths in mixed-signal processing, telecommunications devices and consumer electronics, its presence in the North American market and its strong intellectual property portfolio, which included patents acquired when Thomson Semiconducteurs purchased substantially all of the assets of Mostek Corporation in 1985. The combination of the two European-based semiconductor businesses provided opportunities to realize operating efficiencies, consolidate global operations and better withstand downturns in the cyclical semiconductor industry, and facilitated the financing of research and development and capital expenditures necessary to compete effectively with the world's leading semiconductor companies.

Following the Company's formation, management implemented a comprehensive plan to rationalize the Company's operations, pursuant to which a variety of measures were taken to reduce fixed costs, improve product quality and increase yields. Between 1987 and 1992, the Company closed or sold ten manufacturing plants, and certain back-end and front-end production processes were shifted to lower cost facilities in the Mediterranean and Asia Pacific regions. Although it maintained a broad product line, the Company rationalized its product offerings and process technologies and focused on increasing its production of differentiated products. Management also standardized the Company's management information systems and consolidated management, administrative and sales staffs for the combined group.

To increase its presence in the microprocessor market, in April 1989 SGS-THOMSON acquired Inmos Ltd. ("Inmos"), a British semiconductor company that was founded in 1978 and purchased by Thorn EMI plc ("Thorn EMI") in 1984. In connection with its sale of Inmos to the Company, Thorn EMI and an affiliate acquired a 10% interest in SGS-THOMSON which has since been sold. In October 1989, the Company purchased the former microwave semiconductor business of Microwave Semiconductor Corporation, and in March 1993, SGS-THOMSON acquired the low current thyristors and triacs business of Tag Semiconductors Limited, a subsidiary of Raytheon Company.

Since its formation in 1987, the Company has maintained its commitment to research and development despite significant cost reductions during the Company's restructuring, particularly in 1990 and 1991 when the Company experienced losses. Management initially combined the research and development staffs of the predecessor companies and focused its expanded research and development resources on strategic products, applications and technologies. Beginning in 1993, the Company significantly increased its capital investments as part of a long-term program to upgrade and increase its manufacturing capabilities at existing plants and to build new facilities.

To provide the Company with a stronger capital structure, the Company's shareholders contributed capital totalling $800 million between 1988 and 1993. The Company used these funds in part to finance restructuring costs and to reduce net debt (total debt less cash and cash equivalents and marketable securities) from a high of approximately $905 million at December 31, 1991 to a positive financial position of approximately $65 million at December 31, 1995. In December, 1994, the Company completed a registered public offering of Common Shares (the "Initial Public Offering") with net proceeds to the Company of approximately $198.7 million. In the Initial Public Offering, the Company sold 9,606,240 shares and the selling shareholders sold 11,393,760 shares at the initial price to public of $22.25 a share. In October

1995, the Company completed a secondary public offering of Common Shares in the U.S. and in France (the "Offering") with net proceeds to the Company of approximately $371.6 million. In the Offering, the Company sold 8,960,000 shares and the selling shareholders sold 11,740,000 shares at a price to public of $43.5 a share. See Item 4: "Control of Registrant". In February 1996, the Company also completed an offering of Common Shares to certain of its employees worldwide (the "Employee Offering"). Common Shares offered in the Employee Offering were offered at a 5% discount to the market price as of January 5, 1996. In addition, eligible employees who purchased shares in the Employee Offering ("Participating Employees") and who hold those shares at least until the first anniversary of the day on which such shares were issued to such Participating Employees, will be entitled to purchase, for each lot of ten shares purchased in the Employee Offering, one additional share (a "Bonus Share") at a discounted price. The purchase price of each Bonus Share will be the $ or FF equivalent of NLG 13.75, which is the nominal value per share. Participating Employees purchased an aggregate of 243,710 Common Shares in the Employee Offering, at a price per share of U.S. $33.72 or FF169.10.

Industry Background

Semiconductors are the basic building blocks used to create an increasing variety of electronic products and systems. Since the invention of the transistor in 1948, continuous improvements in semiconductor process and design technologies have led to smaller, more complex and more reliable devices at a lower cost per function. As performance has increased and size and cost have decreased, semiconductors have expanded beyond their original primary applications, computer systems, to applications such as telecommunications systems, automotive products, consumer goods and industrial automation and control systems. In addition, system users and designers have demanded systems with more functionality, higher levels of performance, greater reliability and shorter design cycle times, all in smaller packages at lower costs. These demands have resulted in increased semiconductor content as a percentage of system cost. Calculated on the basis of TAM (as defined below) as a percentage of worldwide revenues from production of electronic equipment according to published industry data (which for purposes of this annual report are data published by Dataquest, Inc. ("Dataquest")), semiconductor pervasiveness has increased from 9.0% in 1991 to 19.0% in 1995. The demand for electronic systems has also expanded geographically with the emergence of new markets, particularly in the Asia Pacific region.

Semiconductor sales have increased significantly over the long term but have experienced significant cyclical variations in growth rates. According to trade association data (which for all purposes of this annual report are World Semiconductor Trade Statistics ("WSTS")), worldwide sales of all semiconductor products (the total available market or "TAM") increased from $17.8 billion in 1983 to an estimate of $144.4 billion in 1995 (growing at a compound annual rate of approximately 19%, according to trade association data), while the market for products produced by the Company (the serviceable available market, or "SAM" which, prior to 1995 consisted of the TAM without DRAMS, microprocessors and opto-electronic products and commencing in 1995 and for all prior periods compared therewith includes microprocessors as a result of the Company's production of x86 products) increased from approximately $15.0 billion in 1983 to an estimate of $97.5 billion in 1995 (growing at a compound annual rate of approximately 17.0%). The TAM increased 42.0% in 1995, with sales in the Asia Pacific region, the Americas, Europe and Japan increasing by 54.0%, 40.0%, 43.0%

and 35.0%, respectively. In 1995, approximately 32.5% of all semiconductors were shipped to the Americas, 27.5% to Japan, 19.5% to Europe, and 20.5% to the Asia Pacific region.

Historically, cyclical changes in production capacity in the semiconductor industry and demand for electronic systems have resulted in pronounced cyclical changes in the level of semiconductor sales and fluctuations in prices and margins for semiconductor products from time to time. However, certain significant changes in the industry could contribute to continued growth over the long term notwithstanding cyclical variations from period to period. Such changes include the development of new semiconductor applications, increased semiconductor content as a percentage of total system cost, emerging strategic partnerships, growth in the electronic systems industry in the Asia Pacific region.

Business Outlook

Historically, cyclical changes in production capacity in the semiconductor industry and demand for electronic systems have resulted in pronounced cyclical changes in the level of semiconductor sales and fluctuations in prices and margins for semiconductor products from time to time. However, certain significant changes in the industry could contribute to continued growth over the long term notwithstanding cyclical variations from period to period. Such changes include the development of new semiconductor applications, increased semiconductor content as a percentage of total system cost, emerging strategic partnerships and growth in the electronic systems industry in the Asia Pacific region.

The Company is entering 1996 in a healthy financial and business condition, with demand exceeding its capacity in the majority of its product portfolio. It is, however, evident that the industry has started a correction from the extraordinary growth of recent years.

Certain industry analysts expect a growth rate for 1996 well below that of 1995, with disparities in growth among different product families. Based on information available to date, the Company believes that the market has already experienced a strong correction in the first half of 1996, and the Company expects this correction to continue at least into the second half of the year. The Company cannot anticipate how deep or how long this correction phase will be. The Company is confident, however, that the heavy emphasis on differentiated products in its portfolio, its strong customer base and strategic alliances, together with its well diversified sales base, both in terms of applications and geography, should allow SGS-THOMSON to again outpace the rate of growth in its served market.

The above statements contained in this "Business Outlook" are forward looking statements that involve a number of risks and uncertainties. In addition to the factors discussed above, among the other factors that could cause actual results to differ materially are the following: the cyclicality of the semiconductor and electronic systems industries; capital requirements and the availability of funding; competition; new product development and technological change; manufacturing risks; order cancellations or reduced bookings by key customers or distributors; intellectual property developments, international events, currency fluctuations; problems in obtaining adequate raw materials on a timely basis; and the loss of key personnel. Unfavorable changes in the above or other factors discussed under "Risk Factors" listed from time to time in the Company's SEC reports, including in the Company's Prospectus dated October 18, 1995 (pages 9 through 16), could materially affect the Company.

Semiconductor Classifications

The process technologies, levels of integration, design specificity, functional technologies and applications for different semiconductor products vary significantly. As differences in these characteristics have increased, the semiconductor market has become highly diversified as well as subject to constant and rapid change. Semiconductor product markets may be classified according to each of these characteristics.

Semiconductors can be manufactured using different process technologies, each of which is particularly suited to different applications. Since the mid-1970s, the two dominant processes have been bipolar (the original technology used to produce integrated circuits) and CMOS (complementary metal-oxide-silicon). Bipolar devices typically operate at higher speeds than CMOS devices, but CMOS devices consume less power and permit more transistors to be integrated on a single IC. While bipolar semiconductors were once used extensively in large computer systems, CMOS has become the most prevalent technology, particularly for devices used in personal computer systems. In connection with the development of new semiconductor applications and the demands of system designers for more integrated semiconductors, advanced technologies have been developed during the last decade that are particularly suited to more systems-oriented semiconductor applications. For mixed-signal applications, BiCMOS technologies have been developed to combine the high speed and high voltage characteristics of bipolar technologies with the low power consumption and high integration of CMOS technologies. For intelligent power applications, BCD technologies have been developed that combine bipolar, CMOS and DMOS technologies. Such systems-oriented technologies require more process steps and mask levels, and are more complex than the basic function-oriented technologies. The use of systems-oriented technologies requires knowledge of system design and performance characteristics (in particular, analog and mixed-signal systems and power systems) as well as expertise and experience with several semiconductor process technologies.

Semiconductors are often classified as either discrete devices (such as individual diodes or transistors) or integrated circuits (in which thousands of functions are combined on a single "chip" of silicon to form a more complex circuit). Compared to the market for ICs, there is typically less differentiation among discrete products supplied by different semiconductor manufacturers. Also, discrete markets have generally grown at slower, but more stable, rates than IC markets.

Semiconductors may also be classified as either standard components or application-specific ICs ("ASICs"). Standard components are used by a large group of systems designers for a broad range of applications, while ASICs are designed to perform specific functions in specific applications. Generally, there are three types of ASICs: full-custom devices, semicustom devices and application-specific standard products ("ASSPs"). Full custom devices are typically designed to meet the particular requirements of one specific customer. Semicustom devices are more standardized ICs that can be customized with efficient CAD tools within a short design cycle time to perform specific functions. ASSPs are standardized ASICs that are designed to perform specific functions in a specific application, but are not proprietary to a single customer.

The two basic functional technologies for semiconductor products are analog and digital. Analog (or linear) devices monitor, condition, amplify or transform analog signals, which

are signals that vary continuously over a wide range of values. Analog circuits are critical as an interface between electronic systems and a variety of real world phenomena such as sound, light, temperature, pressure, weight or speed. Electronics systems continuously translate analog signals into digital data, and vice versa.

The analog semiconductor market consists of a large and growing group of specific markets that serve numerous and widely differing applications, including applications for automotive systems, instrumentation, computer peripheral equipment, industrial controls, communications devices, video products and medical systems. Because of the varied applications for analog circuits, manufacturers typically offer a greater variety of devices to a more diverse group of customers. Compared to the market for commodity digital devices such as standard memory and logic devices, the analog market is characterized by longer product life cycles, products that are less vulnerable to technological obsolescence, and lower capital requirements due to the use of mature manufacturing technologies. Such characteristics have resulted in growth rates that have been less volatile than growth rates for the overall semiconductor industry.

Digital devices perform binary arithmetic functions on data represented by a series of on/off states. Historically, the digital IC market has been primarily focused on the fast growing markets for computing and information technology systems. Increasing demands for high-throughput computing and networking and the proliferation of more powerful personal computers and workstations in recent years have led to dramatic increases in digital device density and integration. As a result, significant advances in electronic system integration have occurred in the design and manufacture of digital devices.

There are two major types of digital ICs: memory products and logic devices. Memory products, which are used in electronic systems to store data and program instructions, are generally classified as either volatile memories (which lose their data content when power supplies are switched off) or nonvolatile memories (which retain their data content without the need for constant power supply). Volatile memories are used to store data in virtually all computer systems, from large and mid-range computers to personal computers and workstations. The primary volatile memory devices are DRAMs, which accounted for more than 76.0% of semiconductor memory sales in 1995. Nonvolatile memories are typically used to store program instructions that control the operation of microprocessors and electronic systems. The primary nonvolatile memory devices are EPROMs, flash memories and EEPROMs. Memory products are typically standard, general purpose ICs that can be manufactured in high volumes using basic CMOS processes, and they are generally differentiated by cost and physical and performance characteristics, including data capacity, die size, power consumption and access speed.

Logic devices process digital data to control the operation of electronic systems. The largest segment of the logic market, standard logic devices, include microprocessors, microcontrollers and digital signal processors. Microprocessors are the central processing units of computer systems. Microcontrollers are complete computer systems contained on single integrated circuits that are programmed to control the operation of electromechanical systems by processing input data from electronic sensors and generating electronic control signals. Digital signal processors ("DSPs") are parallel processors used for high complexity, high speed real-time computations in a wide variety of applications, including digital cellular telephone systems and data compression systems. Standard devices are intended to be utilized by a large group of systems designers for a broad range of applications. Consequently, standard devices usually

contain more functions than are actually required and, therefore, may not be cost-effective for certain specific applications. In addition to standard logic devices, a broad range of full-custom, semicustom and ASSP logic devices has been developed for a wide variety of applications. These devices are typically designed to meet particular customer requirements. Compared to memory markets, logic device markets are much more differentiated and dependent upon intellectual property and advanced product design skills.

Analog/digital (or "mixed-signal") ICs combine analog and digital devices on a single chip to process both analog signals and digital data. Historically, analog and digital devices have been developed separately as they are fundamentally different and it has been technically difficult to combine analog and digital devices on a single IC. System manufacturers have generally addressed mixed-signal requirements using printed circuit boards containing many separate analog and digital circuits acquired from multiple suppliers. However, system designers are increasingly demanding system level integration in which complete electronic systems containing both analog and digital functions are integrated on a single IC.

Mixed-signal ICs are typically characterized as analog ICs due to their similar market characteristics, including longer product life cycles, diverse applications and customers and more stable growth through economic cycles as compared to digital devices. However, certain parts of the mixed-signal market are becoming higher volume markets as the increasing use of mixed-signal devices has enhanced the options of system designers and contributed to the development of new applications, including multimedia, video conferencing, automotive, mass storage and personal communications.

The Semiconductor Market

The following tables set forth information with respect to worldwide semiconductor sales by type of semiconductor and geographic region:

	Worldwide Semiconductor Sales (1)				Compound Annual Growth Rates(2)			
	1983	1988	1993	1995	83-88	88-93	83-93	93-95
	(in millions)							
Integrated Circuits	$13,335	$35,893	$66,018	$126,056	21.9%	13.0%	17.3%	38.2%
Analog (linear and mixed-signal)	2,875	7,228	10,673	16,646	20.2	8.1	14.0	24.6
Digital								
Logic	6,712	17,750	34,079	55,953	21.5	13.9	17.6	28.2
Memory								
DRAM	1,741	6,390	13,140	40,833	29.7	15.5	22.4	76.3
Others	2,007	4,524	8,127	12,624	17.7	12.4	15.0	24.6
Total Memory	3,748	10,914	21,267	53,457	23.8	14.3	19.0	58.5
Total digital	10,460	28,664	55,346	109,410	22.3	14.1	18.1	40.6
Discrete	3,696	6,999	8,637	14,004	13.6	4.3	8.9	27.3
Opto-electronics	736	2,113	2,654	4,344	23.5	4.7	13.7	27.9
TAM	$17,767	$45,005	$77,309	144,404	20.4%	11.4%	15.8%	36.7%
Europe	$3,320	$8,104	$14,599	$28,199	19.5%	12.5%	15.9%	39.0%
Americas	7,761	13,418	24,744	46,998	11.6	13.1	12.3	37.8
Asia Pacific	1,150	5,374	14,168	29,540	36.1	21.4	28.5	44.4
Japan	5,536	18,109	23,798	39,667	26.7	5.6	15.7	16.1
TAM	$17,767	$45,005	$77,309	$144,404	20.4%	11.4%	15.8%	36.7%

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(1) Source: WSTS.
(2) Calculated using end points of the periods specified.

During the 1960s and 1970s, the development of semiconductor process technologies was critical to the success of participants in the industry. As process technologies matured, manufacturing sciences became important; in the 1980s, the emphasis shifted to increasing production volumes and yields and lowering production costs. The large capital expenditures and other resources required during this period to develop advanced manufacturing capabilities resulted in a stratification of the industry between broad range suppliers operating multiple front-end and back-end manufacturing facilities and specialty niche players operating small wafer fabs or subcontracting wafer production.

With the continuing development of new semiconductor applications and increasing demands of system designers for more integrated systems-oriented products, semiconductor manufacturers must continually improve their core technology and manufacturing competencies.

In addition, the increasing diversity and complexity of semiconductor products, the demands of technological change, and the costs associated with keeping pace with industry developments have contributed to the growth of cooperative product design and development and manufacturing alliances with customers as well as among semiconductor suppliers. Alliances with customers provide the manufacturer with valuable systems and application know-how and access to markets for key products, while allowing the manufacturer's customers to share some of the risks and benefits of product development. Customers also gain access to the manufacturer's process technologies and manufacturing infrastructure. Alliances with other semiconductor manufacturers permit costly research and development and manufacturing resources to be shared to mutual advantage for joint technology development.

To compete as a broadline semiconductor manufacturer, management believes that it is important to have: (i) a broad and diverse customer base; (ii) a diversified product portfolio (including analog, digital mixed-signal and power products) and experience in several application markets; (iii) a broad range of process technologies (including basic function-oriented and advanced systems-oriented technologies); (iv) an efficient, quality, global manufacturing infrastructure; (v) global marketing and technical support; and (vi) a worldwide network of strategic alliances with customers and other semiconductor manufacturers.

Strategy

Since the Company's formation in 1987, management's objectives have been to become one of the world's top ten semiconductor suppliers and to achieve operating results better than the average of the top ten semiconductor suppliers. To achieve these objectives, the Company has focused on using its core technology and manufacturing competencies to produce innovative, quality and cost-effective products. The key elements of the Company's strategy are set forth below.

Maintain Broad Customer Base and Increase Customer Penetration. The Company works with its key customers to identify evolving needs and new applications and to develop innovative products and product features. The Company also seeks to use its access to key customers as a supplier of application-specific products to establish itself as a supplier across a broad range of products. The Company maintains a geographically diverse customer base across a broad range of market applications. Regional sales and marketing organizations operate in each of Europe, the United States, the Asia Pacific region and Japan. In addition, the Company's central strategic marketing team and key account management teams serve selected multinational customers.

Offer Diversified Product Portfolio in Evolving Application Markets. The Company offers a diversified product portfolio and develops products for a wide range of market applications to reduce its dependence on any single product, industry or application market. As a broad range supplier, the Company provides its customers with a single source of supply for multiple product needs. In the telecommunications market, the Company is developing advanced BiCMOS and high frequency bipolar processes and focusing on products for the switching equipment and new, fast-growing telecommunications markets, including the digital cellular telephone market. In the computer market, the Company produces dedicated products, memories, microcontrollers, semicustom devices and microprocessors for use in all types of computer systems. The Company is focusing particularly on the development of a family of flash memory

products and dedicated products for computer monitors, disk drives and printers. In addition, the Company has started to manufacture and market x86 microprocessors. In the consumer products market, the Company is developing dedicated products for television and home entertainment systems and devices for new multimedia applications, including digital video decoders. In the automotive market, management is using its BCD processes to develop dedicated products for a wide range of automotive applications, and is currently focusing on developing strategic relationships with U.S. automobile manufacturers. In the industrial market, the Company is developing innovative power products, particularly for use in lighting systems and switch mode power supplies.

Emphasize Differentiated and Analog ICs. Within its diversified product portfolio, the Company has focused on developing products that exploit its technological strengths, including differentiated ICs (which the Company defines as being its dedicated products, semicustom devices and microcontrollers). Differentiated ICs foster close relationships with customers, resulting in early knowledge of their evolving requirements and opportunities to access their markets for other products, and are less vulnerable to competitive pressures than standard commodity products. Differentiated ICs accounted for just over 51% of the Company's net revenues in 1995 compared to approximately 48% in 1994. The Company also targets applications that require substantial analog and mixed-signal content and can exploit the Company's system level expertise. Analog ICs (including mixed-signal ICs), the majority of which are also differentiated ICs, accounted for approximately 46% of the Company's 1995 net revenues (compared to approximately 43% in 1994), while discrete devices accounted for approximately 17% of the Company's 1995 net revenues (compared to approximately 15% in 1994). In recent years, analog ICs and discrete devices have experienced less volatility in sales growth rates and average selling prices than the overall semiconductor industry.

Expand Strategic Alliances. Consistent with its belief that strategic alliances are critical to success in the semiconductor industry, the Company has entered into such alliances with customers, other semiconductor manufacturers and a major supplier of design software. The Company has entered into several customer strategic alliances, including with Alcatel, Seagate Technology and Thomson Multimedia. Alliances with customers provide the Company with valuable systems and application know-how and access to markets for key products, while allowing the Company's customers to share some of the risks of product development with SGS-THOMSON and to gain access to the Company's process technologies and manufacturing infrastructure. Alliances with other semiconductor manufacturers are generally designed to permit costly research and development and manufacturing resources to be shared to mutual advantage for joint technology development. Technology development alliances have been formed with customers and other manufacturers, including Philips Semiconductors in Europe to develop sub-micron CMOS technologies and Northern Telecom in North America to develop advanced 0.5 micron BiCMOS mixed-signal technologies and Mitsubishi in Japan to develop a family of 16 Mbit flash memories for mass storage applications. The Company has also entered into an alliance with Cadence Design Systems Inc. for the development of advanced CAD tools. Such design tools are critical to the timely and cost-effective development of new and advanced products.

Expand and Improve Manufacturing Capabilities. One of the Company's principal goals is to expand its diversified manufacturing infrastructure while seeking to achieve further improvements in the cost, quality and versatility of its operations. To expand capacity, SGS-

THOMSON has applied 1994 and 1995 investments to build and equip two 8-inch front-end manufacturing facilities in Crolles, France and Phoenix, Arizona currently in operation, is applying 1995 investments to build and equip an additional 8-inch front-end manufacturing facility in Catania, Italy, not yet in operation, and to build a new back-end facility and design center in Shenzhen, China through its joint venture created in 1994 with a subsidiary of the Shenzhen Electronics Group. The Company also converted 4-inch and 5-inch water fabs to 5-inch and 6-inch production and is starting the conversion and expansion from 6-inch to 8-inch production of a front-end fabrication facility in Agrate, Italy. In addition, the Company has identified two other 8-inch front-end wafer fabrication facilities, one of which will be in Singapore, with the other one in Italy now under consideration. In 1995, the Company approved the building and equipping of a new 8-inch 0.5 micron front-end wafer fabrication plant (which will also be capable of 0.35 and 0.25 micron production) in Rousset, France. In 1995, approximately 76.0% of the wafers manufactured by SGS-THOMSON were manufactured on 5-inch or larger wafers. The Company is fostering a corporate-wide Total Quality Management ("TQM") culture that defines a common set of objectives and performance measurements for employees in all geographic regions, at every stage of product design, development and production for all product lines. SGS-THOMSON has established front-end and back-end manufacturing facilities in each of Europe, the United States and the Mediterranean and Asia Pacific regions. The Company's geographically diverse facilities allow it to shift production to accommodate variable production requirements.

Develop Advanced Process and Design Technologies. The Company intends to continue to exploit its expertise and experience with a wide range of process and design technologies to develop more advanced technologies. The Company is committed to continuing to increase research and development expenditures in the future. Despite significant cost reductions following the Company's formation in 1987 and particularly during 1990 and 1991 when the Company experienced losses, management did not reduce research and development spending. The Company is using its memory products as the focal point of its process development efforts due to their standardized design features, manufacturability and potential high volumes. Technological advances in the areas of transistor performance and interconnection technologies are being developed through the Company's logic products and semicustom devices. The Company is currently producing 0.6 micron 16 Mbit EPROMs and three volt, triple-metal layer semicustom devices with densities of up to one million gates. It is also working closely with many of its key customers on developing easy-to-use design equipment for specific applications. The Company is developing advanced and standardized design tools for its CMOS processes as well as libraries of macrofunctions and megafunctions for many of its products, and is focusing on improving its concurrent engineering practices to better coordinate design activities and reduce overall time-to-market.

Customers and Applications

SGS-THOMSON designs, develops, manufactures and markets over 3,000 main types of products that it sells to more than 1,500 customers. To many of its key customers the Company provides a wide range of products, including dedicated products, discrete devices, memory products and programmable products. The Company's position as a strategic supplier of application-specific products to certain customers fosters close relationships that provide it with opportunities to supply such customers' requirements for other products, including discrete devices, programmable products and memory products.

The following table sets forth certain of the Company's customers in 1995 and certain applications for its products:

Telecommunications				
Customers:	Alcatel	Fujitsu	Italtel	Philips
	AT&T	Gemplus	Motorola	Racal-Milgo
	Daewoo	Goldstar	Nokia	Samsung
	Ericsson	Hayes	Northern Telecom	Siemens
Applications:	Answering machines		ISDN controllers	
	Central office switching systems		Modems	
	Chips for smartcards		PBX systems	
	Digital cellular telephones		Telephone sets (corded and cordless)	
Computer Systems				
Customers:	ACER	Cyrix	Matsushita	Smith-Corona
	Bull	DEC	Olivetti	Tatung
	Canon	Epsom	Quantum	Western Digital
	Compaq	Hewlett-Packard	Seagate Technology	Xerox
	Conner Peripherals	IBM		
Applications:	Chips for smartcards		Optical scanners	
	Disk drives		Photocopiers	
	Monitors		Printers	
	Network controllers			
Automotive				
Customers:	BMW	Daimler-Benz	Ford	Marelli
	Bosch	Delco	Hyundai	Valeo
	Chrysler	Fiat		
Applications:	Alternator regulators		Ignition circuits	
	Airbags		Injection circuits	
	Antiskid braking systems		Instrument	
	Automotive entertainment systems		Electric Motor Controllers	
	Body and chassis electronics		Multiplex wiring kits	
	Central locking systems		Transmission control systems	
	Engine management systems			
Consumer Products				
Customers:	Canal Plus	Goldstar	Philips	Sony
	Canon	Grundig	Pioneer	Thomson Multimedia
	Creative Technology	Kenwood	Samsung	Zenith
	Daewoo	Matsushita	Sanyo	
	General Instrument	Nokia	Sharp	
Applications:	Audio power amplifiers		Graphic equalizers	
	Audio processors		Pay television decoders	
	Cable television systems		Satellite receiver decoding circuits	
	Compact disc players		Set up boxes	
	Digital video encoders and decoders		Televisions and monitors	
			Video cassette recorders	
Industrial and Other Applications				
Customers:	Astec	Emerson	Philips	Siemens
	Asea Brown Boveri	Mannesman	Schlumberger	
Applications:	Battery chargers		Motor controllers	
	Industrial automation and control systems		Power supplies	
	Intelligent power switches		Smartcard readers	
	Lighting systems (lamp ballasts)		Switch mode power supplies	

No customer accounted for more than 5% of the Company's net revenues in 1995 and sales to the Company's top ten customers accounted for approximately 34% of the Company's net sales in 1995, the Company has several large customers, certain of whom have entered into strategic alliances with the Company. Many of the Company's key customers operate in cyclical businesses and have in the past, and may in the future, vary order levels significantly from period to period. In addition, approximately 22.7% of the Company's net revenues in 1995 were made through distributors. There can be no assurance that such customers or distributors, or any other customers, will continue to place orders with the Company in the future at the same levels as in prior periods. The loss of one or more of the Company's customers or distributors, or reduced bookings by its key customers or distributors, could adversely affect the Company's operating results. In addition, in a declining market the Company has in the past and may in the future be requested to reduce prices to limit the level of order cancellations. Despite price reductions, however, in an industry downturn order cancellations may be expected, particularly by distributors and for commodity products.

Products and Technology

SGS-THOMSON designs, develops, manufactures and markets a broad range of products used in a wide variety of microelectronic applications, including telecommunications systems, computer systems, consumer goods, automotive products and industrial automation and control systems. The Company's products include standard commodity components, full custom devices, semicustom devices and ASSPs for analog, digital and mixed-signal applications. Historically, the Company has not produced DRAMs or, until recently, x86 microprocessors. The SAM represented approximately 67.5% of the TAM in 1995, compared to 84% of the TAM in 1983. While the TAM increased at a compound annual growth rate of approximately 19% from $17.8 billion in 1983 to an estimate of $144.4 billion in 1995, the SAM increased at a compound annual growth rate of approximately 17% from $15.0 billion to an estimate of $97.5 billion during the same period.

The Company's products are organized into five principal product groups: Dedicated Products, Discrete and Standard ICs, Memory Products, Programmable Products and the New Ventures Group.

Dedicated Products Group

The Dedicated Products Group designs, develops and manufactures application-specific products using advanced bipolar, CMOS, mixed-signal and power technologies. The Group offers complete system solutions to customers in several application markets. As the largest of SGS-THOMSON's product groups, the Dedicated Products Group generated revenues of $1,350.5 million in 1995 (an increase of 38.9% over 1994 revenues), representing approximately 38% of SGS-THOMSON's 1995 revenues. Approximately 37.0% of the Group's revenues in 1995 were generated in Europe, while approximately 22.4%, 36.7%, and 3.9% were generated in the Americas, the Asia Pacific region, and Japan, respectively. Many of the dedicated products sold to the Asia Pacific region are sold to U.S.-based original equipment manufacturers located in the region. All of the Group's products are ASSPs or full custom devices.

The Dedicated Products Group works closely with customers to develop application-specific products using SGS-THOMSON's technologies and manufacturing capabilities. The breadth of the Group's customer and application base provides it with a source of stability in the cyclical semiconductor market. In addition, the Company's position as a strategic supplier of application-specific products fosters close relationships that provide it with opportunities to supply such customers' requirements for other products, including discrete devices, programmable products and memory products.

The Group particularly emphasizes dedicated ICs for telecommunications, audio, automotive, power and computer applications.

The Group is organized into the following four product divisions: (i) telecommunications; (ii) computer and industrial; (iii) audio and automotive; and (iv) video. In addition, the Company created a business unit to design and manufacture products for the emerging digital video processing industry.

Telecommunications Products. According to published industry data, in 1995 SGS-THOMSON was the world's second largest supplier of dedicated telecommunications ICs (1995 total market of $2.5 billion). The Company's telecommunications products are used primarily in telephone sets, modems and subscriber line interface cards (SLICs) for digital central office switching equipment. The Group is targeting applications in mobile communications networks and telephone sets and asynchronous transfer mode ("ATM") communication systems.

Computer and Industrial Products. SGS-THOMSON's computer and industrial products include components for computer peripheral equipment, facsimile machines, photocopiers, industrial automation systems and lighting applications. Its key products are power ICs for motor controllers and read/write amplifiers, intelligent power ICs for spindle motor control and head positioning in computer disk drives and battery chargers for portable electronic systems, particularly mobile telephone sets.

Audio and Automotive Products. SGS-THOMSON's audio products include audio power amplifiers, audio processors and graphic equalizer ICs. The Company has sold more than 1.2 billion audio power amplifier ICs since 1972.

The Company's automotive products include alternator regulators, antiskid braking systems, ignition circuits, injection circuits, multiplex wiring kits and products for body and chassis electronics, engine management and instrumentation systems.

Video Products. SGS-THOMSON produces ICs for television sets, videocassette recorders, satellite receivers and pay-tv decoders. The Company is focusing on developing products for applications in the growing U.S. satellite and cable television markets.

Image Processing. SGS-THOMSON has recently created a business unit to design and manufacture products for the emerging digital video processing industry. Emerging digital video technologies offer a number of advantages over traditional analog video, including the ability to compress video data for transmission and storage, to transmit and reproduce video data without perceptible image degradation and to randomly access and edit video data.

Despite the advantages of digital video, its widespread adoption has been constrained by the lack of high-performance, cost-effective compression devices and by the absence of digital video compression standards. Video compression, which uses complicated mathematical algorithms operating at high speeds to encode the large amounts of data that result from digitizing video signals, is both highly complex and technically challenging. Digital video compression technology is expected to contribute to the development of a number of new or enhanced applications in the consumer electronics, computer and communications markets, including video CD players, interactive game consoles and video conferencing systems.

The Company's image processing business unit is delivering large volumes of Motion Picture Experts Group ("MPEG") decoder ICs suitable for video CD products, personal computers, multimedia and digital TV applications. These products implement the MPEG 1 standard for CD ROM, video CD and personal computer applications and the MPEG 2 standard for digital TV applications (both cable and satellite digital TV). This unit is also developing products for emerging video phone applications.

Discrete and Standard ICs Group

The Discrete and Standard ICs Group designs, develops, and manufactures discrete power devices, power transistors, standard logic and linear ICs, and RF products (which were transferred to the Discrete and Standard ICs Group in May 1994). Including revenues from RF products, the Group generated revenues of $838.0 million in 1995 (an increase of 31.7% over 1994 revenues), representing approximately 24% of SGS-THOMSON's net revenues. Approximately 52.6% of the Group's 1995 revenues were generated in Europe, while approximately 21.1%, 25.2%, and 1.1% were generated in the Americas, the Asia Pacific region, and Japan, respectively. According to published industry data, based on 1995 revenues SGS-THOMSON is among the top three suppliers of power transistors (1995 total market of $5.2 billion) and thyristors (1995 total market of $807 million).

The Group's discrete and standard products are manufactured using mature technological processes. Although such products are less capital intensive than the Company's other principal products, the Company is continuously improving product performance and developing new product features. The Group has a diverse customer base, and a large percentage of the Group's products are sold through distributors.

Discrete Power Devices. SGS-THOMSON manufactures and sells a variety of discrete power devices, including rectifiers, protection devices and thyristors (SCRs and triacs). The Company's devices are used in various applications, including in particular telecommunications systems (telephone sets, modems and line cards), household appliances and industrial systems (motor control and power control devices). More specifically, rectifiers are used in voltage converters and voltage regulators, protection devices are used to protect electronic equipment from power supply spikes or surges, and thyristors are used to vary current flows through a variety of electrical devices, including lamps and household appliances.

Power Transistors. SGS-THOMSON designs, manufactures and sells power transistors, which (like the Company's discrete power devices) operate at high current and voltage levels in a variety of switching and pulse mode systems. The Company has three power

transistor divisions: bipolar transistors, power MOSFETs (metal-oxide-silicon field effect transistors) and new power transistors such as IGBTs.

The Company's bipolar power transistors are used in a variety of high-speed, high-voltage applications, including SMPS (switch mode power supply) system, television/monitor deflection circuits and lighting systems. According to published industry data, on the basis of 1995 revenues, SGS-THOMSON is among the leading suppliers of bipolar transistors, including RF power transistors, (1995 total market of $2.6 billion). The Company introduced power MOSFETs in 1991 to extend the use of power transistors to new high-frequency, high-voltage applications, including automotive components, crowbar protection devices, resonant converters and power factor correction devices. According to industry data, the Company has been ranked number five worldwide in the fast growing segment of the power MOSFETs.

The Company also offers a family of VIPower (vertical integration power) products, as well as omnifets and application-specific devices. VIPower products exhibit the operating characteristics of power transistors while incorporating full thermal, short circuit and overcurrent protection and allowing logic level input. VIPower products are used in consumer goods (lamp ballasts) and automotive products (ignition circuits, central locking systems and transmission circuits). Omnifets are power MOSFETs with fully-integrated protection devices that are used in a variety of sophisticated automotive and industrial applications. Application-specific devices are semicustom ICs that integrate diodes, rectifiers and thyristors on the same chip, thereby providing cost-effective and space-saving components with a short design time.

Standard Logic and Linear ICs. The Company produces a variety of bipolar and HCMOS logic devices, including clocks, registers, gates and latches. Such devices are used in a wide variety of applications, including increasingly in portable computers, computer networks and telecommunications systems.

The Company also offers standard linear ICs covering a variety of applications, including amplifiers, comparators, decoders, detectors, filters, modulators, multipliers and voltage regulators.

Radio Frequency Products. The Company supplies components for RF transmission systems used in television broadcasting equipment, radar systems, telecommunications systems and avionic equipment. At present, most of the Company's RF products are sold in the United States. The Company is targeting new applications for its RF products, including two-way wireless communications systems (in particular, cellular telephone systems) and commercial radio communication networks for business and government applications.

Memory Products Group

The Memory Products Group designs, develops and manufactures a broad range of semiconductor memory products. The Memory Products Group generated revenues of $662.5 million in 1995 (an increase of 15% over 1994 revenues), representing approximately 19% of SGS-THOMSON's 1995 revenues. Approximately 44.5% of the Group's 1995 revenues were generated in Europe, while approximately 25.4%, 16.6%, and 13.5% were generated in the Americas, the Asia Pacific region, and Japan, respectively. According to published industry data, on the basis of 1995 revenues, SGS-THOMSON was the leading producer of EPROMs (1995 total market of $1.4 billion) and the leading supplier of EEPROMs (1995 total market of $1.3 million).

There are two basic types of memory devices, random access memories ("RAMs") and read-only memories ("ROMs"). Data can be both read from and written to RAMs, whereas data can only be read from, but not written to, ROMs. RAMs are typically used in microprocessor systems to store data used in the operation of such systems, whereas ROMs are typically used to store program instructions that control the operation of microprocessors and electronic systems.

The most common types of RAMs are DRAMs (dynamic RAMs) and SRAMs (static RAMs). DRAMs are volatile memories that lose their data content when power supplies are switched off, whereas SRAMs are volatile memories that allow the storage of data in the memory array but without the need for clock or refresh logic circuitry. SRAMs are roughly four times as complex as DRAMs (four transistors per bit of memory compared to one transistor) and are significantly more expensive than DRAMs per unit of storage. DRAMs are used in a computer's main memory to temporarily store data retrieved from low cost external mass memory devices such as hard disk drives. SRAMs are principally used as caches and buffers between a computer's microprocessor and its DRAM-based main memory.

There are several types of read-only memories that offer varying degrees of functionality at varying costs. ROMs are permanently programmed when they are manufactured while programmable ROMs (PROMs) can be programmed by system designers or end-users after they are manufactured. Erasable PROMs (EPROMs) may be erased and reprogrammed several times, but to do so EPROMs must be physically removed from electronic systems, exposed to ultraviolet light, reprogrammed using an external power supply and then returned to the systems. Electrically erasable PROMs (EEPROMs) can be erased byte by byte and reprogrammed "in-system" without the need for removal. Using EEPROMs, a system designer or user can program or reprogram systems at any time.

Programmable erasable ROMs ("flash" memories) are relatively new products that represent an intermediate solution for system designers between EPROMs and EEPROMs based on their cost and functionality. Flash memories are typically less expensive than EEPROMs, but may be erased and rewritten. The entire contents of a flash memory or large blocks of data (not individual bytes) can be erased with a "flash" of current. Because flash memories can be erased and reprogrammed electrically and in-system, they are more flexible than EPROMs and, therefore, may replace EPROMs in many of their current applications. Flash memories may also be used for solid state mass storage of data, a potentially high volume application, and in other applications, including, in particular mobile telephone systems. Flash memories are

smaller and use less power than the hard disk drives now commonly used for mass data storage, and, therefore, are considered candidates to replace disk drives, particularly in portable computers.

According to published industry data, the TAM for memory devices in 1995 was approximately $53.4 billion, with DRAMs, SRAMs, ROMs, EPROMs, flash and EEPROMs accounting for approximately 76.4%, 11.3%, 3.7%, 2.6%, 3.5% and 2.5% of the total, respectively.

The Company's Memory Products Group is organized into the following divisions: (i) EPROMs; (ii) flash memories; (iii) EEPROMs and application-specific memories; (iv) SRAMs; and (v) smartcard products.

EPROMs. SGS-THOMSON produces a broad range of EPROMs, from 16 Kbit to 16 Mbit. According to published industry data, SGS-THOMSON was the world's leading supplier of EPROMS in 1995, with revenues of $337.3 million (a decrease of 3% over 1994 revenues) or approximately 21.6% of worldwide EPROM sales. The Company currently produces EPROMs using 0.5 micron CMOS technologies.

The EPROM market is a relatively mature, commodity-like market. To compete in such market, the Company has focused on reducing die sizes, improving manufacturing yields and reducing costs. SGS-THOMSON has been successful in the world EPROM market primarily due to its non-volatile CMOS manufacturing technologies, its assembly plants in Singapore and Malaysia, and its large sales and distribution channels around the world.

Due to industry capacity limitations in 1993, EPROM prices rose and backlog increased. With additional industry capacity coming on-line in early 1994, EPROM prices and backlogs began declining in the second quarter of 1994 and continued declining during the remainder of the year. Prices remained low in 1995 but improved in the beginning of 1996.

Flash Memories. The Company is using its EPROM and EEPROM know-how to develop advanced flash memory products, and currently produces flash memories up to 4 Mbit in size. The Company intends to develop a broad portfolio of flash memory devices to cover all EPROM-like market needs, including 0.5 micron dual voltage and single voltage devices up to 16 Mbit. The Company also intends to develop specific processes based on current technology to produce 64 Mbit 0.35 micron devices for the mass storage market. The Company is using its flash memories and fast SRAMs as the focal point of its process development efforts due to their standardized design features, manufacturability and potential high volumes.

In May 1993, the Company entered into a strategic alliance with Mitsubishi to jointly develop a family of compatible 16 Mbit dual voltage flash memories for mass storage applications using 0.5 micron CMOS wafer process technology and to standardize specific manufacturing processes. In addition, in December 1994, SGS-THOMSON signed an agreement with Advanced Micro Devices Inc. ("AMD"), the supplier of approximately 24% of flash memories sold in 1994, to cooperate in the definition of standards for future EPROM-like flash memory products based on AMD's single-voltage architecture. The cooperation is intended to help create an alternative industry standard to Intel's standard for flash memory products and

thereby accelerate growth in the worldwide flash memory market. SGS-THOMSON and AMD currently plan to independently develop compatible products around the standard. The Company currently produces the 4 Mbit single voltage flash memory device which is designed to the same specifications as the equivalent device from AMD, with which it is pin-compatible, although built with a proprietary 0.6 um double-metal CMOS technology.

EEPROMs and Application-Specific Memories. The Company offers 1.2 micron serial EEPROMs up to 16 Kbit and parallel EEPROMs up to 64 Kbit. Serial EEPROMs are the most popular type of EEPROMs and are generally used in computer, automotive and consumer applications. Parallel EEPROMs account for a smaller portion of the EEPROM market, being used mainly in telecommunications equipment. SGS-THOMSON entered the parallel EEPROM market in late 1993. The Company intends to work closely with its key customers and strategic allies to identify and develop new application-specific memory devices using mixed technologies.

SRAMS. The Company focuses on producing fast SRAMs and specialty low power SRAMs, but not other more standardized types of SRAMs. The Company's fast SRAMS are used as cache memories in computer systems and as main memories in telecommunications systems. The Company produces fast SRAMs up to 1 Mbit with access speeds of 9 to 20 nanoseconds. The Company's low power SRAMs are used as main memories in portable computers and telecommunications equipment. The Company produces low power SRAMs up to 1 Mbit with access speeds of 35 to 70 nanoseconds.

Smartcard Products. Smartcards are credit-card like devices containing integrated circuits that store data and provide an array of security capabilities. They are used in a wide and growing variety of applications, including public pay telephone systems (primarily in France and Germany), cellular telephone systems (primarily in Europe), bank cards (primarily in France) and pay television systems (primarily in the United Kingdom and France). Other potential applications include medical record applications, card-access security systems and toll-access applications. SGS-THOMSON shipped more than 207 million units in 1995.

Smartcards incorporate a variety of products manufactured by the Company, including microcontrollers, EPROMs, EEPROMs and flash memory components. A key smartcard customer of the Company is Gemplus, a French company that was formed in 1988 as a spinoff from the Company. The Company retained a 32% interest in Gemplus until 1992.

Programmable Products Group

The Programmable Products Group designs, develops and manufactures microcomponents (including microcontrollers, microprocessors and digital signal processors), digital semicustom devices, mixed analog and digital semicustom devices. The Group generated revenues of $535.5 million in 1995 (an increase of 40.4% over 1994), representing approximately 15% of SGS-THOMSON's 1995 revenues. Approximately 51.4% of the Group's 1995 revenues were generated in Europe, while approximately 27.0%, 20.0%, and 1.6% were generated in the Americas, the Asia Pacific region and Japan, respectively.

Microcomponents. The Company's microcomponents division manufactures and sells microcontrollers, microprocessors and digital signal processors.

Microcontrollers are complete computer systems contained on single integrated circuits that are programmed to specific customer requirements. They contain microprocessor cores as well as logic circuitry and memory capacity. Microcontrollers control the operation of electronic and electromechanical systems by processing input data from electronic sensors and generating electronic control signals, and are used in a wide variety of consumer products (alarm systems, household appliance controls and video products), automotive systems (engine control and dashboard instrumentation), computer peripheral equipment (disk drives, facsimile machines, printers and optical scanners), industrial applications (motor drives and process controllers), and telecommunications systems (telephones, answering machines and digital cellular phones).

Based on its experience with a variety of second-sourced microcontrollers, the Company has developed its complete "ST" family of proprietary microcontroller products, ranging from the 8-bit ST6 microcontrollers to the 32-bit ST20 devices. The ST20 family is designed to address the full spectrum of embedded processor applications, from computer peripherals such as hard disk drives and laser beam printers to high volume consumer appliances such as digital telephone handsets and digital satellite receivers. SGS-THOMSON's microcontrollers draw on the Company's large product and technology portfolios to combine logic devices, EPROMs, EEPROMs, flash memories and various macrofunctions around a range of second-sourced and proprietary cores. The Company has also developed a line of starter kits and code generators and compilers that permit system designers to quickly and easily implement the Company's microcontrollers into their electronic systems. The Company is targeting emerging applications for microcontrollers, including televisions, monitors, cable television and satellite receivers and cellular telephones.

Microprocessors are the central processing units of computer systems. The Company second-sources a variety of microprocessors developed by other semiconductor manufacturers. The Company is currently developing a 64-bit RISC microprocessor.

Digital signal processors ("DSPs") are parallel processors used for high complexity, high speed real-time computations. DSPs are used in a wide variety of applications, including answering machines, modems, digital cellular telephone systems, audio processors and data compression systems. SGS-THOMSON and its predecessors have been producing DSPs for more than ten years. The Company recently introduced the D950-CORE, a fixed point DSP core based upon the Company's 0.5 micron/3.3V triple-level-metal HCMOS5 technology for a wide range of applications in the computer, telecommunications and consumer markets. Examples of applications include mobile phones, telephone answering machines, fax machines, modems, disk drives, video conferencing systems and speech, sound, music and other multimedia functions.

Digital Semicustom Devices. Semicustom devices are ICs containing standardized lines or arrays of transistors that can be configured or interconnected to perform specific functions after a short design cycle time. SGS-THOMSON manufactures a wide range of digital semicustom devices, including high-speed low-voltage 0.5 micron CMOS triple-metal layer gate arrays, standard cells and embedded arrays.

SGS-THOMSON's semicustom devices are supported by libraries of cells, macro functions and design tools. SGS-THOMSON supports popular CAD tools and platforms, and has strategic alliances with Cadence Design Systems, Inc. and Synopsys, Inc. to develop

semicustom CAD tools. SGS-THOMSON is developing proprietary libraries for semicustom devices for telecommunications, computer and consumer applications.

Mixed-Signal Semicustom Devices. SGS-THOMSON and its predecessor companies have also manufactured mixed-signal BiCMOS semicustom gate arrays, standard cells and embedded arrays since 1985. Mixed-signal devices combine standard cells of digital gates and analog devices on the same semicustom IC. Such devices can be used in a wide variety of analog/digital applications, including computer peripherals, telecommunications products and industrial systems.

New Ventures Group

SGS-THOMSON established the New Ventures Group in May 1994 to bring together various major product initiatives that would otherwise have been coordinated within and across individual product groups. The Group identifies and develops new business opportunities to complement the Company's existing businesses and exploit its technological know-how, manufacturing capabilities and global marketing team. The Group's first activities have been the manufacture and sale of x86 microprocessors designed by Cyrix. The Group is also evaluating other business opportunities.

x86 microprocessors are the central processing units of IBM-compatible personal computer systems (which accounted for more than 84% of worldwide personal computer sales in 1995). SGS-THOMSON U.S. has manufactured Cyrix-designed x86 chips since 1992 as a foundry for Cyrix. In 1995, SGS-THOMSON U.S. produced x86 chips for the original equipment manufacturer market. The Company is also focusing on developing improvements to its x86 products, including size reduction and speed improvement, as well as future generations such as the Cyrix 6x86.

The Company expects to be able to use microprocessor technology, its broad range of other products and technologies and its strengths in developing and marketing application-specific products to produce powerful x86 core-based embedded applications and derivative products.

Sales, Marketing and Distribution

In 1995, the Company derived approximately 77% of its revenues from sales directly to customers through its regional sales organizations (compared to approximately 75% in 1994) and 23% of its revenues from sales through distributors (compared to approximately 25% in 1994). SGS-THOMSON operates regional sales organizations in Europe, North America, the Asia Pacific region and Japan. In 1995, approximately 46% of the Company's revenues originated in Europe (compared to approximately 46% in 1994), while 24% originated in the United States (compared to approximately 26% in 1994), 26% originated in the Asia Pacific Region (compared to approximately 23% in 1994) and 4% originated in Japan (compared to approximately 5% in 1994). In 1995, no customer accounted for more than 5% of the Company's net revenues.

The European region is divided into five main sales and services districts: Central Europe (Germany and Austria), Northern Europe (United Kingdom, Ireland and Scandinavia), Western Europe (France and the Benelux countries), Southern Europe (Italy, Spain, Portugal) and Export Group. The sales organization in each district is segmented by application market (i.e., telecommunications, computer, consumer, automotive and industrial), while marketing is segmented by product groups.

In North America, the sales and marketing team is organized into six business units that are located near major centers of activity for either a particular application or geographic region: automotive (Detroit, Michigan), industrial and consumer (Chicago, Illinois), computer and peripheral equipment (San Jose, California), communications (Dallas, Texas), distribution (Boston, Massachusetts), and Latin America (Phoenix, Arizona). Each business unit has a sales force that specializes in the relevant business sector. Each business unit also provides product-related marketing and application support. This structure allows SGS-THOMSON to monitor emerging applications, to provide local design support, and to develop new products in conjunction with the various product divisions as well as to develop new markets and applications with its current product portfolio. A central marketing operation in Boston provides market communications, data processing and customer quality services to the whole region, while a logistics center in Phoenix supports the distribution network in North America.

In the Asia Pacific region, sales and marketing is organized by country and is managed from the Company regional sales headquarters in Singapore. The Company has sales offices in Taiwan, Korea, China, Hong Kong, India, Malaysia, Thailand and Australia. The Singapore sales organization provides central marketing, customer service, technical support, shipping, laboratory and design services for the entire region. In addition, there are design centers in Taiwan, Korea and Hong Kong. In 1995, the Company established a design center in India, the Company's largest design center outside of Europe, which will principally cooperate in the design of advanced macrocells and libraries for the Company's analog, digital and mixed signal technologies.

In Japan, substantially all of the Company's sales are made through distributors, as is typical for foreign suppliers to the Japanese market. Each distributor serves specific territories or customers and is responsible for maintaining the minimum inventories required by Japanese customers. The Company provides marketing and technical support services to distributors through sales offices in Tokyo and Osaka. In addition, the Company has established a design center and application laboratory in Tokyo. The design center designs custom ICs for Japanese clients, while the application laboratory allows Japanese customers to test SGS-THOMSON products in specific applications.

The Company's central marketing efforts are organized into a central strategic marketing organization and a key account management organization. The strategic marketing organization is organized by application market. In addition, in July 1992 the Company created a series of initiatives that it refers to as Golden Programs. These programs focus the Company's multi-divisional and multi-area organizations on 13 key application markets worldwide. Each Golden Program includes a team of personnel from corporate strategic marketing, the product groups and divisions and the regional sales offices. The Golden Program teams work closely with the Company's strategic allies in each application market. The current Golden Programs

include television/terminals, memory disk drives, digital cellular telephones, color television, power supply, line card, multimedia graphics, automobile radio, monitors, satellite and cable television systems, lighting, engine management and asynchronous transfer mode data communications.

In addition to the central strategic marketing team, the Company has established key account management teams to serve key multinational customers. The key account management teams work with the Company's regional and divisional managers to provide a broad range of products to its major accounts and to develop complete systems solutions for customers. The teams build strategic relationships with the Company's major accounts that can lead to the development of new products, increased access to evolving technologies and enhanced knowledge of customer requirements.

Each of the four regional sales organizations operate dedicated distribution organizations. To support the distribution network, SGS-THOMSON operates logistic centers in Saint Genis, France, Phoenix, Arizona and Singapore, and has made considerable investments in warehouse computerization and logistics support.

The Company also uses distributors and representatives to distribute its products around the world. Typically, distributors handle a wide variety of products, including products that compete with SGS-THOMSON products, and fill orders for many customers. Most of the Company's sales to distributors are made under agreements allowing for price protection and/or the right of return on unsold merchandise. The Company recognizes revenues when it ships products to distributors. Sales representatives generally do not offer products that compete directly with the Company's products, but may carry complementary items manufactured by others. Representatives do not maintain a product inventory; instead their customers place large quantity orders directly with SGS-THOMSON and are referred to distributors for smaller orders.

Research and Development

Management believes that research and development is critical to the Company's success and is committed to increasing research and development expenditures in the future. Despite significant cost reductions following the Company's formation in 1987, and particularly in 1990 and 1991 when the Company experienced losses, management did not reduce research and development spending. The table below sets forth information with respect to the Company's research and development spending since 1991 (not including design center, process engineering, pre-production or industrialization costs):

	Year ended December 31,				
	1991	1992	1993	1994	1995
	(in millions, except percentages)				
Expenditures	$245.3	$260.9	$270.9	$338.3	440.3
as a percentage of net revenues.....	17.9%	16.6%	13.3%	12.8%	12.4%

As a result of the history of the Company, approximately 89% of the Company's research and development expenses in 1995 were incurred in Europe, primarily in France and Italy. See

"-- State Support for the Semiconductor Industry". As of December 31, 1995, approximately 2,540 employees were employed in research and development activities.

Central research and development units conduct research on the basic VLSI technologies, packaging technologies and design tools that are used by all product groups and the front-end manufacturing organization. SGS-THOMSON'S central research and development activities are conducted in Crolles, France, Agrate, Italy, and Carrollton, Texas. The central research and development units participate in several strategic partnerships. The Company's manufacturing facility at Crolles, France houses a research and development center that is operated pursuant to a partnership agreement between the Company and CNET, the research laboratory of France Telecom, an indirect shareholder of the Company in 1993. This center is developing submicron process technologies. The Company has also entered into an agreement with Philips Semiconductors to jointly develop sub-micron CMOS logic processes in Crolles, France through 1997. A technical center in New Delhi, India, develops design software and CAD libraries and tools.

The Company has signed an agreement providing for a research and development cooperation with GRESSI, the research and development Groupement d'Interet Economique ("GIE") formed by the Centre National d'Etudes et des Telecommunications ("CNET"), a research laboratory wholly owned by France Telecom, and the Laboratoire d'Electronique de Technologie d'Instrumentation ("LETI"), a research laboratory of CEA, the parent of one of the indirect shareholders of the Company. The objectives of the cooperation is to develop know-how on innovative aspects of VLSI technology evolution which can be transferred to industrial applications, and to address the development of innovative process steps and process modules to be used in future generations of VLSI products. The cooperation agreement is based upon a pluriannual plan through 1998, and the Company is expected to bear half of the program's total cost. See Item 13: "Management's Interest in Certain Transactions".

In addition to central research and development, each operating division also independently conducts research and development activities on specific processes and products.

State Support for the Semiconductor Industry

Due to the importance of the semiconductor industry, various government authorities in the world, including the European Commission and individual countries in Europe, have established programs for the funding of research and development, innovation, industrialization and training in the industry. In addition, many countries grant various forms of tax relief, direct grants and other incentives to semiconductor companies as well as other industries to encourage investment. The Company has structured its operations to benefit from such programs and incentives and expects to continue to do so in the future. Unlike certain of its competitors, however, the Company does not receive significant direct or indirect financing from defense development programs.

The main European programs in which the Company is involved include: (i) the joint European research program called JESSI, (ii) European Union research and development projects such as ESPRIT (European Strategic Programme for Information Technology) and RACE (Research and Development in Advanced Communications Technologies for Europe), (iii)

national programs for research and development and industrialization in the electronics industries, and (iv) investment incentive programs for the economic development of certain regions. The pan-European programs are generally open to eligible companies operating and investing in Europe and cover an extended period. In Italy, both electronics and economic development programs are open to eligible companies regardless of their ownership or country of incorporation.

JESSI is a European cooperative project in microelectronics among several countries that covers the period 1988 through 1996 and involves more than 80 companies. ESPRIT started in 1983 and is being extended through 1998 within the fourth framework program of the European Commission on Information and Communication Technologies (ICT). In Italy, the "Programma Nazionale per la Microelettronica" has 18 participants, and various programs for intervention in the "Mezzogiorno" (southern Italy) are open to eligible companies, including non-European companies, operating in the region and regulated by specific laws. Italian programs often cover several years, but funding is typically subject to annual budget appropriation. In France, support for microelectronics is provided to over 30 companies manufacturing or using semiconductors. The amount of support under French programs is decided annually and subject to budget appropriation.

In addition, management expects to have the opportunity to take part in the future in European "structural funds" that are intended to furnish important support through 1999 to dedicated regions in many European countries, and provide priorities in funding for productive investment, training and job creation. These funds are available to eligible companies, including non-European companies, operating in the dedicated regions.

As a result of the history of the Company, its research and development facilities and activities are mainly concentrated in France and Italy, and the substantial majority of the Company's state funding has been derived from programs in such countries. Umbrella agreements with the Republics of France and Italy, which set forth the parameters of state support under the national programs, currently run from 1992 through 1996 and require, among other things, compliance with EC regulations and annual and project-by-project reviews and approvals. The agreements are based on the maintenance of an equilibrium in the levels of research and development and related expenditures between the two countries.

Public authority funding for research and development are reported in "Other Income and Expenses" in the Company's consolidated statements of income. See Note 20 to the Consolidated Financial Statements. Such funding has totalled $84.2 million, $80.1 million and $89.6 million in the years 1993, 1994 and 1995, respectively. Public funding for industrialization costs (which include certain costs incurred to bring prototype products to the production stage) is offset against expenses in computing cost of sales, and has the effect of increasing the Company's gross profit. Such funding of industrialization costs has totalled $20.4 million, $19.3 million and $11.8 million in 1993, 1994 and 1995, respectively. See Note 20 to the Consolidated Financial Statements. Government support for capital expenditures funding has totalled $24.5 million, $40.4 million and $64.5 million in the years 1993, 1994 and 1995, respectively. Such funding has been used to support the Company's capital investment; while receipt of these funds is not directly reflected in the Company's results of operations, the resulting lower amounts recorded in property, plant and equipment reduce the level of depreciation recognized by the Company.

Low interest financing has been made available (principally in Italy) under programs such as the Italian Republic's Fund for Applied Research, established in 1968 for the purpose of supporting Italian research projects meeting specified program criteria. At year-end 1994 and 1995, the Company had $133.2 million and $115.4 million, respectively, of indebtedness outstanding under state-assisted financing programs at an average interest cost of 2.9% and 2.64%, respectively. See Note 15 to the Consolidated Financial Statements.

Funding for programs in France and Italy is subject to annual appropriation, and if such governments were unable to provide anticipated funding on a timely basis or if existing government-funded programs were curtailed or discontinued, such an occurrence could have a material adverse effect on the Company's business, operating results and financial condition. From time to time the Company has experienced delays in the receipt of funding under these programs. As the availability and timing of such funding are substantially outside the Company's control, there can be no assurance that the Company will continue to benefit from such government support, that funding will not be delayed from time to time, that sufficient alternative funding would be available if necessary or that any such alternative funding would be provided on terms as favorable to the Company as those previously provided.

Various programs that provide different forms of financial support and incentives (such as research and development grants, low interest loans, capital investment support and tax incentives) for companies in the semiconductor industry are offered in a number of countries. In connection with its long term expansion plans, management believes that opportunities for such financial support and incentives may be available to it in countries outside France and Italy.

Intellectual Property

Intellectual property rights which apply to various Company products include patents, copyrights, trade secrets, trademarks and maskwork rights. SGS-THOMSON owns more than 1,000 original invention patents or pending patent applications, most of which have been registered in several countries around the world. In 1995, the Company filed 420 original patent applications around the world. Management believes that its intellectual property represents valuable property and intends to protect the Company's investment in technology by enforcing all of its intellectual property rights.

The Company has entered into several patent cross-licenses with several major semiconductor companies, consisting primarily of most of the major Japanese semiconductor companies.

Pursuant to a 1977 license agreement (the "Intel License Agreement"), SGS-THOMSON U.S. is licensed to make, have made, use and sell (in addition to other rights) products that practice all Intel patents filed prior to 1999 for the life of such patents. The Intel License Agreement was originally entered into by Mostek Corporation ("Mostek") and Intel. Thomson Semiconducteurs, one of the constituent companies of the current Company, acquired Mostek assets in 1985 and SGS-THOMSON U.S. succeeded to the interest of Mostek under the Intel License Agreement upon the Company's formation in 1987. SGS-THOMSON U.S.'s succession rights under the Intel License Agreement were upheld in a court judgment rendered

in July 1992 which is now final as well as in a court judgement dated December 30, 1994 which has been confirmed in appeal.

In January 1994, SGS-THOMSON U.S. and Cyrix entered into a non-exclusive production and license agreement (the "Cyrix License Agreement") pursuant to which SGS-THOMSON U.S. agreed to produce Cyrix-designed x86 chips to sell to Cyrix for resale as Cyrix-branded products. In addition, Cyrix granted SGS-THOMSON U.S. a licence to sell (as SGS-THOMSON products) a proportion of the chips that it makes available to Cyrix and to use Cyrix architecture to produce application-specific ICs. The Cyrix License Agreement extends to future generations of x86 products. Cyrix and SGS-THOMSON U.S. signed an amendment to the Cyrix License Agreement in July 1995 that allows SGS-THOMSON U.S. to manufacture and sell to third parties additional quantities of Cyrix products at least through 1997. SGS-THOMSON U.S. may continue to manufacture and sell application-specific ICs using Cyrix architecture after termination of the agreement. In April 1994, Cyrix entered into x86 production and license agreements with IBM.

The Company's success depends in part on its ability to obtain patents, licenses and other intellectual property rights covering its products and manufacturing processes. To that end, the Company has acquired certain patents and patent licenses and intends to continue to seek patents on its inventions and manufacturing processes. The process of seeking patent protection can be long and expensive, and there can be no assurance that patents will issue from currently pending or future applications or that, if patents are issued, they will be of sufficient scope or strength to provide meaningful protection or any commercial advantage to the Company. In addition, effective copyright and trade secret protection may be unavailable or limited in certain countries. Litigation, which could demand financial and management resources, may be necessary to enforce patents or other intellectual property rights of the Company.

Also, there can be no assurance that litigation will not be commenced in the future against the Company regarding patents, mask works, copyrights, trademarks or trade secrets, or that any licenses or other rights to necessary intellectual property could be obtained on acceptable terms. The failure to obtain licenses or other intellectual property rights, as well as the expense or outcome of litigation, could adversely affect the Company's results of operations or financial condition. The Company has from time to time received, and it may in the future receive, communications alleging possible infringement of certain patents and other intellectual property rights of others and it is currently the defendant in a lawsuit charging the Company with patent infringement. Regardless of the validity or the successful assertion of such claims, the Company could incur significant costs with respect to the defense thereof which could have a material adverse effect on the Company's results of operations or financial condition. See Item 3: "Legal Proceedings".

Backlog

The Company's sales are made primarily pursuant to standard purchase orders that are generally booked from one to twelve months in advance of delivery. Quantities actually purchased by customers, as well as prices, are subject to variations between booking and delivery to reflect changes in customer needs or industry conditions.

Although the Company's backlog has increased significantly in 1995 in an improved semiconductor market, in a declining market the Company has in the past and may in the future be requested to reduce prices to limit the level of order cancellations. Despite price reductions, however, in an industry downturn order cancellations may be expected, particularly by distributors and for commodity products. The Company's level of backlog is therefore not necessarily a reliable indicator of the level of future billings.

SGS-THOMSON also sells certain products to key customers pursuant to frame contracts. Frame contracts are annual fixed-price contracts with customers setting forth the terms of purchase and sale of specific products. These contracts allow the Company to schedule production capacity in advance and allow customers to manage their inventory levels consistent with just-in-time principles while shortening the cycle times required to produce ordered products. Orders under frame contracts are also subject to risks of price reduction and order cancellation.

Competition

Markets for the Company's products are highly competitive. While only a few companies compete with SGS-THOMSON in all of the Company's product lines, the Company faces significant competition in each of its product lines. SGS-THOMSON competes with major international semiconductor companies, some of which have substantially greater financial and other resources than the Company with which to pursue engineering, manufacturing, marketing and distribution of their products. Smaller niche semiconductor companies are also increasing their participation in the semiconductor market. Competitors include manufacturers of standard semiconductors, application-specific ICs and fully customized ICs, including both chip and board-level products, as well as customers who develop their own integrated circuit products.
Some of the Company's competitors are also its customers.

The Company's primary competitors include Advanced Micro Devices, Inc., Hitachi, Intel Corporation, Motorola, Inc., National Semiconductor Corporation, Nippon Electric Company, Ltd., Philips Semiconductors, Samsung, Siemens, Texas Instruments Incorporated and Toshiba. The market for the Company's new x86 microprocessors is currently dominated by Intel Corporation.

The Company competes in different product lines to various degrees on the basis of price, technical performance, product features, product system compatibility, customized design, availability, quality and sales and technical support. The Company's ability to compete successfully depends on elements both within and outside of its control, including successful and timely development of new products and manufacturing processes, product performance and quality, manufacturing yields and product availability, customer service, pricing, industry trends and general economic trends.

The market for the Company's products is characterized by rapidly changing technology. Therefore, the Company's success is highly dependent upon its ability to develop complex new products on a cost-effective basis, to introduce them in the marketplace on a timely basis, and to have them selected for design into products of leading systems manufacturers. SGS-THOMSON has committed and intends to continue to commit substantial resources to the

development of new products. Because new product development commitments must be made well in advance of sales, however, new product decisions must anticipate both future demand and the technology that will be available to supply such demand. Delays in developing new products with anticipated technological advances or in commencing volume shipments of new products may have an adverse effect on the Company's business. In addition, there can be no assurance that new products, if introduced, will gain market acceptance or will not be adversely affected by new technological changes or new product announcements by others. See "-- Research and Development".

In recent years the Company has introduced, among other new products, dedicated products for several applications, including, in particular, telecommunications, computer peripheral, and automotive applications, power MOSFETS for high-frequency and high-voltage applications, Omnifets (power MOSFETS with fully integrated protection devices). In 1995, the Company introduced a multimedia accelerator (co-designed and developped by NVIDIA Corporation) for the high volume multimedia personal computer market, a digital signal processing core for 0.5 micron ASICs (DSP 950) and the ST20 family of compatible 0.5 micron 32-bit microprocessor cores. The Company also continually strives to improve the operating performance and design features of many of its products.

According to published industry data, SGS-THOMSON was the world's leading supplier of EPROMs in 1995 with revenues of $337.3 million, a decrease of 3% over 1994 revenues. The EPROM market is a relatively mature commodity market. Flash memory products may replace EPROMs in many applications in the second half of the 1990s. The Company currently supplies flash memory products up to 4 Mbit, and has entered into an agreement with Mitsubishi to jointly develop a family of 16 Mbit flash memories. The Company is also developing a new generation of digital video decompression chips, a 64-bit RISC microprocessor and a 0.7 micron BiCMOS mixed-signal standard cell. There can be no assurance, however, that the Company's flash memories, x86 microprocessors or other new products will be successfully developed or produced or that they will achieve market acceptance or contribute significantly to the Company's revenues. The market for the Company's new x86 microprocessors is dominated by Intel Corporation.

The Company's future success is also dependent in part upon its ability to develop and implement new design and process technologies. Semiconductor design and process technologies are subject to rapid technological change, and require large expenditures for capital investment and research and development. The Company is developing advanced and standardized design tools for its CMOS processes as well as libraries of macrofunctions and megafunctions for many of its products, and is focusing on improving its concurrent engineering practices to better coordinate design activities and reduce overall time-to-market. If the Company experiences substantial delays in developing new design or process technologies or inefficiently implements production increases or transitions, the Company's results of operations could be adversely affected.

Employees

As of December 31, 1995, the Company employed approximately 25,468 people, of whom approximately 5,035 were employed in France, 5,117 were employed in Italy, 575

were employed in the rest of Europe, 2,439 were employed in the United States, 4,370 were employed in Malta and Morocco and 7,933 were employed in Singapore, Malaysia and Japan. As of December 31, 1995, approximately 2,540 employees were engaged in research and development, 1,300 in marketing and sales, 17,954 in manufacturing, 1,522 in administration and general services and 2,152 in divisional functions.

The Company's future success will depend, in part, on its ability to continue to attract, retain and motivate highly qualified technical, marketing, engineering and management personnel. Unions are present in France, Italy, Malta, Morocco and Singapore. The Company has not experienced any significant strikes or work stoppages in recent years, other than in connection with national strikes in Italy, and management believes that the Company's employee relations are good.

Environmental Matters

The Company's manufacturing operations use many chemicals and gases and the Company is subject to a variety of governmental regulations related to the use, storage, discharge and disposal of such chemicals and gases and other emissions and wastes. Consistent with the Company's TQM principles, the Company has established proactive environmental policies with respect to the handling of such chemicals and gases and emissions and waste disposals from its manufacturing operations. The Company has engaged outside consultants to audit its environmental activities and has created environmental management teams, information systems, education and training programs, and environmental assessment procedures for new processes and suppliers. In 1995, four of the Company's plants, Kirkop, Malta, Toa Payoh, Singapore, Rancho Bernardo, United States and Rennes, France, were certified for the Eco-Management and Audit Source Standard ("EMAS").

Although the Company has not suffered material environmental claims in the past and believes that its activities conform to presently applicable environmental regulations, in all material respects, environmental claims or the failure to comply with present or future regulations could result in the assessment of damages or imposition of fines against the Company, suspension of production or a cessation of operations.

Item 2: Description of Property

SGS-THOMSON currently operates 17 manufacturing facilities around the world. The table below sets forth certain information with respect to SGS-THOMSON's current manufacturing facilities, products and technologies. Front-end manufacturing facilities are wafer fabrication plants and back-end facilities are assembly, packaging and final testing plants.

Location	Products	Technologies
Front-end Facilities:		
Crolles, France	Semicustom devices and dedicated products	8-inch 0.7/0.35 micron CMOS and 1.2/0.35 micron BiCMOS; and R&D on submicron technologies in conjunction with CNET and Philips Semiconductors
Phoenix, Arizona	x86 microprocessors and other VLSI products	8-inch 0.5/0.35 micron CMOS
Agrate, Italy	EPROMSs, EEPROMs, semicustom devices, microprocessors and dedicated products	Fab 1 - 6-inch 0.8/0.6 micron CMOS Fab 2 - 6-inch 2.0/1.2 micron BiCMOS and BCD Fab 3- 6-inch 0.65/0.35 micron CMOS pilot line being converted to 8-inch
Rousset, France	Microcontrollers, EEPROMs and smartcard products	6-inch 0.8 micron CMOS
Catania, Italy	Power transistors, smart devices and audio and automotive dedicated products	Fab 1 - 5-inch 3 micron bipolar power Fab 2 - 5-inch 3/4 micron power MOS/BCD (being converted to 6-inch) Fab 3 - 6-inch 4/6/1 micron pilot line
Rennes, France	Dedicated and power products	5-inch 2.0 micron BiCMOS, BCD and bipolar
Grenoble, France(1)	Dedicated products and semicustom devices	4-inch 2.0/1.2 micron BiCMOS
Castelletto, Italy	Smart power BCD	5-inch 4.0/1.2 micron bipolar and mixed BCD pilot line (being converted to 6-inch)
Tours, France	Thyristors, diodes and application-specific discretes	Fab 1 - 4-inch discrete Fab 2 - 4-inch discrete
Ang Mo Kio, Singapore	Dedicated products, microcontrollers and commodity products	Fab 1 - 5-inch 2 micron CMOS Fab 2 - 5-inch 6 micron bipolar standard Fab 3 - 5-inch 3 micron bipolar complex
Carrollton, Texas	Memories, microprocessors and semicustom devices	Fab 1 - 4-inch 1.2 micron CMOS and BiCMOS (being converted to 6-inch) Fab 2 - 6-inch 0.6 micron CMOS
Rancho Bernardo, California(2)	CMOS/BiCMOS telecommunications ICs	4-inch 3 micron CMOS/BiCMOS
Back-end Facilities:		
Muar, Malaysia	Broad range	
Kirkop, Malta	Broad range	
Toa Payoh, Singapore	Broad range	
Ain Sebaa, Morocco	Discrete semiconductors	
Bouskoura, Morocco	Subsystems	

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(1) The closure of the Grenoble front-end facility (originally scheduled to be closed after the Crolles facility became fully operational) has been postponed due to capacity requirements in light of current market conditions.
(2) This facility was acquired by the Company from Northern Telecom on January 1, 1994 in connection with entering into a strategic alliance with Northern Telecom.

In 1995, approximately 63.0% of the 6-inch equivalent wafers manufactured by SGS-THOMSON were manufactured in Europe, 25.0% in the Asia Pacific region, and 12.0% in the United States. The major hubs for European manufacturing and product design and

development are located in Agrate, Italy and Crolles, France. In the United States, the Company's main manufacturing facility is located in Carrollton, Texas. In the Asia Pacific region, the Company operates a front-end wafer fab in Singapore and back-end facilities in Singapore and Muar, Malaysia.

To expand capacity, SGS-THOMSON has applied 1994 and 1995 investments to build and equip two 8-inch front-end manufacturing facilities in Crolles, France and Phoenix, Arizona currently in operation, is applying 1995 investments to build and equip an additional 8-inch front-end manufacturing facility in Catania, Italy, not yet in operation, and to build a new back-end facility and design center in Shenzhen, China through its joint venture created in 1994 with a subsidiary of the Shenzhen Electronics Group. The Company also converted 4-inch and 5-inch water fabs to 5-inch and 6-inch production and is starting the conversion and expansion from 6-inch to 8-inch production of a front-end fabrication facility in Agrate, Italy. In addition, the Company has identified two other 8-inch front-end wafer fabrication facilities, one of which will be in Singapore, with the other one in Italy now under consideration. In 1995, the Company approved the building and equipping of a new 8-inch 0.5 micron front-end wafer fabrication plant (which will also be capable of 0.35 and 0.25 micron production) in Rousset, France. In 1995, approximately 76.0% of the wafers manufactured by SGS-THOMSON were manufactured on 5-inch or larger wafers.

In 1994, the Company created a joint venture with a subsidiary of the Shenzhen Electronics Group ("SEG") that is building and will operate a back-end manufacturing facility and design center in the Futian free-trade zone of Shenzhen in southern China. SGS-THOMSON owns a 60% interest in the joint venture, with a subsidiary of SEG owing the remaining 40%. Construction of the plant is being completed and equipment installation is scheduled to begin in 1996. The Company and SEG plan to invest initially approximately $77 million in the joint venture. SEG is a diversified export-oriented electronics company controlled by the Shenzhen Municipal Government that manufactures communications equipment, computers and electronic products and components and engages in import-export trading, financial investment management and real estate.

Although each fabrication plant is dedicated to specific processes, the Company's strategy is to have multiple plants for key process families. The Company subcontracts some back-end assembly and testing operations.

Manufacturing Risks

The Company's manufacturing processes are highly complex, require advanced and costly equipment and are continuously being modified in an effort to improve yields and product performance. Impurities or other difficulties in the manufacturing process can lower yields. Although the Company's increased manufacturing efficiency has been an important factor in its improved results of operations, as is common in the semiconductor industry, the Company has from time to time experienced production difficulties that have caused delivery delays and quality control problems. No assurance can be given that the Company will be able to increase manufacturing efficiency in the future to the same extent as in the past or that the Company will not experience production difficulties in the future.

In addition, during the recent period of high revenue growth for the Company, the Company's manufacturing facilities, particularly back-end assembly, packaging and testing facilities, have been operating at high capacity. SGS-THOMSON has applied 1994 and 1995 investments to build and equip two 8-inch front-end manufacturing facilities in Crolles, France and Phoenix, Arizona currently in operation, is applying 1995 investments to build and equip an additional 8-inch front-end manufacturing facility in Catania, Italy, not yet in operation, and to build a new back-end facility and design center in Shenzhen, China through its joint venture created in 1994 with a subsidiary of the Shenzhen Electronics Group. The Company also converted 4-inch and 5-inch water fabs to 5-inch and 6-inch production and is starting the conversion and expansion from 6-inch to 8-inch production of a front-end fabrication facility in Agrate, Italy. In addition, the Company has identified two other 8-inch front-end wafer fabrication facilities, one of which will be in Singapore, with the other one in Italy now under consideration. In 1995, the Company approved the building and equipping of a new 8-inch 0.5 micron front-end wafer fabrication plant (which will also be capable of 0.35 and 0.25 micron production) in Rousset, France. As is common in the semiconductor industry, the Company has from time to time experienced difficulty in ramping up production at new facilities or effecting transitions to new manufacturing processes and, consequently, has suffered delays in product deliveries or reduced yields. There can be no assurance that the Company will not experience manufacturing problems in achieving acceptable yields and/or product delivery delays in the future as a result of, among other things, capacity constraints, construction delays, ramping up production at new facilities, upgrading or expanding existing facilities or changing its process technologies, any of which could result in a loss of future revenues. The Company's operating results could also be adversely affected by the increase in fixed costs and operating expenses related to increases in production capacity if revenues do not increase commensurately.

SGS-THOMSON's principal executive office is located in Saint Genis, France, near Geneva, Switzerland. The Company also operates nine research and development centers and 26 design centers. The Company maintains regional sales headquarters in Saint Genis, France, Boston, Massachusetts, Singapore and Tokyo, Japan, and has 44 sales offices in 22 countries throughout Europe, North America and the Asia Pacific region. In general, the Company owns its manufacturing facilities and leases most of its sales offices.

Item 3: Legal Proceedings

As is the case with many companies in the semiconductor industry, the Company has from time to time received communications alleging possible infringement of certain intellectual property rights of others. Irrespective of the validity or the successful assertion of such claims, the Company could incur significant costs with respect to the defense thereof which could have a material adverse effect on the Company's results of operations or financial condition.

The Company is currently involved in certain legal proceedings, including litigation charging the Company with patent infringement. The Company does not believe that the ultimate resolution of pending legal proceedings will have a material adverse effect on its financial condition.

In May 1995, an investigation was ordered by the prosecutor of the court of Catania, Italy of the research and development consortium CORIMME. SGS-THOMSON Microelectronics s.r.l. holds a 662/3% voting interest in the consortium with the University of Catania holding the remaining 331/3% voting interest. A notice (Informazione di Garanzia) of the commencement of a criminal investigation was served on the President of CORIMME and to the Board of Directors and Statutory Auditors of CORIMME. Under Italian law, criminal liability cannot be attributed to a company and therefore notices relating to investigation of acts or events generally attributable to a company are sent to the legal representative of such company (i.e. the president or the statutory bodies). Investigations are still on going with regard to the dispute concerning value-added-tax ("VAT") between CORIMME and the Italian tax authority, and with regard to alleged misuse of public funds by SGS-THOMSON Microelectronics s.r.l. In order to become eligible for government research and development funding, the CORIMME consortium was required to submit detailed plans specifying the objectives of a program and the manner in which the funding would be used. The Company's management believes that the inquiry to date has focused on whether part of the funds and other resources designated for research were used for production or otherwise in violation of applicable requirements and on the proper use of, and allocation of expenses (such as rent and utilities) for, resources and the allocation of revenues between CORIMME and the Company. In another matter concerning a dispute on VAT deductions, CORIMME was granted a favorable ruling by the Commissione Tributaria di Primo Grado in Catania which has been confirmed by The Commissione Tributaria di Secunda Grado in Catania. The Company's management believes that CORIMME's contractual and other requirements have been honored in all material respects. The Company's management further believes that the management of CORIMME programs has been in all material respects in accordance with those plans and with applicable financial procedures provided by the Italian government. It is cooperating in full with the authorities in the conduct of the inquiry. Due to the preliminary nature of the inquiry it is impossible to determine the ultimate scope or outcome of the inquiry. Although the investigation is at a preliminary stage, management believes based on information available to the Company to date and based on the advice of legal counsel that the outcome of the investigation will not have a material effect on the financial condition or results of operations of the Company.

Item 4: Control of Registrant

Principal Shareholders

In October, 1995, the Company completed a second public offering of the Common Shares. In the Offering, the Company sold 8,960,000 shares and the selling shareholders sold 11,740,000 shares at a price to public of $43.5 a share. The following table sets forth certain information with respect to the ownership of the Company's Common Shares, as of June 3, 1996.

	Common Shares Owned	
Shareholders	Number of Common Shares	%
SGS-THOMSON Microelectronics Holding II B.V.....	95,863,880	69.4

THIS INFORMATION WAS REPRESENTED BY AN ORGANIZATIONAL CHART IN THE ORIGINAL
Description of Shareholding Structure:

SGS-THOMSON Microelectronics N.V. is owned 69.4% by SGS-THOMSON Microelectronics Holding II B.V. a wholly-owned subsidiary of SGS-THOMSON Microelectonics Holding N.V. SGS-THOMSON Microelectronics Holding N.V. is 50% owned by a consortium of French shareholders and 50% owned by a consortium of Italian shareholders. The French shareholders, FT2CI is owned 49.9% by Thomson-CSF and FT1CI, respectively. Thomson-CSF is owned 58.0% by Thomson S.A. FT1CI is owned 51.0% and 49% by CEA-Industrie and France Telecom, respectively. The Italian shareholders, MEI, is owned 50.1% and 49.9% by I.R.I. and Comitato SIR, respectively.

SGS-THOMSON Microelectronics Holding II B.V. ("SGS-THOMSON Holding II") is a wholly owned subsidiary of SGS-THOMSON Microelectronics Holding N.V. ("SGS-THOMSON Holding"). SGS-THOMSON Holding is 50% owned by a consortium of French shareholders that are indirectly controlled by the French government and 50% owned by a consortium of Italian shareholders that are indirectly controlled by the Italian government. The consortium of French shareholders is comprised of Thomson-CSF, a subsidiary of the French state-controlled electronics company Thomson S.A., France Telecom, the French state-controlled telephone company, CEA-Industrie, a corporation controlled by the French atomic energy commission, and FT1CI and FT2CI, two French holding companies. The consortium of Italian shareholders is comprised of Istituto per la Ricostruzione Industriale S.p.A. ("I.R.I."), the holding company for Italian state-owned industrial and commercial interests, Comitato per l'Intervento nella SIR ed in settori ad Alta Technologia ("Comitato SIR") and MEI-Microelettronica Italiana s.r.l. ("MEI"), an Italian holding company. In December 1994, Finmeccanica, a subsidiary of I.R.I., transferred its interest in SGS-THOMSON Holding to MEI. Shares of Thomson-CSF are listed on the Bourse de Paris and Frankfurt Stock Exchange and American Depositary Receipts for its shares are quoted on Nasdaq. Certificats d'investissement of CEA-Industrie are listed on the Bourse de Paris.

SGS-THOMSON Holding II is a holding company whose only asset is the common stock of the Company. It has no Supervisory Board, and its Management Board is SGS-THOMSON Holding.

Shareholder Agreements

In connection with the formation of the Company, Thomson-CSF and STET, as shareholders of the Company, entered into a shareholders agreement on April 30, 1987. In connection with the formation of SGS-THOMSON Holding in 1989, which coincided with the acquisition by Thorn EMI of its interest in the Company, the shareholders agreement (as amended, the "Holding Shareholders Agreement") was amended to apply to the parties' ownership in SGS-THOMSON Holding. The rights and obligations of Thomson-CSF and STET under the Holding Shareholders Agreement were subsequently transferred to or assumed by, as the case may be, FT2CI for Thomson-CSF, and Finmeccanica and MEI for STET. In connection with the transfer by Finmeccanica of its interest in SGS-THOMSON Holding to MEI, the rights and obligations of Finmeccanica under the Holding Shareholders Agreement were subsequently transferred to or assumed by, as the case may be, MEI.

Pursuant to the terms of the Holding Shareholders Agreement and for the duration of such agreement, FT2CI (the "French Owner"), on the one hand, and MEI (the "Italian Owner"), on the other hand, have agreed to maintain equal interests in the share capital of SGS-THOMSON Holding and maintain, together, ownership of the majority of SGS-THOMSON Holding's issued voting shares. The admission of a third party to the share capital of SGS-THOMSON Holding, whether through the sale of SGS-THOMSON Holding's outstanding shares or through the issue by SGS-THOMSON Holding of new shares, or by any other means, must be unanimously agreed upon. In the event of a new shareholder, the parties undertake to ensure that the balance between the French and Italian shareholdings shall be maintained.

The Holding Shareholders Agreement contemplates that the parties shall agree upon common proposals and jointly exercise their powers of decision and their full control of

the strategies and actions of SGS-THOMSON Holding and the Company. Under the Holding Shareholders Agreement, the Supervisory Board of SGS-THOMSON Holding, which is composed of three representatives of the French Owner and three representatives of the Italian Owner, must give its prior approval before SGS-THOMSON Holding, the Company, or any subsidiary of the Company may: (i) modify its articles of incorporation; (ii) change its authorized share capital, issue, acquire or dispose of its own shares, change any shareholder rights or issue any instruments granting an interest in its capital or profits; (iii) be liquidated or dispose of all or a substantial and material part of its assets or any shares it holds in any of its subsidiaries; (iv) enter into any merger, acquisition or joint venture agreement (and, if substantial and material, any agreement relating to intellectual property) or form a new company; (v) approve such company's draft consolidated balance sheets and financial statements or any profit distribution by such company; or (vi) enter into any agreement with any of the direct or indirect French or Italian Owners outside the normal course of business. The Holding Shareholders Agreement also provides that long-term business plans and annual budgets of the Company and its subsidiaries, as well as any significant modifications thereto, shall be approved in advance by the Supervisory Board of SGS-THOMSON Holding. In addition, the Supervisory Board of SGS-THOMSON Holding shall also decide upon operations of exceptional importance contained in the annual budget even after financing thereof shall have been approved.

Such agreement also provides that similar and adequate levels of research, development and technological innovation shall be achieved by the Company and its subsidiaries in France and Italy and that there shall be no substantial discrepancy in the percentage of state financing compared to research, development and technological innovation expenditures by the Company and its subsidiaries in each such country. See "Item 1: Description of Business State Support for the Semiconductor Industry." Pursuant to the terms of the Holding Shareholders Agreement, SGS-THOMSON Holding is not permitted, as a matter of principle, to operate outside the field of semiconductor products. The parties to the Holding Shareholders Agreement also undertake to refrain directly or indirectly from competing with the Company in the area of semiconductor products, subject to certain exceptions, and to offer the Company opportunities to commercialize or invest in any semiconductor product developments by them. Any financing or capital provided by the parties to SGS-THOMSON Holding or the Company is intended to be provided pro rata based on the parties' respective shareholdings in SGS-THOMSON Holding. In the Holding Shareholders Agreement, the parties state that it is of the utmost importance that the French and Italian governments grant sufficient and continuous financial support for research and development, and undertake to take suitable actions with a view to obtaining such funding.

In the event of a disagreement that cannot be resolved between the parties as to the conduct of the business and actions contemplated by the Holding Shareholders Agreement, each party has the right to offer its interest in SGS-THOMSON Holding to the other, which then has the right to acquire, or to have a third party acquire, such interest. If neither party agrees to acquire or have acquired the other party's interest, then together the parties are obligated to try to find a third party to acquire their collective interests, or such part thereof as is suitable to change the decision to terminate the agreement. The Holding Shareholders Agreement otherwise terminates in the event that one of the parties thereto ceases to hold shares in SGS-THOMSON Holding.

The Company has been informed that the shareholders of FT2CI as well as the shareholders of FT1CI (the majority shareholder of FT2CI) have also entered into separate shareholder agreements that require the consent of the Board of Directors of each such company to certain actions taken by SGS-THOMSON Holding, the Company and its subsidiaries. These agreements provide for the management of the interests of CEA-Industrie, France Telecom and Thomson-CSF in SGS-THOMSON Holding and the Company, with the object of defining among them the positions, strategies and decisions to be taken by the French Owner in SGS-THOMSON Holding affecting the management of SGS-THOMSON Holding, and the Company and its subsidiaries. The Company is not a party to either of these agreements.

In particular, the agreement between the shareholders of FT2CI (FT1CI and Thomson-CSF) provides that, subject to the fulfillment of their duties as Supervisory Board members in accordance with Dutch law, representatives of FT2CI on the Supervisory Board of SGS-THOMSON Holding and the Company can only take positions on specified matters at meetings of such Supervisory Boards if such positions are approved in advance by a majority (or in certain circumstances three-quarters) of the Board of Directors of FT2CI (which consists of nine members, six of whom are chosen by FT1CI and three of whom are chosen by Thomson-CSF). Such matters requiring majority approval include: (i) adoption and changes to long-term business plans of SGS-THOMSON Holding and the Company, (ii) approval of annual budgets prior to their adoption by the Supervisory Board of the Company, (iii) approval of the annual financial statements of SGS-THOMSON Holding and the Company, (iv) modification of the articles of association or capital increases of any of the Company's subsidiaries, (v) dissolution or sale of all or a substantial part of the assets of any of the Company's subsidiaries, (vi) any equity investment by SGS-THOMSON Holding, the Company or any of its subsidiaries in another company or group, (vii) any agreement between SGS-THOMSON Holding and/or the Company and any shareholder of FT1CI or FT2CI outside the ordinary course of business, (viii) any technology transfer agreement allowing the Company to create new families of technology or allowing competitors access to major technologies of the Company, and (ix) any major modification to the geographic distribution of industrial sites of the Company in Europe or the United States. Such matters requiring three-quarters' approval include: (i) any modification of the amount or breakdown of the capital of SGS-THOMSON Holding or the Company not constituting a strategic alliance or any issuance or repurchase by SGS-THOMSON Holding or the Company of their shares or any modification of the rights attached thereto, (ii) any issue by SGS-THOMSON Holding or the Company of shares giving rights to a minimum number of shares of capital stock, with the effect of or leading to a change in the ownership of share capital of SGS-THOMSON Holding or the Company, (iii) any distribution of profits of SGS-THOMSON Holding and/or the Company, (iv) any liquidation or dissolution of SGS-THOMSON Holding or the Company, or any sale of all or a substantial part of the assets of either company, (v) any modification of the articles of association of SGS-THOMSON Holding or the Company, and (vi) any sale of assets or business likely to have a significant negative impact on the shareholders' equity of the Company. In addition, any modification of the Holding Shareholders Agreement requires the approval of three-quarters of the members of FT2CI's Board of Directors. The FT2CI shareholders agreement provides that the three representatives of the French Owner on the Supervisory Boards of SGS-THOMSON Holding and the Company shall be members of the FT2CI Board of Directors and will consist of two members chosen by FT1CI and one member chosen by Thomson-CSF. The FT2CI shareholders agreement also requires the consent of Thomson-CSF for the transfer of any shares in FT1CI. Under certain circumstances, FT1CI is required to acquire Thomson-CSF's interest in FT2CI, including if (i)

CEA-Industrie and France Telecom no longer hold a majority of FT1CI's capital, (ii) FT1CI no longer holds a majority of FT2CI's capital, (iii) FT2CI and the Italian shareholders together no longer hold a majority of SGS-THOMSON Holding's capital, (iv) SGS-THOMSON Holding no longer holds a majority of the Company's share capital or (v) FT2CI obtains more than a 50% interest in SGS-THOMSON Holding. Under the FT2CI shareholders agreement, Thomson-CSF has agreed not to compete with the Company in the area of non-military semiconductor products until February 15, 1998. The FT2CI shareholders agreement terminates in 30 years or in the event one of the parties ceases to hold shares in FT2CI.

The agreement between the shareholders of FT1CI (CEA-Industrie and France Telecom) provides that the following acts of FT2CI with respect to SGS-THOMSON Holding or the Company must be approved by three-quarters of the Board of Directors of FT1CI (which consists of five directors, three of whom are chosen by CEA-Industrie and two of whom are chosen by France Telecom): (i) any modification of the articles of association of SGS-THOMSON Holding or the Company, (ii) any change in the capital of SGS-THOMSON Holding or the Company, or issuance, purchase or sale by SGS-THOMSON Holding or the Company of their shares or rights attached thereto, or the issuance of any securities giving rights to a share in the capital or profits of SGS-THOMSON Holding or the Company, (iii) the liquidation or dissolution of SGS-THOMSON Holding or the Company or the sale of all or an important and material part of the business or assets of SGS-THOMSON Holding or the Company representing at least $10,000,000 of the consolidated shareholders' equity of the Company, (iv) any merger, acquisition, partnership in interest or the execution of any material agreement relating to intellectual property rights, in each case in which SGS-THOMSON Holding or the Company participates or in which a proposal is made to participate, or the establishment by SGS-THOMSON Holding or the Company of new companies or groups, (v) approval of the balance sheets and consolidated accounts of SGS-THOMSON Holding, the Company and its subsidiaries as well as the policies of distributions of profits among the group, (vi) any agreement between SGS-THOMSON Holding and/or the Company and the shareholders of FT1CI which is out of the ordinary course of business, (vii) the approval of, or material modifications to, shareholders agreements with the Italian Owner with respect to SGS-THOMSON Holding or the Company and (viii) approval of strategic multi-year plans and annual consolidated budgets of SGS-THOMSON Holding and the Company. Transfers of shares in FT1CI to third parties are subject to the approval of at least four members of the Board of Directors, and are subject to a right of first refusal of the other shareholders, as well as other provisions. In the event CEA-Industrie proposes to sell its interest in FT1CI, in whole or in part, France Telecom has the right to require the acquiror to purchase its interest as well. The FT1CI shareholders agreement terminates upon the termination of FT1CI.

As is the case with other companies controlled by the French Government, the French Government has appointed for each of FT1CI and FT2CI a Commissaire du Gouvernement and a Controleur d 'Etat. Pursuant to decree No. 94-214, dated March 10, 1994, these Government representatives have the right (i) to attend any board meeting of FT1CI and FT2CI, and (ii) to veto any board resolution or any decision of the president of FT1CI and FT2CI within 10 days of such board meeting (or, if they have not attended the meeting, within 10 days of the receipt of the board minutes or the notification of such president's decision); such veto lapses if not confirmed within one month by the Ministry of the Economy or the Ministry of Industry. FT1CI and FT2CI are subject to certain points of the arrete of August 9, 1953 pursuant to which the Ministry of the Economy and any other relevant ministries (a) have the

authority to approve decisions of FT1CI and FT2CI relating to budgets or forecasts of revenues, operating expenses and capital expenditures, and (b) may set accounting principles and rules of evaluation of fixed assets and amortization.

In connection with the Initial Public Offering, SGS-THOMSON Holding II and the Company entered into a registration rights agreement pursuant to which the Company agreed that, upon request from SGS-THOMSON Holding II, the Company will file a registration statement under the Securities Act of 1933, as amended, to register Common Shares held by SGS-THOMSON Holding II, subject to a maximum number of five requests in total as well as a maximum of one request in any twelve-month period. Subject to certain conditions, the Company will grant SGS-THOMSON Holding II the right to include its Common Shares in any registration statements covering offerings of Common Shares by the Company. SGS-THOMSON Holding II will pay a portion of the costs of any requested or incidental registered offering based upon its proportion of the total number of Common Shares being registered, except that SGS-THOMSON Holding II will pay any underwriting commissions relating to Common Shares that it sells in such offerings and any fees and expenses of its separate advisors, if any. Such registration rights agreement will terminate upon the earlier of December 15, 2004 and such time as SGS-THOMSON Holding II and its affiliates own less than 10% of the Company's outstanding Common Shares.

The Company has been informed by SGS-THOMSON Holding II that, although there may be additional offering by SGS-THOMSON Holding II of its shares in the Company, SGS-THOMSON Holding II does not currently have any plans to reduce its ownership interest to less than a controlling interest in the Company for the foreseeable future. The timing and size of any future primary and secondary offerings will depend upon a variety of factors, including in particular market conditions.

The French and Italian shareholders of SGS-THOMSON Holding have agreed that they will continue to manage their interest in the Company through SGS-THOMSON Holding at least until the end of 1996 or early 1997, and accordingly, for so long as they hold their interest in SGS-THOMSON Holding, they have undertaken (i) to jointly hold 100% of SGS-THOMSON Holding's capital and voting rights, (ii) to maintain equality between the interests of the French and Italian shareholders, (iii) to ensure that SGS-THOMSON Holding maintains more than 51% of the Company's share capital and voting rights, and (iv) to jointly exercise their decision-making powers and monitor strategies and actions as part of SGS-THOMSON Holding's management bodies.

Item 5: Nature of Trading Market

General

The Company's Common Shares are listed on the New York Stock Exchange, which is the principal trading market for the Common Shares, under the symbol "STM" and on the Bourse de Paris. Common Shares are also quoted on SEAQ International.

Trading Markets

The table below sets forth, for the period indicated, the reported high and low sales prices in U.S. dollars for the Common Shares on the New York Stock Exchange and the high and low sales prices in French francs for the Common Shares on the Bourse de Paris.

	New York Stock Exchange Price per Common Share		Bourse de Paris Price per Common Share	
Calendar Period	High	Low	High	Low
1995				
First quarter.....	$32 1/2	$22 3/4	FRF 160	FRF 119
Second quarter.....	$41 7/8	$29 3/4	FRF 205.5	FRF 142.0
Third quarter.....	$57 1/2	$40 3/8	FRF 288.0	FRF 197.0
Fourth quarter.....	$48 3/8	$28 3/8	FRF 279.0	FRF 138.0

At December 31, 1995, there were 138,208,680 Common Shares issued and outstanding, of which 24,772,537 or 17.9% were registered in the Common Share registry maintained on the Company's behalf in New York.

Item 6: Exchange Controls and Other Limitations Affecting Security Holders

None.

Item 7: Taxation

The following is a summary of certain tax consequences of the acquisition, ownership and disposition of the Company's Common Shares based on tax laws of The Netherlands and the United States as in effect on the date of this annual report on Form 20-F, and is subject to changes in Netherlands or U.S. law, including changes that could have retroactive effect. The following summary does not take into account or discuss the tax laws of any country other than The Netherlands or the United States, nor does it take into account the individual circumstances of an investor. Prospective investors in the Company's Common Shares in all jurisdictions are advised to consult their own tax advisers as to Netherlands, U.S. or other tax consequences of the purchase, ownership and disposition of the Company's Common Shares.

Netherlands Taxation

The following summary of Netherlands tax considerations is based on present Netherlands tax laws as interpreted under officially published case law. The description is limited to the tax implications for an owner of Common Shares who is not, or is not deemed to be, a resident of The Netherlands for purposes of the relevant tax codes (a "non-resident Shareholder" or "Shareholder") and who owns less than 10% of the Company's Common Shares.

Dividend Withholding Tax

General. Dividends distributed by the Company are subject to a withholding tax imposed by The Netherlands at a rate of, generally, 25%. Dividends include dividends in cash or in kind, constructive dividends, repayment of paid-in capital not recognized for Netherlands tax purposes and liquidation proceeds in excess of, for Netherlands tax purposes, recognized paid-in capital. Stock dividends are also subject to withholding tax on the nominal value unless sourced out of the Company's paid-in share premium recognized for Netherlands tax purposes.

No withholding tax applies on the sale or disposition of Common Shares to persons other than the Company and affiliates of the Company.

A Shareholder can be eligible for a reduction or a refund of Netherlands dividend withholding tax under a tax convention which is in effect between the country of residence of the Shareholder and The Netherlands. The Netherlands has concluded such a convention with, among others, the United States, Canada, Switzerland, Japan and all EC Member States except Portugal. Under all of those conventions, Netherlands dividend withholding tax is reduced to 15% or a lower rate.

U.S. Shareholders. Under the Tax Convention of December 18, 1992, concluded between the United States and The Netherlands (the "Convention"), the withholding tax on dividends paid by the Company to a resident of the United States (as defined in the Convention) who is entitled to the benefits of the Convention under Article 26 may be reduced to 15% pursuant to Article 10 of the Convention. Dividends paid by the Company to U.S. pension funds and U.S. exempt organizations may be eligible for an exemption from dividend withholding tax.

Relief/refund Procedure. If the 15% rate, or an exemption in case of a qualifying U.S. pension fund, is applicable pursuant to the Convention, the Company is allowed to pay out a dividend under deduction of 15%, or respectively without any deduction, if, at the payment date, the relevant shareholders have submitted the duly signed form IB 92 USA, which form includes a banker's affidavit. Holders of Shares through DTC will initially receive dividends subject to a withholding rate of 25%. An additional 10% of the dividend will be paid to holders upon receipt by the dividend disbursing agent of notification from the Participants in DTC that such holders are eligible for the reduced rate under the Convention. Only where the applicant has not been able to claim full or partial relief at source, will he be entitled to a refund of the excess tax withheld. In that case he should mention in the Form IB 92 USA the circumstances that prevented him from claiming relief at source.

Qualifying U.S. exempt organizations can only ask for a full refund of the tax withheld by using the Form IB 95 USA, which form also includes a banker's affidavit.

Income Tax and Corporate Income Tax

A non-resident individual or corporate Shareholder will not be subject to Netherlands income tax with respect to dividends distributed by the Company on the Common Shares or with respect to capital gains derived from the sale or disposition of Common Shares in the Company, provided that:

(a) the non-resident Shareholder does not own a business which is, in whole or in part, carried on through a permanent establishment or a permanent representative in The Netherlands to which or to whom the Common Shares are attributable;

(b) the non-resident Shareholder does not have a direct or indirect substantial or deemed substantial interest in the share capital of the Company as defined in The Netherlands tax code or, in the event the Shareholder does have such a substantial interest, such interest is a business asset; and

(c) the non-resident Shareholder is not entitled to a share in the profits of an enterprise effectively managed in The Netherlands other than by way of securities or through an employment contract, the Common Shares being attributable to that enterprise.

In general terms, a substantial interest in the share capital of the Company does not exist if the Shareholder alone or together with certain relatives does not own, and has not owned in the preceding five years, one-third or more of the nominal paid-in capital of any class of shares in the Company.

Net Wealth Tax

A non-resident individual Shareholder is not subject to Netherlands net wealth tax with respect to the Shares, provided that:

(a) the non-resident Shareholder does not own a business which is, in whole or in part, carried on through a permanent establishment or a permanent representative in The Netherlands to which or to whom the Common Shares are attributable; and

(b) the non-resident Shareholder is not entitled to a share in the profits of an enterprise effectively managed in The Netherlands other than by way of securities or through an employment contract, the Common Shares being attributable to that enterprise.

Corporations are not subject to Netherlands net wealth tax.

Gift and Inheritance Tax

A gift or inheritance of Common Shares from a non-resident Shareholder will not be subject to a Netherlands gift and inheritance tax, provided that:

(a) the non-resident Shareholder does not own a business which is, in whole or in part, carried on through a permanent establishment or a permanent representative in The Netherlands to which or to whom the Common Shares are attributable; and

(b) the non-resident Shareholder is not entitled to a share in the profits of an enterprise effectively managed in The Netherlands other than by way of securities or through an employment contract, the Common Shares being attributable to that enterprise.

United States Taxation

The following discussion addresses the U.S. federal income taxation of a beneficial owner of the Company's Common Shares that is an individual who is a citizen or resident of the United States, or a corporation, partnership or other entity created or organized under the laws of the United States or any other state or political subdivision thereof, or an estate or trust that is subject to U.S. federal income taxation without regard to the source of its income (a "U.S. Investor"). The following summary does not address the U.S. tax treatment of certain types of U.S. Investors subject to special rules (e.g., dealers in securities, financial institutions, U.S. Investors whose functional currency is not the U.S. dollar, individual retirement and other tax deferred accounts, life insurance companies, tax-exempt organizations and investors owning 10% or more of the Common Shares) or of other U.S. federal taxes, such as U.S. federal estate tax, or of state or local tax laws. Prospective U.S. Investors are advised to consult their own tax advisers to ascertain the tax effect of ownership and disposition of the Common Shares with respect to their particular circumstances.

Taxation of Dividends

To the extent paid out of current or accumulated earnings and profits of the Company, as determined for United States federal income tax purposes, the gross amount of dividends (including the amount of Netherlands taxes withheld therefrom) paid with respect to the Common Shares (other than certain pro rata distributions of capital stock of the Company or rights to subscribe for shares of capital stock of the Company) will be included in the gross income of a U.S. Investor as ordinary foreign source income on the date of receipt. For foreign tax credit purposes, such dividends will generally constitute "passive income", or in the case of certain U.S. Investors, "financial services income". Such dividends will not be eligible for the dividends received deduction allowed to United States corporations. Any distribution that exceeds the Company's current and accumulated earnings and profits will be treated as a nontaxable return of capital to the extent of the U.S. Investor's tax basis in the Common Shares and thereafter as a capital gain. The amount of any cash distribution paid in any currency other than U.S. dollars ("foreign currency") will be equal to the U.S. dollar value of such foreign currency distribution on the date of receipt, regardless of whether a U.S. Investor converts the payment into U.S. dollars. Gain or loss, if any, recognized by a U.S. Investor on the sale or disposition of such foreign currency will be U.S. source ordinary income or loss.

Netherlands withholding tax imposed on dividends paid to a U.S. Investor by the Company at the Convention rate of 15% will be treated as a foreign income tax eligible, subject to certain limitations, for credit against such U.S. Investor's U.S. federal tax liability.

Taxation on Sale or Exchange

A U.S. Investor will generally recognize a gain or a loss for U.S. federal income tax purposes on the sale, exchange or other disposition of Common Shares equal to the difference, if any, between the amount realized on such sale, exchange or other disposition and the U.S. Investor's adjusted tax basis in the Common Shares. In general, a U.S. Investor's adjusted tax basis in Common Shares will be equal to the amount paid by the U.S. Investor for such Common Shares. Such gain or loss will be capital gain or loss if the Common Shares are held as a capital asset and will be long-term capital gain or loss if at the time of sale, exchange or other disposition the Common Shares have been held for more than one year. Gain, if any, will generally be U.S. source income.

Backup Withholding and Information Reporting

In general, information reporting will apply to certain dividends paid on the Common Shares and to the proceeds of sale of the Common Shares paid to U.S. Investors other than certain exempt recipients (such as corporations). A 31% backup withholding tax may apply to such payments if the U.S. Investor fails to provide an accurate taxpayer identification number or certification of exempt status or fails to report in full dividend and interest income.

Item 8: Selected Consolidated Financial Data

Reference is made to the information appearing under the caption "Selected Consolidated Financial Data" on page 25 of the Registrant's 1995 Annual Report to Shareholders, which information is hereby incorporated by reference.

Item 9: Management's Discussion and Analysis of Financial Condition and Results of Operations

Reference is made to the information appearing under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 26 through 36 of the Registrant's 1995 Annual Report to Shareholders, which information is hereby incorporated by reference.

Item 10: Directors and Officers of Registrant

Supervisory Board

The management of the Company is entrusted to the Management Board under the supervision of the Supervisory Board. The Supervisory Board advises the Management Board and is responsible for supervising the policies pursued by the Management Board and the general course of affairs of the Company and its business. In fulfilling their duties, the members of the Supervisory Board must serve the interests of the Company and its business.

The Supervisory Board shall consist of such number of members as resolved by the general meeting of shareholders upon proposal of the Supervisory Board, with a minimum of six members. The members of the Supervisory Board are appointed upon proposal of the Supervisory Board by the general shareholders' meeting by a majority of the votes cast at a meeting where at least one-half of the outstanding share capital is present or represented. On June 24, 1996 the annual general meeting of shareholders approved a resolution of the Supervisory Board to increase the size of the Supervisory Board from six to seven members and appointed Robert M. White as a new member of the Supervisory Board. The Supervisory Board intends to propose a further increase in the size of the Supervisory Board to up to eight members, two of which would not be affiliated with the Company or its direct or indirect shareholders. SGS-THOMSON Holding II has informed the Company that it intends to concur with this proposal.

Pursuant to various shareholders agreements, the members of the Supervisory Board of the Company are required to include three members designated by the French shareholders from the Board of Directors of FT2CI (of whom Thomson-CSF has the right to appoint one member and FTlCI, a corporation owned by CEA-Industrie and France Telecom, has the right to appoint two members), and three members designated by the Italian shareholders (of whom I.R.I. has the right to appoint two members and Comitato SIR has the right to appoint one member). See Item 4: "Control of Registrant -- Shareholder Agreements".

The members of the Supervisory Board shall appoint a chairman and vice chairman of the Supervisory Board from among the members of the Supervisory Board (with approval of at least three-quarters of the members of the Supervisory Board) and may appoint one or more members as a delegate supervisory director to communicate on a regular basis with the Management Board. Resolutions of the Supervisory Board require the approval of at least three-quarters of its members. The Supervisory Board must meet upon request by two or more of its members or by the Management Board. The Supervisory Board has adopted internal regulations to clarify the manner by which it carries out the supervisory duties imposed upon it by law, the Company's Articles of Association and resolutions of the shareholders and the Supervisory Board itself. By such resolution the Supervisory Board: (x) authorized (i) the establishment of a secretariat headed by an individual approved by it and appointed for a one-year renewable term (a) to assist the Chairman and Vice Chairman of the Supervisory Board in the operations of the board, (b) to implement and oversee the execution within the Company of decisions adopted by the Supervisory Board and (c) to cooperate in and contribute to the execution of the functions of the designated Secretary and Assistant Secretary of the Supervisory Board, (ii) (a) the possibility of the appointment by each member of the Supervisory Board of an assistant and (b) the appointment by such board of two controllers to exercise operational and financial control over the operations of the Company who, with assistants, will also review operation reports and the implementation of Supervisory Board decisions, and (iii) the establishment by the Supervisory Board of advisory committees; and (y) established the procedure for the preparation of Supervisory Board resolutions and the setting of such board's calendar.

Members of the Supervisory Board must retire no later than at the ordinary general meeting of shareholders held after a period of three years following their appointment, but may be reelected. A member of the Supervisory Board shall retire at the ordinary general meeting of shareholders held in the year in which he reaches the age prescribed by law for

retirement of a supervisory director. Members of the Supervisory Board may be suspended or dismissed by the general meeting of shareholders. The Supervisory Board may make a proposal to the general meeting of shareholders for the suspension or dismissal of one or more of its members. The members of the Supervisory Board may receive compensation if authorized by the general meeting of shareholders.

The shareholders agreement between the consortium of French shareholders and the consortium of Italian shareholders, as shareholders of SGS-THOMSON Holding, also includes certain provisions requiring the approval of the Supervisory Board of SGS-THOMSON Holding for certain actions by SGS-THOMSON Holding, the Company and its subsidiaries. In addition, pursuant to certain other shareholders agreements among the consortium of French shareholders and a decree issued by certain Ministries of The Republic of France, the approval by members of the Supervisory Board appointed by the French shareholders of certain actions to be taken by the Company or its subsidiaries requires the approval of the Board of Directors of certain companies in the consortium of French shareholders and is subject to a veto by certain Ministries of The Republic of France. See Item 1: "Description of Business -- Competition" and Item 4: "Control of Registrant -- Shareholder Agreements". These requirements for the prior approval of various actions to be taken by the Company and its subsidiaries may give rise to a conflict of interest between the interests of the Company and the individual shareholders approving such actions, and may result in a delay in the ability of the Management Board to respond as quickly as may be necessary in the rapidly changing environment of the semiconductor industry. Such approval process is subject to the provisions of Dutch law requiring members of the Supervisory Board to act independently in the supervision of the management of the Company.

As of the date of this report, the members of the Supervisory Board were:

Name	Position	Year Appointed	Age
Bruno Steve	Chairman	1989	54
Jean-Pierre Noblanc	Vice Chairman	1994	57
Remy Dullieux	Member	1993	45
Alessandro Ovi	Member	1994	52
Giovanni Ruoppolo	Member	1993	60
Henri Starck	Member	1987	67
Robert M. White	Member	1996	58

Bruno Steve has been a member of the Company's Supervisory Board since 1989. He served as Vice Chairman of the Supervisory Board from 1989 to July 1990. From July 1990 to March 1993, Mr. Steve served as Chairman of the Supervisory Board. He has been with I.R.I., Finmeccanica's parent company, Finmeccanica and other affiliates of I.R.I. in various senior positions for over 15 years. He has been the Chief Operating Officer of Finmeccanica since 1988 and Chief Executive Officer since May 1995. He was Senior Vice President of Planning, Finance and Control of I.R.I. from 1984 to 1988. Prior to 1984, Mr. Steve served in several key executive positions at STET, I.R.I.s holding company for the telecommunications sector.

Jean-Pierre Noblanc has been a member of the Supervisory Board since 1994 and its Chairman until June 1996. Mr. Noblanc is presently General Manager of the Components Sector of CEA Industrie. Prior to joining CEA Industrie, Mr. Noblanc served at CNET, the Research Center of France Telecom, as Director of the Applied Research Center of Bagneux and of the Microelectronics Center of Grenoble, successively. Mr. Noblanc holds a degree in engineering from the Ecole Superieure d'Electricite and a doctoral degree in the Physical Sciences from the University of Paris. Mr. Noblanc is an Associate Member of the Committee on Applications of the French Academy of Sciences and a director of Thomson S.A. Mr. Noblanc also serves on the board of Pixtech Inc. and Picogiga S.A..

Remy Dullieux has been a member of the Supervisory Board since 1993. He is a graduate of the Ecole Polytechnique. Since June 1996, Mr. Dullieux has served as a France Telecom Executive Manager for the Northern and Eastern areas of France. From 1991 to June 1996, Mr. Dullieux served as Group Executive Vice President for Strategic Procurement and Development of France Telecom. From 1985 to 1988, Mr. Dullieux served as Regional Manager of Creteil.

Alessandro Ovi has been a member of the Supervisory Board since 1994. He received a doctoral degree in Nuclear Engineering from the Politecnico of Milan and a master degree of science in Operations Research from Massachusetts Institute of Technology. He is currently the Chief Executive Officer of Tecnitel S.p.A., a subsidiary of STET, and President of MEI. Prior to joining Tecnitel S.p.A., Mr. Ovi was the Senior Vice President of International Affairs and Communications at I.R.I. He currently serves on the boards of Alitalia, STET, Italtel, a STET and Siemens Company, Sirti, Zambon and Carnegie Mellon University.

Giovanni Ruoppolo has served as a member of the Supervisory Board since 1993 and is currently a member of the Central Tax Committee. Mr. Ruoppolo has previously served as President of the Board of Auditors of Ente Nazionale Idrocarburi S.p.A., the Italian national oil and gas company and as Chief of Staff in several Italian ministries. Mr. Ruoppolo, as President of the consortium of banks and as President of Comitato SIR, is overseeing the restructuring and liquidation of the SIR group, a major Italian petrochemical business, and oversaw the restructuring and liquidation of Ente Gestione Aziende Minerarie e Metallurgiche - ("EGAM"). Mr. Ruoppolo has published numerous books and articles in the fields of law and economics.

Henri Starck has been a member of the Supervisory Board since 1987. Mr. Starck served as Chairman and Vice Chairman of the Supervisory Board from June 1987 to June 1990 and from June 1990 to January 1993, respectively, during which time he was General Manager of Thomson-CSF. Mr. Starck is currently an adviser to the President of Thomson-CSF and a director of Sextant Avionique. Mr. Starck is a graduate of the Ecole Polytechnique and the Ecole Nationale Superieure du Genie Maritime.

Robert M. White was appointed to the Supervisory Board in June 1996. Mr. White is currently a Professor and Department Head at Carnegie Mellon University and serves as a member of several academic and corporate boards, including those of Ontrack Computer Systems, Inc., Zilog, Inc., Foundation for the National Medals of Science and Technology, Industrial Advisory Board, Lawrence Livermore National Laboratory and NEA Academic. From 1990 to 1993, Mr. White served as Under Secretary of Commerce for

Technology in the United States Government. Prior to 1990, Mr. White served in several key executive positions at Xerox Corporation, Control Data Corporation and MCC. He received a doctoral degree in Physics from Stanford University and graduated with a degree in Science from the Massachusetts Institute of Technology. Mr. White has published four books, three of which have been translated into foreign languages, and over a hundred articles in the field of Physics.

Management Board

The management of the Company is entrusted to the Management Board under the supervision of the Supervisory Board. Under the Articles of Association, the Management Board shall obtain prior approval (x) from the Supervisory Board for (i) all proposals to be submitted to a vote at the general meeting of shareholders, (ii) the formation of all companies, acquisition or sale of any participation, and conclusion of any cooperation and participation agreement, (iii) all pluriannual plans of the Company and the budget for the first coming year, covering investment policy, policy regarding research and development, as well as commercial policy and objectives, general financial policy, and policy regarding personnel, and (iv) all acts, decisions or operations covered by the foregoing and constituting a significant change with respect to decisions already taken by the Supervisory Board and (y) from the general meeting of shareholders for decisions relating to (i) the sale of all or of an important part of the Company's assets or concerns, and (ii) all mergers, acquisitions or joint ventures which the Company wishes to enter into. In addition, under the Articles of Association, the Supervisory Board may specify by resolution certain actions by the Management Board that require its prior approval. Following the adoption of such a resolution, the actions by the Management Board with respect to the Company and all direct or indirect subsidiaries of the Company requiring such prior approval include the following: (i) modification of its Articles of Association; (ii) change in its authorized share capital, issue, acquisition or disposal of its own shares, change in any shareholder rights or issue of any instruments granting an interest in its capital or profits; (iii) liquidation or disposal of all or a substantial and material part of its assets or any shares it holds in any of its subsidiaries; (iv) entering into any merger, acquisition or joint venture agreement (and, if substantial and material, any agreement relating to intellectual property) or formation of a new company; (v) approval of such company's draft consolidated balance sheets and financial statements or any profit distribution by such company; (vi) entering into any agreement with any of the direct or indirect French or Italian Owners outside the normal course of business; (vii) submission of documents reporting on (a) approved policy, expected progress and results and (b) strategic long-term business plans and consolidated annual budgets or any modifications to such; (viii) preparation of long-term business plans and annual budgets; (ix) adoption and implementation of such long-term business plans and annual budgets; (x) approval of all operations outside the normal course of business, including operations already provided for in the annual budget; and (xi) approval of the quarterly, semi-annual and annual consolidated financial statements prepared in accordance with internationally accepted accounting principles. Such resolution also requires that the Management Board obtain prior approval from the Supervisory Board for (i) the appointment of the members of the statutory management, administration and control bodies of SGS-THOMSON Microelectronics S.A. and SGS-THOMSON Microelectronics s.r.l.; and (ii) the nomination of the statutory management, administration and control bodies of the Company and each of the Company's other direct and indirect subsidiaries followed by confirmation to the Supervisory Board of such nominees' appointments. The general meeting of shareholders may also specify certain actions of the

Management Board that require shareholder approval. The shareholders have resolved that the Management Board must obtain shareholder approval prior to: (i) the sale of all or of an important part of the Company's assets and concerns and (ii) all mergers, acquisitions or joint ventures which the Company wishes to enter into. See "Item 1: Description of Business -Competition" and "Item 13: Interest of Management in Certain Transactions".

The Management Board shall consist of such number of members as resolved by the general meeting of shareholders upon the proposal of the Supervisory Board. The members of the Management Board are appointed for three year terms upon proposal by the Supervisory Board by the general shareholders' meeting by a majority of the votes cast at a meeting where at least one-half of the outstanding share capital is present or represented. The Supervisory Board appoints one of the members of the Management Board to be chairman of the Management Board (upon approval of at least three-quarters of the members of the Supervisory Board). Resolutions of the Management Board require the approval of a majority of its members. Mr. Pasquale Pistorio, the Company's President and Chief Executive Officer, is currently the sole member of the Management Board.

The general meeting of shareholders may suspend or dismiss one or more members of the Management Board at a meeting at which at least one-half of the outstanding share capital is present or represented. No quorum is required if a suspension or dismissal is proposed by the Supervisory Board. The Supervisory Board may suspend members of the Management Board, but a general meeting of shareholders must be convened within three months after such suspension to confirm or reject the suspension. The Supervisory Board shall appoint one or more persons who shall at any time in the event of absence or inability to act of all the members of the Management Board be temporarily responsible for the management of the Company. The Supervisory Board determines the compensation and other terms and conditions of employment of the members of the Management Board.

Executive Officers

As a legal matter, the executive officers of the Company support the Management Board in its management of the Company. In practice, the executive officers and the Management Board share management responsibilities. The Company is organized in a matrix structure with geographical regions interacting with product divisions, bringing all levels of management closer to the customer and facilitating communication among research and development, production, marketing and sales organizations.

The executive officers of the Company are (as of the date of this report):

Name	Position	Years with the Company(1)	Years in Semiconductor Industry	Age
Pasquale Pistorio	President and Chief Executive Officer	16	32	60
Laurent Bosson	Corporate Vice President, Front-end Manufacturing and Americas Region	13	13	54
Carlo Bozotti	Corporate Vice President, European and	19	19	43

Name	Position	Years with the Company(1)	Years in Semiconductor Industry	Age
	Headquarters Region			
Salvatore Castorina	Corporate Vice President, Discrete and Standard ICs Group	14	30	60
Murray Duffin	Corporate Vice President, Total Quality Management	9	36	62
Alain Dutheil	Corporate Vice President, Strategic Planning and Human Resources	13	26	51
Ennio Filauro	Corporate Vice President, Memory Products Group	27	36	64
Philippe Geyres	Corporate Vice President, Programmable Products Group	12	20	44
Maurizio Ghirga	Corporate Vice President, Chief Financial Officer	13	13	58
Jean-Claude Marquet	Corporate Vice President Asia Pacific Region	10	29	54
Pier Angelo Martinotti	Corporate Vice President, New Ventures Group	15	28	54
Joel Monnier	Corporate Vice President, Central Research and Development	13	22	51
Piero Mosconi	Corporate Vice President, Treasurer	32	32	56
Aldo Romano	Corporate Vice President, Dedicated Products Group	30	30	56
Giordano Seragnoli	Corporate Vice President, Back-end Manufacturing and Subsystems	31	33	59
Keizo Shibata	Corporate Vice President, Japan Region	4	31	59

(1) Including years with Thomson Semiconducteurs or SGS Microelettronica.

Pasquale Pistorio has more than 30 years of experience in the semiconductor industry. After graduating in Electrical Engineering from the Polytechnical University of Turin in 1963, he started his career selling Motorola products. Mr. Pistorio joined Motorola in 1967, becoming Director of World Marketing in 1977 and General Manager of the International Semiconductor Division in 1978. Mr. Pistorio joined SGS Microelettronica as President and Chief Executive Officer in 1980 and became President and Chief Executive Officer of the Company upon its formation in 1987.

Laurent Bosson has served as Corporate Vice President, Central Manufacturing and VLSI Fabs since 1989 and in 1992 he was given additional responsibility as President and Chief Executive Officer of the Company's operations in the Americas. Mr. Bosson received a Masters degree in Chemistry from the University of Dijon in 1969. He joined Thomson-CSF in 1964 and has held several positions in engineering and manufacturing. In 1982, Mr. Bosson was appointed General Manager of the Tours and Alencon facilities of Thomson Semiconducteurs. In 1985, he joined the French subsidiary of SGS Microelettronica as General Manager of the Rennes, France manufacturing facility.

Carlo Bozotti has served as Corporate Vice President, Europe and Headquarters Region since 1994. Mr. Bozotti joined SGS Microelettronica in 1977 after graduating in Electronic Engineering from the University of Pavia. Mr. Bozotti served as Product Manager for the Industrial, Computer Peripheral and Telecom divisions and as Product Manager for the Monolithic Microsystems' Telecom business unit from 1986 to 1987. He was appointed Director

of Corporate Strategic Marketing and Key Accounts for the Headquarters Region in 1988 and became Vice President, Marketing and Sales, Americas Division in 1991.

Salvatore Castorina has served as Corporate Vice President, Discrete and Standard ICs Group since 1989. Mr. Castorina received his engineering degree in Electronics from the Polytechnical University of Turin and began his career as a teacher of electrical and electronic technologies prior to joining Thomson-CSF in Milan in 1965. In 1967, he joined Motorola Semiconductors and held various positions in sales and marketing. In 1981, Mr. Castorina joined the Company as Transistor General Manager in Catania and became the General Manager of the Company's Discrete Division in 1989.

Murray Duffin has served as Corporate Vice President, Total Quality Management since 1992. Mr. Duffin graduated from the University of Manitoba in Electrical Engineering and later studied Semiconductor Physics and Computer Logic at the University of California Los Angeles and received an MBA from Arizona State University. Mr. Duffin started his career in 1959 as an RF Applications Engineer and thereafter held numerous managerial positions within most of the departments at TRW and Motorola Semiconductors prior to joining the Company in 1986. From 1986 to 1992, Mr. Duffin was in charge of the quality and service organization.

Alain Dutheil has served as Corporate Vice President, Strategic Planning and Human Resources since 1994 and 1992, respectively. Mr. Dutheil is also President of the Company's French subsidiary, SGS-THOMSON S.A. After graduating in Electrical Engineering from the Ecole Superieure d'Ingenieurs de Marseilles (ESIM), Mr. Dutheil joined Texas Instruments in 1969 as a Production Engineer, becoming Director for Discrete Products in France and Human Resources Director for Texas Instruments, France in 1980 and Director of Operations for Texas Instruments, Portugal in 1982. He joined Thomson Semiconducteurs in 1983 as General Manager of a plant in Aix-en-Provence, France and then became General Manager of the Company's Discrete Products Division. From 1989 to 1994, Mr. Dutheil served as Director for Worldwide Back-end Manufacturing in addition to serving as Corporate Vice President for Human Resources from 1992 until the present.

Ennio Filauro has served as Corporate Vice President, General Manager Memory Products Group since 1990. After graduating with a degree in Electrical Engineering from the University of Palermo, Mr. Filauro began his career in 1958 as a member of the Engineering and Quality Control Group of Raytheon Italia. In 1968, Mr. Filauro joined SGS Microelettronica as head of Quality Control Services at the research and development center in Castelletto, and was subsequently responsible for the Central Production Direction of the facilities in Rennes, Falkirk and Catania. From 1974 to 1979, Mr. Filauro served as General Manager of the facility in Catania, and thereafter served as Director of the Corporate Engineering Group in Agrate. He became General Manager of the VLSI Division of SGS Microelettronica in 1985.

Philippe Geyres has served as Corporate Vice President, General Manager Programmable Products Group since 1990. Mr. Geyres graduated from the Ecole Polytechnique in 1973 and began his career with IBM in France before joining Schlumberger Group in 1980 as Data Processing Director. He was subsequently appointed Deputy Director of the IC Division at Fairchild Semiconductors. Mr. Geyres joined Thomson Semiconducteurs in 1983 as Director of the Bipolar Integrated Circuits Division. He was appointed Strategic Programs Director in 1987, and later the same year, became Corporate Vice President, Strategic Planning of the Company.

Maurizio Ghirga became Corporate Vice President, Chief Financial Officer in 1987, after having served as chief financial controller of SGS Microelettronica since 1983. Mr. Ghirga has a degree in Business Administration from the University of Genoa. He spent more than ten years of his career in various financial capacities at ESSO Company (an Exxon subsidiary in Italy) and prior to joining the Company was Financial Controller of one of the largest refinery plants in Italy and of an ESSO chemical subsidiary.

Jean-Claude Marquet has served as Corporate Vice President, Asia Pacific Region since July 1995. After graduating in Electrical and Electronics Engineering from the Ecole Breguet Paris, Mr. Marquet began his career in the National French Research Organisation and later joined Alcatel. In 1969, he joined Philips Components. He remained at Philips until 1978, when he joined Ericsson, eventually becoming President of Ericsson's French operations. In 1985, Mr. Marquet joined Thomson Semiconducteurs as Vice President Sales and Marketing, France. Thereafter, Mr. Marquet served as Vice President Sales and Marketing for France and Benelux, and Vice President Asia Pacific and Director of Sales and Marketing for the region.

Pier Angelo Martinotti has served as Corporate Vice President, General Manager New Ventures Group since 1994. A graduate in Electronic Engineering from the Polytechnical University of Turin, Mr. Martinotti began his career at the Company in 1965 as an Application and Marketing Engineer. In 1968, he joined Motorola Semiconductors in the area of strategic marketing in Europe, and in 1975 became the Marketing (Sales) Director for Europe. From 1986 to 1990, Mr. Martinotti was Chief Executive Officer of Innovative Silicon Technology, a former subsidiary of the Company. Mr. Martinotti was appointed Director of Corporate Strategic Planning in 1990.

Joel Monnier has served as Corporate Vice President, Director of Central Research and Development since 1989. After graduating in Electrical Engineering from the Institut National Polytechnique of Grenoble, Ecole Nationale Superieure de Radio Electricite, Mr. Monnier obtained a doctoral degree in microelectronics at LETI/CENG. He began his career in the semiconductor industry in 1968 as a researcher with CENG, and subsequently joined the research and development laboratories of Texas Instruments in Villeneuve Loubet, France and Houston, Texas, eventually becoming Engineering Manager and Operation Manager at Texas Instruments. Mr. Monnier joined Thomson-CSF in 1983 as head of the research and manufacturing unit of Thomson Semiconducteurs. In 1987, he was appointed Vice President and Corporate Director of Manufacturing.

Piero Mosconi has served as Corporate Vice President, Treasurer since 1987. After graduating in accounting from Monza in 1960, Mr. Mosconi joined the faculty at the University of Milan. Mr. Mosconi worked with an Italian bank before joining the Foreign Subsidiaries Department at SGS Microelettronica in 1964 and becoming Corporate Director of Finance in 1980.

Aldo Romano has served as Corporate Vice President, General Manager Dedicated Products Group since 1987. Mr. Romano is also Managing Director of the Company's Italian subsidiary, SGS-THOMSON Microelectronics s.r.l. A graduate in Electronic Engineering from the University of Padova in 1963, Mr. Romano joined SGS Microelettronica in 1965 as a designer of linear ICs, becoming head of the linear IC design laboratory in 1968 and head of Marketing

and Applications in 1976. Mr. Romano became Director of the Bipolar IC Division (which has evolved into the Dedicated Products Group) in 1980.

Giordano Seragnoli has served as Corporate Vice President, General Manager Subsystems since 1987 and since 1994, Director for Worldwide Back-end Manufacturing. After graduating in Electrical Engineering from the University of Bologna, Mr. Seragnoli joined the Thomson Group as RF Application Designer in 1962 and joined SGS Microelettronica in 1965. Thereafter, Mr. Seragnoli served in various capacities within the Company, including Strategic Marketing Manager and Subsystems Division Manager, Subsystems Division Manager (Agrate), Technical Facilities Manager, Subsystems Division Manager and Back-End Manager.

Keizo Shibata has served as Corporate Vice President and President of the Company's Japanese subsidiary, SGS-THOMSON Microelectronics K.K., since 1992. Mr. Shibata obtained bachelors and masters degrees in Engineering from Osaka University and has 31 years of experience in the semiconductor industry. Prior to joining SGS-THOMSON, Mr. Shibata was employed with Toshiba Corporation since 1964 in various capacities. From 1987 to 1988, Mr. Shibata served as Chairman of both World Semiconductor Trade Statistics and the Trade Policy Committee of the Electric Industry Association of Japan.

As is common in the semiconductor industry, the Company's success depends to a significant extent upon, among other factors, the continued service of its key senior executives and research and development, engineering, marketing, sales, manufacturing, support and other personnel, and on its ability to continue to attract, retain and motivate qualified personnel. The competition for such employees is intense, and the loss of the services of any of these key personnel without adequate replacement or the inability to attract new qualified personnel could have a material adverse effect on the Company. The Company does not maintain insurance with respect to the loss of any of its key personnel.

Item 11: Compensation of Directors and Officers

The aggregate cash compensation offered for 1995 to the members of the Supervisory Board by the Company was approximately $252,000. The amount of cash compensation for 1995 to the executive officers of the Company and members of the Management Board as a group by the Company and its subsidiaries was approximately $6.0 million.

In 1989, the Company established a Corporate Executive Incentive Program (the "EIP") that entitles selected executives and members of the Management Board to a yearly bonus based upon the individual performance of such executives. The maximum bonus awarded under the EIP is based upon a percentage of the executive's or member's salary and is adjusted to reflect the overall performance of the Company. The participants in the EIP must satisfy certain personal objectives that are focused on customer service, profit, cash flow and market share.

The executive officers and members of the Management Board were also covered in 1995 under certain group life and medical insurance programs provided by the Company. The aggregate additional amount set aside by the Company in 1995 to provide pension, retirement or similar benefits for executive officers and members of the Management Board of the Company as a group was approximately $2.4 million.

Item 12: Option to Purchase Securities from Registrant or Subsidiaries

As of May 22, 1996, options to purchase up to an aggregate of 692,350 Common Shares were outstanding under the Company's first stock option plan (the "1989 Stock Option Plan"). Such options are fully vested and are exercisable at the original issue price, as adjusted to reflect the 40:1 stock split effected in connection with the Initial Public Offering, of NLG 25 per share ($14.51 based on the noon buying rate in New York City for cable transfers in Dutch guilders as certified for customs purposes by the Federal Reserve Bank of New York of US$1=NLG 1.7225 on May 22, 1996 (the "Noon Buying Rate")) or at the price of NLG 17.50 per share ($10.15 based on the Noon Buying Rate). Such options, of which 942,050 have been exercised, are held by executive officers of the Company as a group and expire on December 18, 1999.

On October 20, 1995, the Shareholders of the Company approved resolutions authorizing the Supervisory Board for a period of five years to adopt and administer a new stock option plan which provides for the granting to managers and professionals of the Company of options to purchase up to a maximum of 5.5 million Common Shares (the "1995 Stock Option Plan"). The Company currently intends to grant options pursuant to the 1995 Stock Option Plan to purchase up to 1,200,000 Common Shares at a price per Common Share of $36.25. Such options are exercisable for a period of eight years following the date of grant.

On June 24, 1996 the general meeting of shareholders approved the granting of options to purchase up to 72,000 Common Shares to members and professionals of the Supervisory Board over a period of three consecutive years, beginning in 1996. Options granted thereunder will be exercisable until the eighth anniversary date following the date of grant at the closing price of the Common Shares on the New York Stock Exchange on the date such options are exercised.

Item 13: Interest of Management in Certain Transactions

One of the Company's key customers is Thomson Multimedia. Thomson Multimedia and Thomson-CSF, one of the indirect shareholders of the Company (see "Item 4: Control of Registrant"), are both controlled by Thomson S.A. The Company sells a broad range of products to Thomson Multimedia, including dedicated products, microcontrollers and semicustom devices, for use in televisions, video cassette recorders and satellite receiver systems. The Company believes that all of the products that it sells to Thomson Multimedia are sold on commercial terms no less favorable to the Company than could be obtained with non-affiliated parties. The Company has also formed a joint venture with Thomson Multimedia to conduct joint research and development on advanced television products, including digital television products. The Company and Thomson Multimedia share the funding of the joint venture's designers, engineers and managers.

The Company has formed a joint venture research and development center with CNET in the form of a Groupement d'Interet Economique ("GIE"). CNET is a research laboratory that is wholly owned by France Telecom, one of the indirect shareholders of the Company. See "Item 4: Control of Registrant". The research center is housed at the Company's Crolles, France

manufacturing facility. It is developing submicron process technologies. The joint venture between the Company and CNET was created before France Telecom became an indirect shareholder of the Company.

The Company participated in a joint research and development project with LETI with respect to high-density silicium integrated circuits. LETI is a research laboratory that is a department of CEA, the parent of one of the indirect shareholders of the Company. See "Item 4: Control of Registrant". In 1995, the Company has signed an agreement providing for a research and development cooperation with GRESSI, the research and development GIE formed by CNET and LETI. The objectives of the cooperation are to develop know-how on innovative aspects of VLSI technology evolution which can be transferred to industrial applications, and to address the development of innovative process steps and process modules to be used in future generations of VLSI products. The cooperation agreement is based upon a pluriannual plan through 1998, of which the Company is expected to bear half of the program's total cost.

The Company participates in certain programs sponsored by the French and Italian governments for the funding of research and development and industrialization through direct grants as well as low interest financing. See "Item 1: Description of Business -- State Support for the Semiconductor Industry". The shareholders of SGS-THOMSON Holding, the corporate parent of the Company's majority shareholder, are controlled, directly or indirectly, by the governments of the Republics of France and Italy. See "Item 4: Control of Registrant".

Sales to shareholders of the Company and their affiliates totalled $195.4 million in 1995. At December 31, 1995 there was no outstanding indebtedness guaranteed by indirect shareholders.

From time to time, the Company may deposit with its direct or indirect shareholders, or their affiliates, available funds for investment on a short-term basis at market interest rates.

PART II

Item 14: Description of Securities to be Registered

Not applicable.

PART III

Item 15: Defaults upon Senior Securities

None.

Item 16: Changes in Securities and Changes in Security for Registered Securities

None.

PART IV

Item 17: Financial Statements

Not applicable.

Item 18: Financial Statements

Consolidated financial statements of SGS-THOMSON Microelectronics N.V. for each of the three years in the period ended December 31, 1995 are incorporated by reference from the Registrant's 1995 Annual Report to Shareholders, on pages 37 through 55.

On January 26, 1996, the Supervisory Board determined that, after nine consecutive years of service from a single auditor, a change of auditors would be in the best interest of the Company and, consequently, decided not to renew Arthur Andersen & Co. The appointment of Price Waterhouse as the Company's new auditors was approved by the annual general meeting held on June 24, 1996. The letter from Arthur Andersen & Co. indicating that there has been no cause for disagreement between the parties during the course of their relationship is filed as Exhibit 1 hereto.

Item 19: Financial Statements and Exhibits

(a) 1. Financial Statements

The financial statements listed in the accompanying Index to Financial Statements and Financial Statement Schedule are filed or incorporated by reference as part of this annual report.

2. Financial Statement Schedule

The financial statement schedule listed in the accompanying index is filed as part of this annual report.

(b) Exhibits

The exhibits listed in the accompanying index are filed or incorporated by reference as part of this annual report.

INDEX TO FINANCIAL STATEMENTS
AND FINANCIAL STATEMENT SCHEDULE
(Item 19(a))

Schedule

SGS-THOMSON MICROELECTRONICS N.V.
VALUATION AND QUALIFYING ACCOUNTS
(Currency - Thousands of U.S. dollars)

	Balance at beginning of period	Translation adjustment	Charged to costs and expenses	Deductions	Balance at end of period

Valuation and qualifying accounts deducted from the related asset accounts					
1995					
Inventories	29,982	----	36,500	29,982	36,500
Accounts Receivable	14,018	691	3,467	295	17,881
1994					
Inventories	28,121	----	29,982	28,121	29,982
Accounts receivable	12,181	893	3,198	2,254	14,018
1993					
Inventories	6,748	----	28,121	6,748	28,121
Accounts receivable	10,835	(815)	2,835	674	12,181
Long-term liabilities					
1995					
Claims and litigation	----	----	16,000	----	16,000
1994					
Loss on operating lease	13,949	----	----	13,949	0
1993					
Restructuring	----	----	19,500	----	19,500
Loss on operating lease	10,949	----	3,000		13,949
Patents litigation	----	----	5,000	----	5,000

INSERT REPORT ON SCHEDULE

SIGNATURE

Pursuant to the Requirements of Section 12 of the Securities Exchange Act of 1934, the registrant certifies that it meets all of the requirements for filing on Form 20-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized.

SGS-THOMSON Microelectronics N.V.

Date: June 27, 1996

By: /s/ Pasquale Pistorio

Name: Pasquale Pistorio
Title: President and Chief Executive Officer

INDEX TO EXHIBITS
(Item 19(b))

Exhibit Number	Description
1.	Letter of Arthur Andersen & Co.
2.	SGS-THOMSON Microelectronics N.V. 1995 Annual Report to Shareholders
3.	Amended and Restated Articles of Association of the Company

ARTICLES OF ASSOCIATION
of:
SGS-THOMSON Microelectronics N.V.
established in Amsterdam
dated December 11, 1995

NAME, SEAT AND DURATION.

Article 1.

1.1. The name of the company is: SGS-THOMSON Microelectronics N.V.

1.2. The company is established at Amsterdam.

1.3. The company will continue for an indefinite period.

OBJECTS.

Article 2.

The objects of the company shall be to participate or take in any manner any interests in other business enterprises, to manage such enterprises, to carry on the business in semiconductors and electronic devices, to take and grant licenses and other industrial property interests, assume commitments in the name of any enterprises with which it may be associated within a group of companies, to take financial interests in such enterprises and to take any other action which in the broadest sense of the term, may be related or contribute to the aforesaid objects.

SHARE CAPITAL.

Article 3.

3.1. The authorized capital of the company amounts to two billion seven hundred and fifty million Dutch

guilders (NLG 2,750,000,000) and is divided into two hundred million (200,000,000) shares of thirteenDutch guilders and seventy-five cents (NLG 13.75) each.

3.2. The supervisory board shall have the power to issue shares and to determine the terms and conditions of such issue if and in so far as the supervisory board has been designated by the general meeting of shareholders as the authorized body for this purpose. A designation as referred to above shall only take place for a specific period of no more than five years and may not be extended by more than five years on each occasion.

3.3. If a designation as referred to in the second paragraph is not in force, the general meeting of shareholders shall have the power, upon the proposal of and on the terms and conditions set by the supervisory board to resolve to issue shares.

3.4. In the event of a share issue, shareholders shall have a pre-emptive right in proportion to the number of shares which they own, notwithstanding the provisions of the law. In respect of the issue of shares there shall be no pre-emptive right to shares issued against a contribution other than in cash or issued to employees of the company or of a group company. The supervisory board shall have the power to limit or debar the preferential right accruing to shareholders, if and in so far as the supervisory board has also been designated by the general meeting of shareholders for this purpose as the authorized body for the period of such designation. The provisions in the second sentence of the second paragraph shall equally apply.

3.5. If a designation as referred to in the fourth paragraph is not in force, the general meeting of shareholders shall have the power, upon the proposal of the supervisory board to limit or debar the preferential

right accruing to shareholders.

3.6. A resolution of the general meeting of shareholders in accordance with the fourth or fifth paragraph of this article requires a majority of at least two-thirds of the votes cast in a meeting of shareholders in which at least fifty per cent (50 %) of the issued capital is present or represented.

3.7. Without prejudice to what has been provided in section 80, paragraph 2, Civil Code:2, shares shall at no time be issued below par and be fully paid up upon issue.

3.8. Payment must be made in cash to the extent that no other contribution has been agreed upon. If the company so allows, payment in cash can be made in a currency other than Dutch currency.
In the event of payment in a foreign currency the obligation to pay is for the amount which can be freely exchanged into Dutch currency. The decisive factor is the rate of exchange on the day of payment, or as the case may be after application of the next sentence, on the day mentioned therein.
The company can require payment at the rate of exchange on a certain day within two months prior to the last day when payment shall have to be made provided the shares or depositary receipts for shares after having been issued - shall immediately be incorporated in the price list of an exchange abroad.

3.9. This article shall equally apply to the granting of rights to take shares, but shall not apply to the issue of shares to someone who exercises a previously acquired right to take shares.

3.10 All notifications to shareholders will be made in accordance with the provisions relating to giving of notice to convene a general meeting as set out in article 26.2.

Article 4.

4.1. The company may acquire, for valuable consideration, shares in its own share capital if and in so far as:
a. its equity less the purchase price of these shares is not less than the aggregate amount of the paid up and called up capital and the reserves which must be maintained pursuant to the law;
b. the par value of the shares in its capital which the company acquires, holds or holds in pledge, or which are held by a subsidiary company, amounts to no more than one-tenth of the issued share capital; and
c. the general meeting of shareholders has authorized the managing board to acquire such shares, which authorization may be given for no more than eighteen months on each occasion,
notwithstanding the further statutory provisions.

4.2. Shares thus acquired may again be disposed of. The managing board shall not acquire shares in the company's own share capital as referred to above - if an authorization as referred to above is in force - or dispose of such shares without the prior approval of the supervisory board.
If depositary receipts for shares in the company have been issued, such depositary receipts shall for the application of the provisions of this paragraph and the preceding paragraph be treated as shares.

4.3. In the general meeting no votes may be cast in respect of (a) share(s) held by the company or a subsidiary company; no votes may be cast in respect of a share the depositary receipt for which is held by the company or a subsidiary company. However, the holders of a right of usufruct and the holders of a right of pledge on shares held by the company and its subsidiary companies, are nonetheless not excluded from the right to vote such shares, if the right of usufruct or the right of pledge was granted prior to the time such

share was held by the company or a subsidiary company. Neither the company nor a subsidiary company may cast votes in respect of a share on which it holds a right of usufruct or a right of pledge. Shares in respect of which voting rights may not be exercised by law or by the articles of association shall not be taken into account, when determining to what extent the shareholders cast votes, to what extent they are present or represented or to what extent the share capital is provided or represented.

4.4. Upon the proposal of the supervisory board the general meeting of shareholders shall have the power to decide to cancel shares acquired by the company from its own share capital, subject however to the statutory provisions concerned.

SHARES, SHARE CERTIFICATES, SHARE REGISTER.

Article 5.

5.1. Shares shall be in registered form.

5.2. Shares shall be available:

- in the form of an entry in the share register without issue of a share certificate; shares of this type are referred to in these articles as type I shares;
- and - should the supervisory board so decide - in the form of an entry in the share register with issue of a certificate, which certificate shall consist of a main part without dividend coupon; shares of this type and share certificates of this type are referred to in these articles as type II shares.

5.3. The supervisory board can decide that the registration of type I shares may only take place for one or more quantities of shares which quantities are to be specified by the supervisory board - at the same time.

5.4. Type II share certificates shall be available in such

denominations as the supervisory board shall determine.

5.5. All share certificates shall be signed by or on behalf of a managing director; the signature may be effected by printed facsimile. Furthermore type II share certificates shall, and all other share certificates may, be countersigned by one or more persons designated by the managing board for that purpose.

5.6. All share certificates shall be identified by numbers and/or letters.

5.7. The supervisory board can determine that for the purpose of effecting trading or transfer of shares at foreign exchanges share certificates shall be issued in such form as the supervisory board may determine, complying with the requirements set by said foreign exchange(s) and not provided with any dividend sheet.

5.8. The expression "share certificate" as used in these articles shall include a share certificate in respect of more than one share.

Article 6.

6.1. Upon written request from a shareholder, missing or damaged share certificates, or parts thereof, may be replaced by new certificates or by duplicates bearing the same numbers and/or letters, provided the applicant proves his title and, in so far as applicable, his loss to the satisfaction of the supervisory board, and further subject to such conditions as the managing board may deem fit.

6.2. In appropriate cases, at its own discretion, the managing board may stipulate that the identifying numbers and/or letters of missing documents be published three times, at intervals of at least one month, in at least three newspapers to be indicated by the managing board announcing the application made; in such a case new certificates or duplicates may not be issued until six months have expired since the last

publication, always provided that the original documents have not been produced to the managing board before that time.

6.3. The issue of new certificates or duplicates shall render the original document invalid.

Article 7.

7.1. Notwithstanding the statutory provisions in respect of registered shares a register shall be kept by or on behalf of the company, which register shall be regularly updated and, at the discretion of the managing board, may, in whole or in part, be kept in more than one copy and at more than one place. A part of the register may be kept abroad in order to meet requirements set out by foreign statutory provisions or provisions of the foreign exchange.

7.2. Each shareholder's name, his address and such further data as the managing board deems desirable, whether at the request of a shareholder or not, shall be entered in the register.

7.3. The form and the contents of the share register shall be determined by the managing board with due regard to the provisions of paragraphs 1 and 2 of this article. The managing board may determine that the records shall vary as to their form and contents according to whether they relate to type I shares or to type II shares.

7.4. Upon request a shareholder shall be given free of charge a declaration of what is stated in the register with regard to the shares registered in his name, which declaration may be signed by one of the specially authorized persons to be appointed by the managing board for this purpose.

7.5. The provisions of the last four paragraphs shall equally apply to those who hold a right of usufruct or of pledge on one or more registered shares, with the proviso that the other data required by law must be

entered in the register.

Article 8.

8.1. Subject to the provisions of article 5, the holder of an entry in the share register for one or more type I shares may, upon his request and at his option, have issued to him one or more type II share certificates for the same nominal amount.

8.2. Subject to the provisions of article 5, the holder of a type II share certificate registered in his name may, after lodging the share certificate with the company, upon his request and at his option, either have one or more type I shares entered in the share register for the same nominal amount.

8.3. A request as mentioned in this article shall, if the supervisory board so requires, be made on a form obtainable from the company free of charge, which shall be signed by the applicant.

TRANSFER OF SHARES.

Article 9.

9.1. The transfer of a registered share shall be effected either by service upon the company of the instrument of transfer or by written acknowledgement of the transfer by the company, subject however to the provisions of the following paragraphs of this article.

9.2. Where a transfer of a type II share is effected by service of an instrument of transfer on the company, the company shall, at the discretion of the managing board, either endorse the transfer on the share certificate or cancel the share certificate and issue to the transferee one or more new share certificates registered in his name to the same nominal amount.

9.3. The Company's written acknowledgement of a transfer of a type II share shall, at the discretion of the managing board, be effected either by endorsement of the transfer on the share certificates or by the issue

to the transferee of one or more new share certificates registered in his name to the same nominal amount.

9.4. The provisions of the foregoing paragraphs of this article shall equally apply to the allotment of registered shares in the event of a judicial partition of any community of property or interests, the transfer of a registered share as a consequence of a judgement execution and the creation of limited rights in rem on a registered share.
If a share certificate has been issued, the acknowledgement can only be effected either by putting an endorsement to that effect on this document, signed by or on behalf of the company, or by replacing this document by a new certificate in the name of the acquirer.

9.5. The submission of requests and the lodging of documents referred to in articles 6 to 9 inclusive shall be made at a place to be indicated by the managing board and in any case the places where the company is admitted to a stock exchange.
Different places may be indicated for the different classes and types of shares and share certificates.

9.6. The company is authorized to charge amounts to be determined by the managing board not exceeding cost price to those persons who request any services to be carried out by virtue of articles 6 up to and including 9.

USUFRUCTUARIES, PLEDGEES, HOLDERS OF DEPOSITARY RECEIPTS.

Article 10.

10.1. The usufructuary, who in conformity with the provisions of section 88, Civil Code:2 has no right to vote, and the pledgee who in conformity with the provisions of section 89, Civil Code:2 has no right to vote, shall not be entitled to the rights which by law have been conferred on holders of depositary receipts for shares

issued with the cooperation of the company.

10.2. Where in these articles of association persons are mentioned, entitled to attend meetings of shareholders, this shall include to holders of depositary receipts for shares issued with the cooperation of the company, and persons who in pursuance of paragraph 4 in section 88 or section 89, Civil Code:2 have the rights that by law have been conferred on holders of depositary receipts for shares issued with the cooperation of the company.

MANAGING BOARD.

Article 11.

11.1. The company shall be managed by a managing board consisting of one or more managing directors under the supervision of the supervisory board. The number of members of the managing board shall be resolved upon by the general meeting of shareholders upon the proposal of the supervisory board. The members of the managing board shall be appointed for three years, a year being understood as meaning the period between two Annual General Meetings of Shareholders adopting the Accounts of the previous fiscal year or the meeting in which a postponement of this is granted.

11.2. Managing directors shall be appointed by the general meeting of shareholders upon the proposal of the supervisory board for each vacancy to be filled.

11.3. Without prejudice to the provisions of article 27, paragraph 2, a proposal to make one or more appointments to the managing board may be placed on the agenda of a general meeting of shareholders by the supervisory board.

11.4. The supervisory board shall determine the salary, the bonus, if any, and the other terms and conditions of employment of the managing directors.

11.5. The general meeting of shareholders shall decide in

accordance with the provisions of article 31, paragraph 1.

Votes in respect of persons who have not been so nominated shall be invalid.

Article 12.

12.1. The general meeting of shareholders shall be entitled to suspend or dismiss one or more managing directors, provided that at least half of the issued share capital is represented at the meeting. No such quorum shall be required where the suspension or dismissal is proposed by the supervisory board.

12.2. Where a quorum under paragraph 1 is required but is not present, a further meeting shall be convened, to be held within four weeks after the first meeting, which shall be entitled, irrespective of the share capital represented, to pass a resolution in regard to the suspension or dismissal.

12.3. The managing directors can be jointly or individually suspended by the supervisory board. After suspension a general meeting of shareholders shall be convened within three months, at which meeting it shall be decided whether the suspension shall be cancelled or maintained.

The person involved shall be given the opportunity to account for his actions at that meeting.

REPRESENTATION.

Article 13.

13.1. The entire managing board as well as each managing director may represent the company.

13.2. The managing board may grant powers of attorney to persons, whether or not in the service of the company, to represent the company and shall thereby determine the scope of such powers of attorney and the titles of such persons.

13.3. The managing board shall have power to perform legal

acts as specified in section 2:94, paragraph 1, Civil Code in so far as such power is not expressly excluded or limited by any provision of these articles or by any resolution of the supervisory board.

Article 14.

14.1. The supervisory board shall appoint one of the managing directors as chairman of the managing board. Appointment of the chairman shall be resolved with the majority mentioned in article 21, paragraph 1.

14.2. Resolutions of the managing board shall be passed by simple majority of votes. In the event of a tie of votes the chairman of the managing board shall have a casting vote.

Article 15.

15.1. Without prejudice to provisions made elsewhere in these articles, the managing board shall require the prior express approval:

(i) From the supervisory board for decisions relating to:

1. all proposals to be submitted to a vote at the general meeting of the shareholders;
2. the formation of all companies, acquisition or sale of any participation, and conclusion of any cooperation and participation agreement;
3. all pluriannual plans of the company and the budget for the first coming year, covering the following matters:
- investment policy;
- policy regarding research and development, as well as commercial policy and objectives;
- general financial policy;
- policy regarding personnel;
4. all acts, decisions or operations covered by the above list and constituting a significant change with respect to decisions already adopted

by the supervisory board or not provided for in the above list and as specifically laid down by the supervisory board by resolution passed by it to that effect.

(ii) From the general meeting of the shareholders for decisions relating to:

- sale of all or of an important part of the company's assets or concerns;
- all mergers, acquisitions, or joint ventures which the company wishes to make.

The absence of the approval provided for above may not be raised by or against third parties.

15.2. Without prejudice to provisions made elsewhere in these articles, the managing board shall require the approval of the general meeting of shareholders according to the law and the provisions of these articles as well as such resolutions as are clearly defined by a resolution of the general meeting of shareholders to that effect.

Article 16.

In the event of the absence or inability to act of one of more managing directors the remaining managing directors or managing director shall temporarily be responsible for the entire management. In the event of the absence or inability to act of all managing directors, one or more persons appointed by the supervisory board for this purpose at any time shall be temporarily responsible for the management.

SUPERVISORY BOARD.

Article 17.

17.1. The supervisory board shall be responsible for supervising the policy pursued by the managing board and the general course of affairs of the company and the business enterprise which it operates. The supervisory board shall assist the managing board with advice relating to the general policy aspects connected with the activities of the company. In fulfilling their

duties the supervisory directors shall serve the interests of the company and the business enterprise which it operates.

17.2. The managing board shall provide the supervisory board in good time with all relevant information as well as the information the supervisory board requests, in connection with the exercise of its duties.

Article 18.

18.1. The supervisory board shall consist of at least six members, to be appointed by the general meeting of shareholders upon the proposal of the supervisory board for each vacancy to be filled. The number of supervisory directors shall without prejudice to the preceding sentence be resolved upon by the general meeting of shareholders upon the proposal of the supervisory board.

18.2. The general meeting of shareholders shall decide in accordance with the provisions of article 31 paragraph 1.

18.3. Without prejudice to the provisions of article 27, paragraph 2, a proposal to make one or more appointments to the supervisory board may be placed on the agenda of the general meeting of shareholders by the supervisory board.

18.4. The supervisory board shall appoint from their number a chairman and a vice-chairman of the supervisory board with the majority mentioned in article 21, paragraph 1.

18.5. Upon the appointment of the supervisory directors the particulars as referred to in section 142, paragraph 3, Civil Code:2 shall be made available for prior inspection.

Article 19.

19.1. The supervisory board may appoint one or more of its members as delegate supervisory director in charge of supervising the managing board on a regular basis. They

shall report their findings to the supervisory board. The offices of chairman of the supervisory board and delegate supervisory director are compatible.

19.2. With due observance of these articles of association, the supervisory board may adopt rules regulating the division of its duties among its various supervisory directors.

19.3. The supervisory board may decide that one or more of its members shall have access to all premises of the company and shall be authorized to examine all books, correspondence and other records and to be fully informed of all actions which have taken place, or may decide that one or more of its supervisory directors shall be authorized to exercise a portion of such powers.

19.4. At the expense of the company, the supervisory board may obtain such advice from experts as the supervisory board deems desirable for the proper fulfilment of its duties.

19.5. If there is only one supervisory director in office, such supervisory director shall have all rights and obligations granted to and imposed on the supervisory board and the chairman of the supervisory board by law and by these articles of association.

Article 20.

20.1. A supervisory director shall retire no later than at the ordinary general meeting of shareholders held after a period of three years following his appointment. A retired supervisory director may immediately be re-elected.

20.2. A supervisory director shall retire at the annual general meeting of the year in which he reaches the age prescribed by law for retirement of a supervisory director.

20.3. The supervisory board may establish a rotation

scheme.

20.4. The supervisory directors may be suspended or dismissed by the general meeting of shareholders. The supervisory board may make a proposal to the general meeting of shareholders for the suspension or dismissal of one or more of its supervisory directors.

Article 21.

21.1. The supervisory board may pass resolutions by at least three quarters of the votes of the members in office. Each supervisory director has the right to cast one vote. In case of absence a supervisory director may issue a proxy, however, only to another supervisory director. The proxy should explicitly indicate in which way the vote must be cast. The supervisory board may pass resolutions in writing without holding a meeting provided that the proposals for such resolutions have been communicated in writing to all supervisory directors and no supervisory director is opposed to this method of passing a resolution.

21.2. A certificate signed by two supervisory directors to the effect that the supervisory board has passed a particular resolution shall constitute evidence of such a resolution in dealings with third parties.

21.3. The managing directors shall attend meetings of the supervisory board at the latter's request.

21.4. The supervisory board shall meet whenever two or more of its members or the managing board so requests. Meetings of the supervisory board shall be convened by the chairman of the supervisory board, either on request of two or more supervisory directors or on request of the managing board, or by the supervisory directors requesting the meeting to be held. If the chairman fails to convene a meeting to be held within four weeks of the receipt of the request, the supervisory board members making the request are

entitled to convene the meeting.

21.5. The supervisory board shall draw up standing orders regulating inter alia the manner of convening board meetings and the internal procedure at such meetings. These meetings may be held by telephone as well as by video.

Article 22.

The General Meeting of the Shareholders determines the compensation to the members of the Supervisory Board or to one or more of its members. The meeting shall have authority to decide whether such compensation will consist of a fixed amount and/or an amount that is variable in proportion to profits or any other factor. The Supervisory Board members shall be reimbursed for their expenses.

INDEMNIFICATION.

Article 23.

23.1. The company shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the company) by reason of the fact that he is or was a supervisory director, managing director, officer or agent of the company, or was serving at the request of the company as a supervisory director, managing director, officer or agent of another company, a partnership, joint venture, trust or other enterprise, against all expenses (including attorneys' fees) judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the company, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was

unlawful or out of his mandate. The termination of any action, suit or proceeding by a judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and not in a manner which he reasonably believed to be in or not opposed to the best interests of the company, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

23.2. The company shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or proceeding by or in the right of the company to procure a judgment in its favor, by reason of the fact that he is or was a supervisory director, managing director, officer or agent of the company, or is or was serving at the request of the company as a supervisory director, managing director, officer or agent of another company, a partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees) actually and reasonably incurred by him in connection with the defense or settlement of such action or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the company and except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable for gross negligence or wilful misconduct in the performance of his duty to the company, unless and only to the extent that the court in which such action or proceeding was brought or any other court having appropriate jurisdiction shall determine upon application that, despite the adjudication of liability but in view of all the

circumstances of the case, such person is fairly and reasonably entitled to indemnification against such expenses which the court in which such action or proceeding was brought or such other court having appropriate jurisdiction shall deem proper.

23.3. To the extent that a supervisory director, managing director, officer or agent of the company has been successful on the merits or otherwise in defense of any action, suit of proceeding, referred to in paragraphs 1 and 2, or in defense of any claim, issue or matter therein, he shall be indemnified against expenses (including attorney's fees) actually and reasonable incurred by him in connection therewith.

23.4. Any indemnification by the company referred to in paragraphs 1 and 2 shall (unless ordered by a court) only be made upon a determination that indemnification of the supervisory director, managing director, officer or agent is proper in the circumstances because he had met the applicable standard of conduct set forth in paragraphs 1 and 2. Such determination shall be made:

a. either by the supervisory board by a majority vote in a meeting in which a quorum as mentioned in article 21, paragraph 1, and consisting of supervisory directors who where not parties to such action, suit or proceeding, is present;
b. or, if such a quorum is not obtainable or although such a quorum is obtained if the majority passes a resolution to that effect, by independent legal counsel in a written opinion;
c. or by the general meeting of shareholders.

23.5. Expenses incurred in defending a civil or criminal action, suit or proceeding may be paid by the company in advance of the final disposition of such action, suit or proceeding upon a resolution of the supervisory board with respect to the specific case upon receipt of

an undertaking by or on behalf of the supervisory director, managing director, officer or agent to repay such amount unless it shall ultimately be determined that he is entitled to be indemnified by the company as authorized in this article.

23.6. The indemnification provided for by this article shall not be deemed exclusive of any other right to which a person seeking indemnification may be entitled under any by-laws, agreement, resolution of the general meeting of shareholders or of the disinterested supervisory directors or otherwise, both as to actions in his official capacity and as to actions in another capacity while holding such position, and shall continue as to a person who has ceased to be a supervisory director, managing director, officer or agent and shall also inure to the benefit of the heirs, executors and administrators of such a person.

23.7. The company shall have the power to purchase and maintain insurance on behalf of any person who is or was a supervisory director, managing director, officer or agent of the company, or is or was serving at the request of the company as a supervisory director, managing director, officer, employee or agent of another company, a partnership, joint venture, trust or other enterprise, against any liability asserted against him and incurred by him in any such capacity or arising out of his capacity as such, whether or not the company would have the power to indemnify him against such liability under the provisions of this article.

23.8. Whenever in this article reference is being made to the company, this shall include, in addition to the resulting or surviving company also any constituent company (including any constituent company of a constituent company) absorbed in a consolidation or merger which, if its separate existence had continued,

would have had the power to indemnify its supervisory directors, managing directors, officers and agents, so that any person who is or was a supervisory director, managing director, officer or agent of such constituent company, or is or was serving at the request of such constituent company as a supervisory director, managing director, officer or agent of another company, a partnership, joint venture, trust or other enterprise, shall stand in the same position under the provisions of this article with respect to the resulting or surviving company as he would have with respect to such constituent company if its separate existence had continued.

GENERAL MEETING OF SHAREHOLDERS.

Article 24.

24.1. The ordinary general meeting of shareholders shall be held each year within six months after the close of the financial year.

24.2. At this general meeting shall be dealt with:

a. the written report of the managing board on the course of business of the company and the conduct of its affairs during the past financial year, and the report of the supervisory board on the annual accounts;

b. adoption of the annual accounts and the declaration of dividend in the manner laid down in article 35;

c. filling vacancies on the managing board in accordance with the provisions of article 11;

d. filling vacancies on the supervisory board in accordance with the provisions of article 18;

e. the proposals placed on the agenda by the managing board or by the supervisory board, together with proposals made by shareholders in accordance with the provisions of these articles.

Article 25.

25.1. Extraordinary general meetings of shareholders shall be held as often as deemed necessary by the supervisory board and shall be held if one or more shareholders and other persons entitled to attend the meetings of shareholders jointly representing at least one-tenth of the issued share capital make a written request to that effect to the managing board or supervisory board, specifying in detail the business to be dealt with.

25.2. If the managing board or supervisory board fail to comply with a request under paragraph 1 above in such manner that the general meeting of shareholders can be held within six weeks after the request, the persons making the request may be authorized by the President of the Court within whose jurisdiction the company is established to convene the meeting themselves.

Article 26.

26.1. General meetings of shareholders shall be held at Amsterdam, Haarlemmermeer (Schiphol Airport), Rotterdam or The Hague; the notice convening the meeting shall inform the shareholders and other persons entitled to attend the meetings of shareholders accordingly.

26.2. The notice convening a general meeting of shareholders shall be published by advertisement which shall at least be published in a national daily newspaper and abroad in at least one daily newspaper appearing in each of these countries other than the United States, where, on the application of the company, the shares have been admitted for official quotation. In addition, holders of registered shares shall be notified by letter that the meeting is being convened.

26.3. The notice convening the meeting shall be issued by the managing board, by the supervisory board or by those who according to the law or these articles are entitled thereto.

Article 27.

27.1. The notice convening the meeting referred to in the foregoing article shall be issued no later than on the twenty-first day prior to the meeting.

27.2. The agenda shall contain such business as may be placed thereon by the person(s) entitled to convene the meeting, and furthermore such business as one or more shareholders, representing at least one-tenth of the issued share capital, have requested the managing board or supervisory board to place on the agenda at least five days before the date on which the meeting is convened. Nominations for appointment to the managing board and the supervisory board cannot be placed on the agenda by the managing board. No resolution shall be passed at the meeting in respect of matters not on the agenda.

27.3. Without prejudice to the relevant provisions of law, dealing with withdrawal of shares and amendments to articles of association, the notice convening the meeting shall either mention the business on the agenda or state that the agenda is open to inspection by the shareholders and other persons entitled to attend the meetings of shareholders at the office of the company.

Article 28.

28.1. General meetings of shareholders shall be presided over by the chairman of the supervisory board or in his absence by the vice-chairman of the supervisory board. In case of absence of the chairman and the vice-chairman of the supervisory board the meeting shall be presided by any other person nominated by the supervisory board.

28.2. Minutes shall be kept of the business transacted at a general meeting of shareholders, which minutes shall be drawn up and signed by the chairman and by a person appointed by him immediately after the opening of the

meeting.

28.3. Where the minutes are drawn up before a civil law notary, the chairman's signature, together with that of the civil law notary, shall be sufficient.

Article 29.

29.1. All shareholders and other persons entitled to vote at general meetings of shareholders are entitled to attend the general meetings of shareholders, to address the general meeting of shareholders and to vote. The general meeting of shareholders may lay down rules regulating, inter alia, the length of time for which shareholders may speak. In so far as such rules are not applicable, the chairman may regulate the time for which shareholders may speak if he considers this to be desirable with a view to the orderly conduct of the meeting.

29.2. In order to exercise the rights mentioned in paragraph 1, the holders of registered shares shall notify the company in writing of their intention to do so no later than on the day and at the place mentioned in the notice convening the meeting, and also - in so far as type II shares are concerned - stating the serial number of the shares certificate.
They may only exercise the said rights at the meeting for the shares registered in their name both on the day referred to above and on the day of the meeting.

29.3. The company shall send a card of admission to the meeting to holders of registered shares who have notified the company of their intention in accordance with the provision in the foregoing paragraph.

29.4. The provisions laid down in paragraphs 2 up to and including 4 are mutatis mutandis applicable to shares from which usufructuaries and pledgees who do not have the voting right attached to those shares derive their rights.

Article 30.

30.1. Shareholders and other persons entitled to attend meetings of shareholders may be represented by proxies with written authority to be shown for admittance to a meeting.

30.2. All matters regarding the admittance to the general meeting, the exercise of voting rights and the result of votings, as well as any other matters regarding the affairs at the general meeting shall be decided upon by the chairman of that meeting, with due observance of the provisions of section 13, Civil Code:2.

Article 31.

31.1. Unless otherwise stated in these articles, resolutions shall be adopted by simple majority of votes of the shareholders having the right to vote in a meeting of shareholders where at least fifty percent (50%) of the issued capital is present or represented. Blank and invalid votes shall not be counted. The chairman shall decide on the method of voting and on the possibility of voting by acclamation.

31.2. Where the voting concerns appointments, further polls shall, if necessary, be taken until one of the nominees has obtained a simple majority, such with due observance of the provision of paragraph 1 of this article. The further poll or polls may, at the chairman's discretion, be taken at a subsequent meeting.

31.3. Except as provided in paragraph 2, in case of an equality of the votes cast the relevant proposal shall be deemed to have been rejected.

Article 32.

At the general meeting of shareholders each share shall confer the right to cast one vote.

ANNUAL ACCOUNTS, REPORT OF THE BOARD OF MANAGEMENT AND DISTRIBUTIONS.

Article 33.

33.1. The financial year shall run from the first day of January up to and including the thirty-first day of December.

33.2. Each year the managing board shall cause annual accounts to be drawn up, consisting of a balance sheet as at the thirty-first day of December, of the preceding year and a profit and loss account in respect of the preceding financial year with the explanatory notes thereto.

33.3. The managing board shall be bound to draw up the aforesaid annual accounts in accordance with established principles of business management.

33.4. Upon proposal of the managing board, the supervisory board shall determine what portion of the profit - the positive balance of the profit and loss account - shall be retained by way of reserve, having regard to the legal provisions relating to obligatory reserves.

33.5. The supervisory board shall cause the annual accounts to be examined by one or more registered accountant(s) designated for the purposes by the general meeting of shareholders or other experts designated for the purpose in accordance with section 393, Civil Code:2, and shall report to the general meeting of shareholders on the annual accounts, notwithstanding the provisions of the law.

33.6. Copies of the annual accounts which have been made up, of the report of the supervisory board, of the report of the managing board and of the information to be added pursuant to the law shall be deposited for inspection by shareholders and other persons entitled to attend meetings of shareholders, at the office of the company as from the date of serving the notice convening the general meeting of shareholders at which meeting those items shall be discussed, until the close

thereof.

Article 34.

Adoption by the general meeting of shareholders of the annual accounts, referred to in article 33, shall fully discharge the managing board and the supervisory board from liability in respect of the exercise of their duties during the financial year concerned, unless a proviso is made by the general meeting of shareholders, and without prejudice to the provisions of sections 138 and 149, Civil Code:2.

Article 35.

35.1. The portion of the profit that remains after application of article 33, paragraph 4, shall be at the disposal of the general meeting of shareholders, with due observance of the provisions of article 36, paragraph 2.

35.2. The general meeting of shareholders is empowered either to distribute the profits in cash or in kind or to withhold distribution of the said portion of the profit in whole or in part.

35.3. The company only makes distributions in so far as its own equity exceeds the amount of paid up and called portion of the share capital, plus the reserves that must be maintained pursuant to the law.

Article 36.

36.1. Upon the proposal of the supervisory board, the general meeting of shareholders shall be entitled to resolve to make distributions charged to the share premium reserve or charged to the other reserves shown in the annual accounts not prescribed by the law, with due observance of the provisions of paragraph 2.

36.2. The supervisory board shall be entitled to resolve that distributions, the amount of which distributions has been resolved upon by the general meeting of shareholders, to shareholders under article 35, article 36, paragraph 1, and article 37 may be made in full or

partially in the form of the issue of shares in the share capital of the company.
The distribution to a shareholder according to the preceding sentence shall be made to a shareholder in cash or in the form of shares in the share capital of the company, or partially in cash and partially in the form of shares in the share capital of the company, such, if the supervisory board so resolves, at the option of the shareholders.

Article 37.

At its own discretion and subject to section 105, paragraph 4, Civil Code:2, the supervisory board may resolve to distribute one or more interim dividends on the shares before the annual accounts for any financial year have been approved and adopted at a general meeting of shareholders.

Article 38.

38.1. Distributions under articles 35, 36 or 37 shall be payable as from a date to be determined by the supervisory board. The date of payment set in respect of shares for which certificates are outstanding or in respect of type I shares may differ from the date of payment set in respect of shares for which type II share certificates are outstanding.

38.2. Distributions under articles 35, 36 or 37 shall be made payable at a place or places, to be determined by the supervisory board; at least one place shall be designated thereto in The Netherlands.

38.3. The supervisory board may determine the method of payment in respect of cash distributions on type I shares.

38.4. Cash distributions under articles 35, 36 or 37 in respect of shares for which a type II share certificate is outstanding shall, if such distributions are made payable only outside the Netherlands, be paid in the currency of a country where the shares of the company

are listed on a stock exchange, converted at the rate of exchange determined by the Dutch Central Bank at the close of business on a day to be fixed for that purpose by the supervisory board. If and in so far as on the first day on which a distribution is payable, the company is unable, in consequence of governmental action or other exceptional circumstances beyond its control, to make payment at the place designated outside the Netherlands or in the relevant foreign currency, the supervisory board may in that event designate one or more places in the Netherlands instead. In such event the provisions of the first sentence of this paragraph shall no longer apply.

38.5. The person entitled to a distribution under articles 35, 36 or 37 on registered shares shall be the person in whose name the share is registered at the date to be fixed for that purpose by the supervisory board in respect of each distribution for the different types of shares.

38.6. Notice of distributions and of the dates and places referred to in the preceding paragraphs of this article shall at least be published in a national daily newspaper and abroad in at least one daily newspaper appearing in each of those countries other than the United States, where the shares, on the application of the company, have been admitted for official quotation, and further in such manner as the supervisory board may deem desirable.

38.7. Distributions in cash under articles 35, 36 or 37 that have not been collected within five years after they have become due and payable shall revert to the Company.

38.8. In the case of a distribution under article 36, paragraph 2, any shares in the company not claimed within a period to be determined by the supervisory

board shall be sold for the account of the persons entitled to the distribution who failed to claim the shares. The period and manner of sale to be determined by the supervisory board, as mentioned in the preceding sentence, shall be notified according to paragraph 9. The net proceeds of such sale shall thereafter be held at the disposal of the above persons in proportion to their entitlement; distributions that have not been collected within five years after the initial distributions in shares have become due and payable shall revert to the Company.

38.9. In the case of a distribution in the form of shares in the company under article 36, paragraph 2, on registered shares, those shares shall be added to the share register. A type II share certificate for a nominal amount equal to the number of shares added to the register shall be issued to holders of type II shares.

38.10. The provisions of paragraph 5 shall apply equally in respect of distributions - including pre-emptive subscription rights in the event of a share issue made otherwise than under articles 35, 36 or 37, provided that in addition thereto in the "Staatscourant" (Dutch Official Gazette) shall be announced the issue of shares with a pre-emptive subscription right and the period of time within which such can be exercised.

Such pre-emptive subscription right can be executed during at least two weeks after the day of notice in the "Staatscourant" (Dutch Official Gazette).

ALTERATIONS TO ARTICLES OF ASSOCIATION, WINDING UP, LIQUIDATION.

Article 39.

A resolution to alter the articles of association or to wind up the company shall be valid only provided that:

a. the proposal to such a resolution has been proposed to the general meeting of shareholders by the supervisory board;
b. the full proposals have been deposited for inspection by shareholders and other persons entitled to attend meetings of shareholders, at the office of the company as from the day on which the notice is served until the close of that meeting.

Article 40.

40.1. If the company is wound up, the liquidation shall be carried out by any person designated for the purpose by the general meeting of shareholders, under the supervision of the supervisory board.

40.2. In passing a resolution to wind up the company, the general meeting of shareholders shall upon the proposal of the supervisory board fix the remuneration payable to the liquidators and to those responsible for supervising the liquidation.

40.3. The liquidation shall take place with due observance of the provisions of the law. During the liquidation period these articles of association shall, to the extent possible, remain in full force and effect.

40.4. After settling the liquidation, the liquidators shall render account in accordance with the provisions of the law.

40.5. After the liquidation has ended, the books and records of the company shall remain in the custody of the person designated for that purpose by the liquidators during a ten-year period.

Article 41.

After all liabilities have been settled, including those incident to the liquidation, the balance shall then be distributed among the shareholders in proportion to the par value of their ownership of shares.

Article 42.

Any amounts payable to shareholders or due to creditors are not claimed within six months after the last distribution was made payable, shall be deposited with the Public Administrator of Unclaimed Debts.

SGS-THOMSON
MICROELECTRONICS

[GRAPHIC] 1995 ANNUAL REPORT

SGS-THOMSON Microelectronics N.V. is a global independent semiconductor company that produces a broad range of semiconductor integrated circuits (ICs) and discrete devices. Its products are used in high growth applications in the telecommunications, computer, consumer, automotive and industrial sectors. Based on the most recent available industry data, the Company is the world's leading supplier of analog ICs, mixed signal ICs, smart power ICs and MPEG decoder ICs. It serves customers in a variety of markets worldwide, including North America, Europe, Asia Pacific and Japan. The common stock of SGS-THOMSON is traded on the New York Stock Exchange under the symbol "STM". The common stock is also listed on the Bourse de Paris and quoted on SEAQ International.

CONTENTS

	Twelve months ended December 31,				
(in millions, except per share data)	1991(1)	1992	1993(1)	1994(1)	1995(1)
CONSOLIDATED STATEMENT OF INCOME DATA:					
NET REVENUES	$1,374.0	$1,568.1	$2,037.5	$2,644.9	$3,554.4
Cost of sales(2)	(995.2)	(1,051.6)	(1,248.4)	(1,528.7)	(2,096.0)
Gross profit(2)	378.8	516.5	789.1	1,116.2	1,458.4
TOTAL OPERATING EXPENSES(3)	(410.7)	(464.7)	(573.6)	(683.2)	(807.4)
Operating profit (loss)	(31.9)	51.8	215.5	433.0	651.0
Net interest expenses/other(4)	(68.2)	(46.5)	(37.8)	(21.0)	(16.8)
PROFIT (LOSS) BEFORE TAX	(100.1)	5.3	177.7	412.0	634.2
Income tax	(2.5)	(2.3)	(17.6)	(49.5)	(108.3)
Profit (loss) before minority interests	(102.6)	3.0	160.1	362.5	525.9
Minority interests(5)	0	0	0	0	0.6
Net earnings (loss)	$ (102.6)	$ 3.0	$ 160.1	$ 362.5	$ 526.5
Net earnings (loss) per share(6)	$ (1.93)	$ 0.06	$ 1.92	$ 3.04	$ 4.03
Weighed average shares outstanding	53.3	53.6	83.5	119.4	130.6
CONSOLIDATED BALANCE SHEET DATA (END OF PERIOD):					
Cash, cash equivalents and marketable securities	$ 48.4	$ 99.5	$ 327.4	$ 461.5	$ 758.4
Working capital	549.7	467.7	390.0	291.1	417.4
TOTAL ASSETS	1,896.5	1,842.3	2,240.9	3,224.7	4,486.0
Short-term debt (including current portion of long-term debt)	340.8	360.6	231.1	322.5	492.8
Long-term debt (excluding current portion)(1)	612.6	547.6	374.8	277.2	200.7
Shareholders' equity(1)	479.9	412.9	1,004.0	1,680.0	2,661.7

(1) In October 1995, the Company completed a second public offering with net proceeds to the Company of approximately $371.6 million. In December 1994, the Company completed an Initial Public Offering with net proceeds to the Company of approximately $198.7 million. In 1993, the Company received a $500 million capital contribution that was effected in two steps, $250 million in May and $250 million in September. The Company also received a $100 million capital contribution in each of 1988, 1989 and 1991.

(2) Cost of sales is net of certain third-party funding for industrialization costs (which include certain costs incurred to bring prototype products to the production stage) included therein. See Note 20 to the Consolidated Financial Statements. For a discussion of certain significant charges reflected in cost of sales in 1993, 1994 and 1995, see "Management's Discussion and Analysis of Financial Condition and Results of Operations--Results of Operations."

(3) Includes, among other things, third-party funding for research and development, the expenses for which are reflected in research and development expenses, as well as foreign currency gains and losses, fab start-up costs, patent license payments received and patent costs incurred. For a discussion of third-party funding (principally by the French and Italian governments) and low interest financing for research and development and other matters, see "Description of Business--State Support for the Semiconductor Industry." The Company's reported research and development expenses do not include design center, process engineering, pre-production or industrialization costs.

(4) Includes mainly net interest expenses, plus a gain on disposal of an investment in 1992.

(5) In 1994, the Company created a joint venture with a subsidiary of the Shenzhen Electronics Group ("SEG"). the Company owns a 60% interest in the joint venture, with a subsidiary of SEG owning the remaining 40%.

(6) Net earnings (loss) per share amounts have been restated to reflect a 40:1 stock split effected in connection with the Initial Public Offering.

In the original document the following tables were represented by bar graphs:

Net Revenues (in $US millions)

1991 - 1,374
1992 - 1,568
1993 - 2,038
1994 - 2,645
1995 - 3,554

Net Earnings/Loss (in $US millions)

1991 - (102.6)
1992 - 3.0

1993 - 160.1
1994 - 362.5
1995 - 526.5

Shareholders' Equity ($US millions)
- ----------------------------------
1991 - 479.9
1992 - 412.9
1993 - 1,004.0
1994 - 1,680.0
1995 - 2,661.7

MESSAGE FROM THE PRESIDENT

- - We took major steps to ensure our continued industry leadership into the next century. -

[PHOTO]

I am pleased to report that SGS-THOMSON enjoyed excellent business and financial results in 1995. Our strong performance is evident, first of all, in the Company's record sales and earnings. In addition, we gained market share in our served market, according to preliminary industry estimates. Just as important as our accomplishments of the past year, however, are the steps we took to ensure our continued industry leadership as we approach a new century. Toward that end, we continued to invest in the expansion of our global manufacturing capacity, accelerated the pace of our research and development efforts, and strengthened our financial position through a second public offering of common stock. These initiatives -- along with our continuing drive to increase our focus on differentiated products, concentrate on high growth applications, and form constructive partnerships with our customers -- have given the Company a solid platform for new achievements and successes.

1995 FINANCIAL HIGHLIGHTS

Net revenues for 1995 increased over 34% to a historical high of $3.55 billion. Gross profit was $1.46 billion, representing an increase of nearly 31%. Operating profit for 1995 rose more than 50%, to $651.0 million. While the gross profit margin went from 42.2% in 1994 to 41.0% in 1995, the operating profit margin moved upward to 18.3% from 16.4%. Net earnings for 1995 reached $526.5 million, a 45% increase over 1994's figure of $362.5 million. Earnings per share for 1995 rose almost 33%, to $4.03, based on 130.6 million weighted average shares outstanding. In 1994, earnings per share were $3.04 based on 119.4 million weighted average shares outstanding.

Reflecting our commitment to investing in the continued growth of the Company, capital expenditures for 1995 totalled $1.0 billion, up from $779.7 million in 1994. Research and development expenses were $440.3 million for the last year, an increase of over 30% from the 1994 R&D figure.

We ended 1995 with an extremely solid balance sheet. At the end of the year, cash, cash equivalents and marketable securities totalled $758.4 million, exceeding by $64.9 million our total debt of $693.5 million, while working capital stood at $417.4 million. Shareholders' equity at December 31, 1995 was $2.66 billion.

OPERATING PERFORMANCE

Our record performance was the result of strong growth across SGS-THOMSON's wide range of product groups, geographic regions and end markets. In keeping with our successful product strategy, sales of differentiated products (dedicated/ASSPs, semicustom ICs and microcontrollers) during 1995 rose 43% to total $1.8 billion, or 51% of net revenues. The strong growth in differentiated products was the result of rising customer demand, especially for chips with high system content, to which we allocated significant

capacity. In terms of our primary product groups, sales of Dedicated Products rose 38.9%, Programmable Products increased 40.4%, and Discrete and Standard ICs advanced 31.7%. Memory Products revenues were up 15%, despite the limitations caused by our decision to allocate capacity to differentiated products for which we were often the sole source.

Sales trends by geographic region confirmed the Company's status as a global force in the semiconductor industry. Revenues derived from the Asia Pacific region increased 49.8% in 1995, followed by Europe at 33.5%, North America at 25.7%, and Japan with 15.4%. In 1995, Europe accounted for 46% of net revenues, Asia/Pacific was 26%, the Americas were 24%, and Japan represented 4%. However, if sales to Asian divisions of U.S. customers are combined with their parent companies, our American revenues would be approximately one-third of our total business.

The Company's emphasis on developing and manufacturing products for high growth applications was rewarded in 1995. Sales of industrial products rose nearly 37%, with a similar rate of increase for telecommunications. Both automotive and computer applications experienced revenue increases in the area of 36%. Consumer-related products posted a 28% growth rate.

One important result of our strong growth in product sales was that SGS-THOMSON maintained or increased its share in many of our key markets. According to available industry data and current estimates, we believe that we once again held the #1 position in total analog ICs, mixed-signal ICs and smart power ICs for 1995. We also were among the leaders in non-volatile memories and dedicated telecom ICs.

MANUFACTURING AND R&D ACTIVITIES

During 1995, we continued to build up SGS-THOMSON's manufacturing capacity. We announced plans for a fourth 8-inch fab, to be based in Rousset, France, and we are in the process of upgrading and expanding six facilities around the world. In addition, we have identified two other 8-inch facilities, one of which will be in Singapore with the other one -- in Italy -- now under consideration. Our second 8-inch fab in Phoenix, Arizona, began volume production ahead of schedule in July 1995. It will soon start manufacturing next generation x86 microprocessors, and is qualified for several other product families including MPEG decoders. The first wafers should be available from our M5 8-inch module in Catania, Italy, in the third quarter of 1996, with ramp-up starting in the fourth quarter. Also, the construction of the Shenzhen assembly facility in Southern China is nearing completion. This new plant, which is a joint venture with the Shenzhen Electronics Group of China, together with the investments that are being made at other existing facilities, will contribute new back-end capacity to serve increased front-end output.

Our R&D effort, which over the years has provided SGS-THOMSON with many leading edge technologies, was even stronger in 1995. We made important progress in virtually every area of technology, from power devices to 16 Megabit Flash memories. Among the recent achievements of our R&D team were the creation of the Company's first engineering samples of CMOS 0.35 micron and BiCMOS 0.5 micron technology, and the first silicon of BCD 5 high-power technology with integrated 0.6 micron CMOS logic.

INDUSTRY DYNAMICS AND DIRECTION

Over the long term, several dynamic trends will present significant opportunities for our industry in general, and for SGS-THOMSON in particular.

The first trend is technological change or, more specifically, the changing role of microchip makers. Today, we have the ability to create a single chip combining VLSI or ULSI technologies with mixed-signal or mixed-power, together with the whole variety of memory blocks, to replicate the functions of an electronic system.

This trend is revolutionary, since it moves our industry into the era of complete "system-solutions" on silicon.

There are three important implications of this changing environment. First, there will be tremendous economic opportunities for those companies that are positioned to meet the need for system-on-a-chip technology. Second, to take advantage of these opportunities, a semiconductor maker must be able to master a vast breadth of technologies, possess strong financial resources to support R&D at a very high level, and control ample manufacturing resources. Third, because designing systems on silicon is by nature a collaborative process, the successful semiconductor companies will be those with the demonstrated ability to form close

- - Our record performance reflected strong growth across a wide range of product groups, regions and end markets. -

- Our R&D effort has provided many leading edge technologies. -

strategic alliances with their customers. These are the qualities which we have worked hard to foster at SGS-THOMSON, and which are discussed in greater detail in this annual report.

Geographic change is the second major trend I wish to highlight, and in particular the fact that regionalized economies will continue to prevail in the near-term, while the world is proceeding with the trend of a long-term shift to a truly globalized economy. In recent years, the most explosive growth in our business (and, indeed, in many industries) has taken place in Asia. This region offers enormous resources, a strong cost advantage and high productivity. Thus, it appears that Asia will lead the pack in terms of growth for the near future. Fortunately, SGS-THOMSON has made the investment to establish an integrated presence in this region, consisting of over 10 years of front-end activity, extensive back-end operations (including a new presence in China), and meaningful R&D, design, marketing and sales resources. Over time, however, we believe that the environmental differences between the various macro-economic systems will tend to become more compatible. The boundary conditions for a truly global economy will be in place and the growth momentum will tend to equalize between Asia and other regions, such as North America and Europe. When this occurs, we will be well-positioned to benefit from our strong operations and integrated presence in those areas, as well.

The other changes of note will occur in the cultural fabric of companies. To grow and prosper, a corporate organization must become more agile, responsive and decentralized, yet all parts of the entity must function together as a coherent whole. The company must foster a culture that encourages a commitment to continuous improvement, total quality management and environmental stewardship, and which empowers its members to achieve these goals. This is the corporation we have been striving to build at SGS-THOMSON.

OUTLOOK FOR 1996; VISION 2000

We are entering 1996 in a healthy financial and business condition, with demand exceeding our capacity in the majority of our product portfolio. It is, however, evident that the industry has started a correction from the extraordinary growth of recent years to a much more modest rate.

The most respected industry analysts expect a growth rate for 1996 well below that of last year, with disparities in growth among different product families. We cannot anticipate how deep or how long this correction phase will be. We are confident, however, that the heavy emphasis on differentiated products in our portfolio, our strong customer base and strategic alliances, together with our well diversified sales base, both in terms of applications and geography, should allow SGS-THOMSON to again outpace the rate of growth in our served market.

Looking further ahead, SGS-THOMSON will continue to follow the three main strategic guidelines that have served as our road map since the Company's foundation: innovation, driven by market needs as expressed through our alliances; globalization, which for us means an integrated presence in the major macroeconomic systems; and productivity, which results from a work-force that is educated and empowered to achieve total quality management. By following these strategic guidelines, we are aiming to:

- - Become a solid member of the top ten worldwide semiconductor manufacturers,

- - Demonstrate financial performance superior to the average of our 10 largest peer companies, and

- - Be best-in-class in customer service, product quality and environmental protection.

These are the core elements of our "Vision 2000". By working to realize this vision, we look forward to producing continued value for our shareholders, customers and associates.

/s/ Pasquale Pistorio

Pasquale Pistorio
President and Chief Executive Officer

SGS-THOMSON At a Glance

- - 1995 Revenues: US$ 3.55 Billion

- - 25,000 Employees

- - 17 Manufacturing Sites

- - 9 Advanced Research and Development Sites

- - 31 Design and Application Centers

- - 57 Sales Offices in 23 Countries

In the original document the following tables were represented by pie charts:

1995 Revenues by Region
- ----------
Europe - 46%
Americas - 24%
Asia Pacific - 26%
Japan - 4%

1995 Revenues by Product Family
- ----------
Differentiated Products - 51%
Logic and Memories - 24%
Discretes - 17%
Standard Commodities - 8%

1995 Revenues by Application
- ----------
Telecommunications - 23%
Computer - 27%
Automotive - 9%
Consumer - 20%
Industrial - 21%

PRODUCT GROUPS
AT A GLANCE

DSG [GRAPHIC]

DISCRETE AND STANDARD ICS GROUP

Produces discrete power devices, such as power transistors (power bipolar, power MOS), rectifiers, protection devices, thyristors and application-specific discrete products. Also produces standard linear and logic ICs and radio frequency (RF) products. The Group has a diverse customer base and broad product portfolio.

DPG [GRAPHIC]

DEDICATED PRODUCTS GROUP

Produces application-specific semiconductor products using advanced bipolar, CMOS, BiCMOS, mixed-signal and power technologies. The Group's dedicated products are used in all major end-user applications, including mobile communications networks, asynchronous transfer mode communications systems and digital video compression systems.

SPG [GRAPHIC]

SUBSYSTEMS PRODUCTS GROUP

Produces electronic subsystems that provide complete solutions for OEM customer applications. Products include converters and complete power supplies, motor control modules, hands-free systems and battery chargers.

PPG [GRAPHIC]

PROGRAMMABLE PRODUCTS GROUP

Produces microcomponents (including microcontrollers, microprocessors and digital signal processors), as well as digital semicustom devices and mixed analog/digital semicustom devices. PPG also produces PC graphic devices and multimedia acceleration ICs.

MPG [GRAPHIC]

MEMORY PRODUCTS GROUP

Produces a broad range of memory products, including EPROMs, Flash memories, EEPROMs, SRAMs and chips for smartcards. The Group does not produce DRAMs. MPG has been the leading supplier of EPROM memories since 1993, and is using its EPROM and EEPROM expertise to develop and manufacture a broad portfolio of Flash memory devices.

NVG [GRAPHIC]

NEW VENTURES GROUP

Identifies and develops new business opportunities to complement the Company's existing activities and fully exploit its advanced technological expertise, manufacturing capabilities and global marketing team. NVG was formed in May 1994 and its initial activities have focused on manufacturing and marketing x86 microprocessors through a wholly-owned subsidiary in the U.S.

AUTOMOTIVE

[GRAPHIC]

ST is a leading provider of chips for audio and comfort systems, from the highest end car stereos to the new, state-of-the-art navigation systems (GPS).

The pervasiveness of semiconductors in automotive applications has grown more than ten-fold in the past 15 years, as car makers have introduced more sophisticated systems and new consumer options. According to industry analysts, this market is projected to continue to expand at a compound annual growth rate of approximately 12% through the year 2000. SGS-THOMSON, with its ability to command a broad range of technologies and form strong working relationships with customers, provides products for such diverse automotive applications as fuel injection, powertrain, anti-lock braking, airbag, car audio, climate control, suspension and lighting systems.

Sales of SGS-THOMSON products for automotive applications rose 36% in 1995, and represented 9% of net revenues. Automotive customers include many of the leading international manufacturers, including BMW, Chrysler, Daimler-Benz, Fiat, Ford and Peugeot. SGS-THOMSON products are also used by such prominent makers of automotive systems and components as Bosch, Delco, Marelli, Nippondenso and Valeo. The Company offers these and other automotive customers such advances as mixed technologies, superintegration in signal and power, and specialized packaging for new, more complex microchips.

SGS-THOMSON is continually working on the next generation of advanced automotive products. The Company's new products include engine management systems, featuring Bipolar-CMOS-DMOS control circuits that comply with anti-pollution diagnostic requirements. Other new products include monolithic alternator regulators and single-chip control systems for airbag, braking and other safety features. Customer demands for ultra-compact powertrain control systems, sophisticated navigation devices and instrumentation, and more stringent emission controls are also driving new product development.

[GRAPHIC]

SGS-THOMSON is continually working on the next generation of advanced automotive products.

ST products are featured in the most sophisticated driver safety devices, including ABS and airbag systems.

[GRAPHIC]

From read-write channels to spindle and head positioning motor drives to controllers, SGS-THOMSON is the undisputed leader in hard disk drive components.

The computer industry has continued to be an important and growing factor in SGS-THOMSON's business. Overall, the market for semiconductors in computer applications is anticipated by industry experts to increase at a compound annual rate of 16% through the end of this century.

At SGS-THOMSON, sales of products for computer applications increased nearly 36% in the last year, and accounted for 27% of net revenues in 1995. For an example of the Company's market leadership in computer applications, consider that seven out of every ten PCs manufactured today use SGS-THOMSON smart power chips in their hard disk drives. Some typical customers include: Acer, Bull, Canon, Compaq, Conner, DEC, Epson, Hewlett Packard, IBM, Olivetti, Quantum, Seagate and Xerox.

The Company's success in the computer market is evident from the great diversity of products it provides. For personal computers, SGS-THOMSON manufactures x86 microprocessors; Flash, EPROM and fast or specialty SRAM memories; and graphics processors, including state-of-the-art 3-D multimedia accelerators. Hard drives use multichannel combos for motor drives and read-write circuits. Products employed in monitors include multisynch processors, vertical amplifiers and processors, and microcontrollers for power management and on-screen display. Printers utilize the Company's power drivers, microcontrollers and memories.

Continuing its growth in the computer sector, the Company is developing new products to satisfy industry demand for such applications as higher capacity disk drives, photo-quality printers, and power management for notebook and palmtop computers.

[GRAPHICS]

Seven out of every ten PCs manufactured today use SGS-THOMSON chips.

SGS-THOMSON is a major player in multimedia PCs. The Company is the world's largest provider of MPEG decoders, and its STG 2000 is the industry's first integrated multimedia accelerator.

TELECOMMUNICATIONS

[GRAPHIC]

SGS-THOMSON has been a major participant in both analog and digital terminals and exchanges and is helping to advance new technologies such as ISDN and ATM.

Products for telecommunications customers represent one of the Company's largest and fastest growing application areas, increasing nearly 37% in sales and accounting for 23% of total revenues in 1995. With a projected compound annual growth rate of 17% through the year 2000, the opportunities in this sector should continue to expand.

To a great extent, the explosive growth in the telecommunications segment is the result of the increasing popularity of cellular phones. The list of Company products employed in cellular phones is lengthy, and growing rapidly. It includes advanced digital signal processor cores, ICs used in supply management and subscriber identification interface, Flash and EEPROM memories, and various radio frequency products. Key customers include such industry giants as Motorola and Nokia.

SGS-THOMSON products are widely used in many telecom applications other than cellular phones, however, including line cards, modems, and central office or PABX equipment. The Company's products are featured in high speed modems and audio processors made by US Robotics, Sierra, Racal, PC-Tel and Acer. In addition, it is a major supplier of dedicated interface ICs to three of the leading switch manufacturers: Alcatel, Siemens and Northern Telecom. It is also a major provider of ISDN interface ICs for expanding digital networks.

The continued growth of the telecommunications segment is being driven by developments such as the renewal of line card equipment, ramp-up of ISDN and wireless technologies, and the general expansion of the industry as a consequence of deregulation. SGS-THOMSON is moving to capitalize on these trends by creating new products, including a modem analog front-end for PCs, a high speed link IC for ISDN, and a line card using advanced BCD technology.

[GRAPHIC]

The portfolio of Company products employed in cellular phones is lengthy and growing rapidly.

Over the years, SGS-Thomson has built a technological and commercial leadership position in the area of subscriber line interface circuits.

CONSUMER

[GRAPHIC]

The recent boom in set top boxes for advanced services such as direct satellite broadcasting has been made possible by ST's ability to produce state-of-the-art devices in volume.

SGS-THOMSON semiconductors are widely used in such common consumer products as televisions, VCRs, audio systems and other home entertainment applications. The increasing sophistication of such products, and the demand of consumers for the latest technologies, continue to drive the growth of this segment. Industry analysts expect the consumer market for semiconductors to expand at a compound annual rate of 14% over the next five years. In 1995, the Company's sales of semiconductors for consumer applications rose 28%, and were equivalent to 20% of net revenues. Among SGS-THOMSON's major customers in this area are General Instrument, Goldstar, Kenwood, Matsushita, Philips, Pioneer, Samsung, Sanyo, Sharp, Sony and Thomson Multimedia. Included in the Company's products for the consumer segment are: a complete set of ICs (other than DRAMs) for use in digital satellite decoders; one-chip controllers for monitors; a teletext decoder with on-board memory; audio-video matrix switching devices; VCR head amplifiers; and encoders for video game consoles. It also supplies microcontrollers for a wide variety of household appliances.

The Company's contribution to the consumer market has become even more evident with the development of MPEG chips, which are essential to the creation of products offering full-motion video features. MPEG technology is at the heart of such diverse applications as multi-media PCs, the emerging digital and direct broadcast satellite TVs, and video CD players. SGS-THOMSON has been a pioneer in this area, and its established position as the world's #1 supplier of MPEG-2 video-audio decoders will help ensure a major role in the consumer category as new and exciting full-motion products are introduced.

[GRAPHIC]

MPEG technology is at the heart of such diverse applications as multi-media PCs, the emerging digital and direct broadcast satellite TVs and Digital Video Disk (DVD) players.

SGS-THOMSON continues to innovate in the area of television, and plays a major role in advancing image quality through such programs as Improved Quality TV.

[GRAPHIC]

With a market share of over 40%, SGS-THOMSON is a worldwide supplier of discrete and IC devices for the new generation of compact fluorescent lamps featuring low energy consumption and long operating life.

In the industrial market segment, SGS-THOMSON supplies semiconductor products for a great variety of applications. Among the Company's most widely used products are intelligent power circuits, which can be found in robots, motor controls and other control systems, automation systems, power supply equipment, lighting products and battery chargers. Significant customers include Asea Brown Boveri, Mannesman, Philips, Schlumberger and Siemens.

In the past year, the industrial products category generated 21% of the Company's net revenues, an increase of almost 37% over the prior twelve months. This segment is projected by industry analysts to grow at a compound annual rate of 16% through the year 2000. The factors driving the growth of this category include the need to retrofit older plants for new processes, the trend among corporations to seek greater production efficiencies through technology upgrades, and the construction of new industrial facilities to meet burgeoning demand for capacity in developing countries.

One industrial application with tremendous potential for growth is the "smart card", for which the Company is the leading producer of chips. These plastic, credit card-sized devices are embedded with powerful microchips that integrate logic, microcontrollers and sophisticated cryptographics. SGS-THOMSON technology enables the smart card to store personal or financial data, allowing access while securing the information from unauthorized use. Smart cards are employed throughout Europe to pay for public telephone service, to provide records of bank accounts or health care data, and for many other uses. As they become more widely accepted in the U.S., it will open up an even more significant market.

Smart cards are just one example of the Company's use of innovative technologies to serve the needs of the industrial segment. It is also developing such products as a system-on-a-chip for a new generation of "super smart" battery chargers, and high voltage ICs for specialized lighting applications.

[GRAPHIC]

SGS-THOMSON technology enables the smart card to store personal or financial data, allowing access while securing the information from unauthorized use.

ST's technological and manufacturing leadership, which enables such diverse functions as a microcontroller, non-volatile memory and power and sensing functions to be integrated on the same device, makes "system on a chip" devices like the Smart Battery Charger a reality.

OPERATIONS

MANUFACTURING

[GRAPHIC]

Today, there are 17 manufacturing sites in Europe, Asia and North America, and a new facility will be opened in China.

SGS-THOMSON's position as one of the leading semiconductor companies is supported by its global "manufacturing machine". Today, there are 17 manufacturing sites in Europe, Asia and North America, and a new facility will be opened in China. This combination of manufacturing resources supports the Company's broad semiconductor product line, providing customers in virtually every major region with controlled access to essential products, and meeting the highest standards for quality and cost-effectiveness.

This manufacturing machine operates on a large scale. Company-wide there are a total of five Class 1 clean areas. Approximately 18,000 employees are involved in the manufacturing processes. There are currently three facilities with the capacity to manufacture wafers up to 8-inch diameter, and three plants with the capability for 0.35 micron or smaller processes.

[GRAPHIC]

The Company continues to strengthen its manufacturing resources. Six facilities around the world are being expanded and upgraded. A new ULSI 8-inch front-end facility is ready to begin activity in Catania, designs are underway for a new 8-inch fab in Rousset, and two other 8-inch facilities, one in Singapore and one in Italy, are respectively being planned or are under consideration.

Manufacturing Facilities

Front-end / / Crolles, France / / Agrate, Italy / / Rousset, France / / Catania, Italy / / Rennes, France / / Grenoble, France / / Castelletto, Italy

/ / Tours, France / / Ang Mo Kio, Singapore / / Carrollton, TX, USA / / Phoenix, AZ, USA / / Rancho Bernardo,
CA, USA

Back-end
/ / Muar, Malaysia
/ / Kirkop, Malta
/ / Toa Payoh, Singapore
/ / Ain Sebaa, Morocco
/ / Bouskoura, Morocco

[GRAPHIC]

Tours, France

Ang Mo Kio, Singapore

Agrate, Italy

Muar, Malaysia

Catina, Italy

Toa Payoh, Singapore

Castelletto, Italy

[GRAPHIC]

Carrollton, TX, USA

Phoenix, AZ, USA

Crolles, France

Rousset, France

Ain Sebaa, Morocco

Rancho Bernardo,
CA, USA

Bouskoura, Morocco

Kirkop, Malta

Rennes, France

Grenoble, France

Catania, Italy

RESEARCH AND DEVELOPMENT

SGS-THOMSON operates 31 advanced R&D or design sites worldwide.

[GRAPHIC]

Technology Roadmap

PROTOTYPING/PRODUCTION START	'91/'92	'93/'94	'95/'96	'97/'98	'99/'2000
High Performance Logic	0.8/0.7u (2/3 ML)	0.5u (3 ML)	0.35u (5 ML)	0.25u (5 ML)	0.18u (5-6 ML)
BiCMOS LOGIC/ANALOG	1.2u	0.7u	0.5u	0.35u	0.25u
BCD (Bipolar/CMOS/DMOS)	2.5u	1.2u	0.6u	0.5u	0.5u
EPROMs	16 M 5V	--	16M 3V	--	--
FLASH Memories	256 K/1M 5V	4M 5V	8M/16M 3V	64M 3V	256M 2.5V
SRAMs (Fast/N.V.)	1M 5V	1M 5V	1M 3V	1M/4 3V	16M 2.5V
PROGRAMMABLE LOGIC N.V. Memory Capability	0.8u	0.7u	0.6u/0.5u	0.35u	0.25u

[PHOTO]

The R&D program at SGS-THOMSON is extensive and dynamic, enabling the Company to maintain its technological leadership. Today, there are 31 advanced research and development or design sites worldwide, employing 2,500 people. Total expenses for R&D in 1995 were over $440 million, representing 12.4% of net revenues.

R&D milestones for 1995 included the first engineering samples of such products as 0.35 micron VLSI CMOS, 0.5 micron BiCMOS and 16 Megabit Flash. Also, the first silicon has been produced for BCD 5, the Company's exclusive 0.6 micron Bipolar/CMOS/DMOS technology.

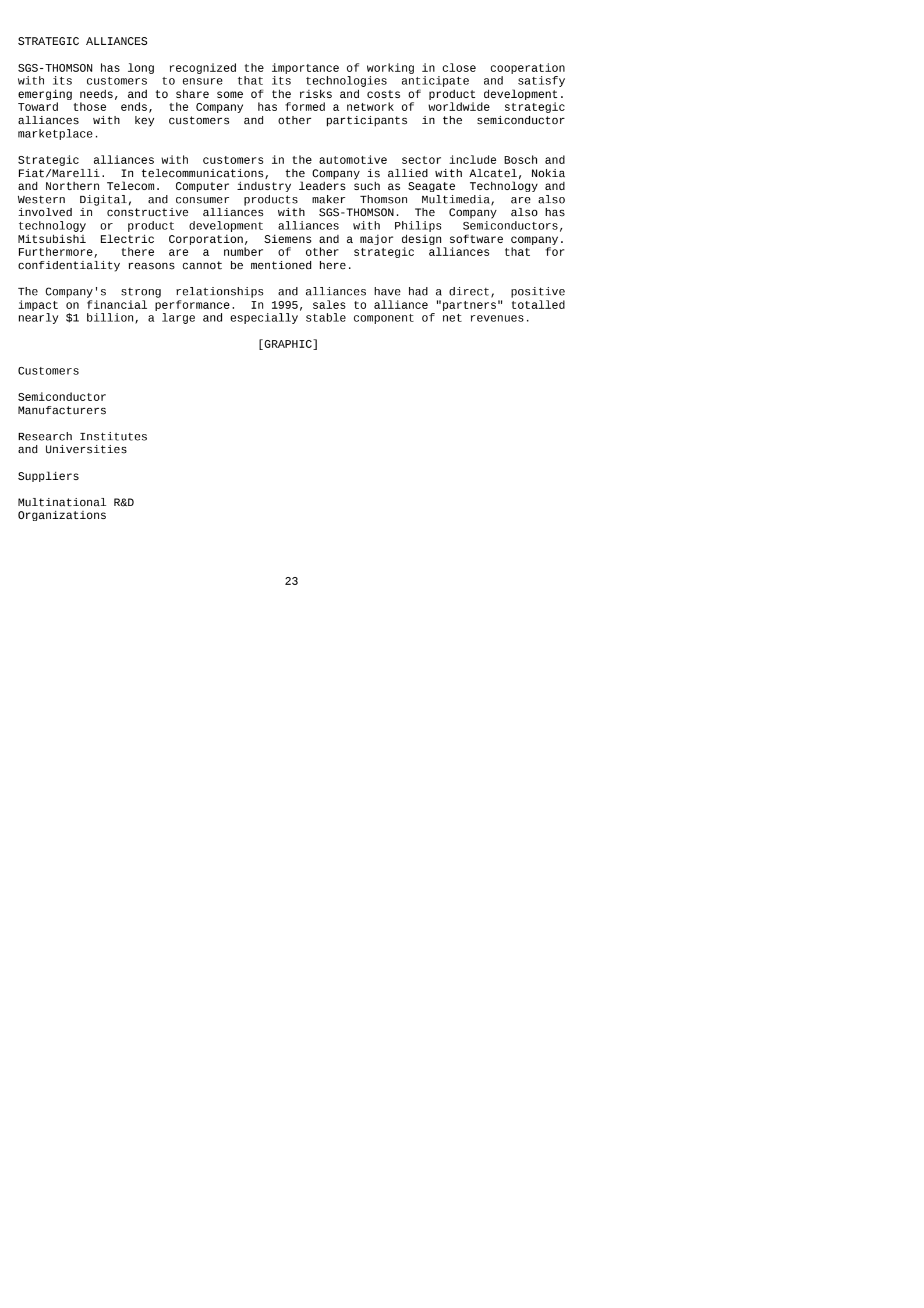
To maximize the benefits of the R&D effort, the Company relies on both centralized and decentralized operations. That is, there are two main centers for VLSI platform development, in Crolles, France and Agrate, Italy, along with diverse process/design centers for specific technological competencies. Extending the scope of its R&D program, SGS-THOMSON conducts some activities jointly with major corporate, academic and government research centers. A key advantage is the use of pilot lines closely allied with the Company's R&D facilities, such as the non-volatile memory and programmable logic line in Agrate or the high performance logic CMOS/BiCMOS line at Crolles. The pilot lines allow early prototyping of technologies and help ramp-up for manufacturing, thus reducing time-to-market while enhancing yield.

STRATEGIC ALLIANCES

SGS-THOMSON has long recognized the importance of working in close cooperation with its customers to ensure that its technologies anticipate and satisfy emerging needs, and to share some of the risks and costs of product development. Toward those ends, the Company has formed a network of worldwide strategic alliances with key customers and other participants in the semiconductor marketplace.

Strategic alliances with customers in the automotive sector include Bosch and Fiat/Marelli. In telecommunications, the Company is allied with Alcatel, Nokia and Northern Telecom. Computer industry leaders such as Seagate Technology and Western Digital, and consumer products maker Thomson Multimedia, are also involved in constructive alliances with SGS-THOMSON. The Company also has technology or product development alliances with Philips Semiconductors, Mitsubishi Electric Corporation, Siemens and a major design software company. Furthermore, there are a number of other strategic alliances that for confidentiality reasons cannot be mentioned here.

The Company's strong relationships and alliances have had a direct, positive impact on financial performance. In 1995, sales to alliance "partners" totalled nearly $1 billion, a large and especially stable component of net revenues.



FINANCIAL CONTENTS

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

OVERVIEW

The Company was formed in 1987 as a result of the combination of the non-military business of Thomson Semiconducteurs, the microelectronics business of the French state-controlled defense electronics company Thomson-CSF, and SGS Microelettronica, the microelectronics business owned by STET, the Italian state-controlled telephone company. Since its formation, the Company has significantly broadened and upgraded its range of products and technologies and has strengthened its manufacturing and distribution capabilities in Europe, North America, and the Asia Pacific region, while at the same time restructuring its operations to improve efficiency.

From 1991 to 1995, the Company's net revenues increased from $1,374.0 million to $3,554.4 million, with strongest revenue growth occurring in 1993, 1994 and 1995. Such revenue gains were achieved despite the Company's absence during that period from the market for DRAMs (a commodity memory product) and, until the second half of 1994, from the market for personal computer microprocessors (such as the x86 family of products) and DRAMs. According to trade association data, the TAM (total available market) increased from $54.6 billion in 1991 to a preliminary estimate of $144.4 billion in 1995, while the SAM (serviceable available market, which prior to 1995 consisted of the TAM without DRAMs, microprocessors and opto-electronic products and commencing in 1995 and for all prior periods compared therewith includes microprocessors as a result of the Company's production of x86 products) increased from $45.6 billion in 1991 to a preliminary estimate of $99.2 billion in 1995. The Company's share of the TAM remained relatively constant at 2.5% during this period, while the Company's share of the SAM increased from 3.0% in 1991 to 3.6% in 1995. Revenue growth within the Company from 1991 through 1995 was particularly significant for dedicated products, EPROMs and semicustom devices. The Company has also succeeded in becoming a more global semiconductor supplier--the proportion of the Company's revenues derived outside Europe increased from approximately 42% in 1991 to approximately 54% in 1995.

Differentiated ICs (which the Company defines as being its dedicated products, semicustom devices and microcontrollers) accounted for just over 51% of the Company's net revenues in 1995, compared to approximately 48% in 1994. Such products foster close relationships with customers, resulting in early knowledge of their evolving requirements and opportunities to access their markets for other products, and are less vulnerable to competitive pressures than standard commodity products. In 1995, analog ICs (including mixed signal ICs), the majority of which are also differentiated ICs, accounted for approximately 46% of the Company's net revenues (compared to approximately 43% in 1994), while discrete devices accounted for approximately 17% of the Company's net revenues (compared to approximately 15% in 1994). In recent years, analog ICs and discrete devices have experienced less volatility in sales growth rates and average selling prices than the overall semiconductor industry.

In addition to increasing revenues, management's efforts to rationalize operations and increase manufacturing and other efficiencies have generated significant improvements in profitability. The Company's gross profit margin increased from 27.6% in 1991 to 41.0% in 1995. Such increases in gross profit margins have combined with significant reductions in selling, general and administrative expenses as a percentage of net revenues and reduced interest costs to significantly increase profitability in an improved industry environment in 1993, 1994 and 1995. In 1995, the gross profit margin decreased to 41.0% from 42.2% in 1994 due primarily to costs associated with the conversion of certain manufacturing facilities from the production of 4-inch and 5-inch wafers to production of 5-inch and 6-inch wafers, the increase in the cost of sales attributable to the new plant in Phoenix, Arizona, which completed the start-up phase at the end of the 1995 second quarter and whose costs, as of the 1995 third quarter, are therefore included in the cost of sales and, in the second and third quarters of 1995, the negative impact of the weakening of the U.S. dollar, and to a lesser extent due to higher depreciation resulting from increased capital spending.

According to preliminary estimated trade association data, in 1995 TAM revenues increased approximately 42% over 1994 while SAM revenues increased approximately 32%. Such growth rates have exceeded the historical TAM compound annual growth rates since 1983 (19%, according to preliminary estimated trade association data). Although it cannot predict the timing or degree of any softening in the semiconductor market, management believes that the industry growth rates and average selling prices in the period from 1993 through 1995 are unlikely to be sustained. In less favorable industry environments, the Company has in the past been requested to reduce prices to limit the level of order cancellations. As only a portion of the Company's expenses varies with its revenues, there can be no

royalty income) decreased from $42.7 million in 1994 to $33.7 million in 1995 due primarily to such reclassification. Net revenues increased 34.4%, from $2,644.9 million to $3,554.4 million in 1995 compared to 1994.

The Dedicated Products Group's net revenues increased 38.9% primarily as a result of significant volume growth in computer products, video/image processing products and audio and automotive products. The Discrete and Standard ICs Group's net revenues increased 31.7%, due principally to sales increases in transistors such as Power MOS and power transistors and discrete devices. Sales of standard commodities such as standard linears and voltage regulators also increased compared to 1994. The Memory Products Group's revenues grew by 15.0% as increased volumes of flash memory products and increased sales of EEPROMs and smartcard ICs used in European telephone and bank cards were offset by declining EPROM sales due to lower prices. Net revenues of the Programmable Products Group increased 40.4% principally from growth in sales of microcontroller products and higher sales of digital semicustom products (which benefited from the introduction of advanced submicron product lines). In the second half of 1994, the Company commenced shipments of its own x86 microprocessor product family. Although it cannot predict the timing or degree of any softening in the semiconductor market, management believes that the rate of growth in revenues experienced by the Company in its principal product groups in 1995 compared to 1994 is unlikely to be sustained.

GROSS PROFIT. The Company's gross profit increased 30.7%, from $1,116.2 million in 1994 to $1,458.4 million in 1995, primarily as a result of significant volume growth in all the Company's principal product groups except the Memory Products Group, which also experienced a slower growth rate in net sales due to declining EPROM prices. As a percentage of net revenues, gross profit decreased from 42.2% to 41.0% due primarily to costs associated with the conversion of certain manufacturing facilities from the production of 4-inch and 5-inch wafers to production of 5-inch and 6-inch wafers and to a lesser extent due to higher depreciation resulting from increased capital spending.

Increases in cost of sales from $1,528.7 million in 1994 to $2,096.0 million in 1995 were due primarily to higher variable costs associated with significantly increased volume, the addition of the new fabrication plant in Crolles, France, which has started to reach a significant volume of production, and to certain manufacturing facilities which were in the process of being upgraded in the 1995 period. Increases in the cost of sales were also attributable to the new plant in Phoenix, Arizona, which completed the start-up phase at the end of the 1995 second quarter and whose costs, as of the 1995 third quarter, are therefore included in cost of sales, and higher depreciation resulting from increased capital spending in recent periods.

The exchange rate impact on gross profit in 1995 compared to 1994 was negative, as the negative impact of the depreciation of the U.S. dollar on cost of sales was greater than the positive impact on net revenues. However, this impact was not material. Cost of sales in 1995 and 1994 was net of $11.8 million and $19.3 million, respectively, of funds received from governmental agencies to offset industrialization costs (which include certain costs incurred to bring prototype products to the production stage) included in cost of sales.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses increased 21.6% from $339.9 million to $413.2 million. As a percentage of net revenues, selling, general and administrative expenses decreased from 12.9% to 11.6% due primarily to higher net revenues. However 1994 included a $15 million provision for potential patent infringements and 1995 included a $10 million provision related to one time charges to cover the possible financial impact related to legal proceedings in one of the Company's subsidiaries. Excluding these provisions the increase in selling, general and administrative expenses was primarily due to a strengthening in the Company's marketing efforts as well as in general and administrative functions.

RESEARCH AND DEVELOPMENT EXPENSES. Research and development expenses continued to represent a substantial amount of the Company's net revenues, increasing 30.2% to $440.3 million in 1995 from $338.3 million in 1994. Due to the strong growth in net revenues attained in 1995, research and development expenses as a percentage of net revenues decreased slightly from 12.8% to 12.4%. However, the Company continued to invest heavily in research and development and plans to continue increasing its research and development

activities. The Company's reported research and development expenses do not include design center, process engineering, pre-production or industrialization costs.

RESTRUCTURING COSTS. Restructuring costs decreased significantly to $13.0 million in 1995 from $37.0 million in 1994. The 1995 period included costs associated with certain personnel lay-offs and relocations. The 1994 period included primarily costs associated with the closure of certain older fab facilities and certain personnel lay-offs.

OTHER INCOME AND EXPENSES. Other income and expenses of the Company resulted in income of $59.1 million in 1995 compared to income of $32.0 million in 1994. Other income and expenses include primarily funds received from government agencies in connection with the Company's research and development programs, the costs of new plant start-ups, as well as foreign currency gains and losses, patent license payments, the costs of certain activities relating to intellectual property, and miscellaneous revenues and expenses. Other income and expenses in the 1994 period included a charge for stock option compensation of $18.1 million, while 1995 included increased contributions to research and development activities and start-up costs. In addition, in 1995 there were several nonrecurring items affecting income and expenses, which taken together were not material. These include the reversal of the provision for the restructuring of the Rancho Bernardo plant in connection with the recent decision to retain and upgrade this facility.

OPERATING PROFIT (LOSS). The Company's operating profit increased 50.3% from 1994 to 1995, increasing by $218.0 million to $651.0 million, primarily as a result of the reduction of provisions for restructuring costs and increased revenues.

NET INTEREST EXPENSES. The Company decreased its net interest expenses from $21.0 million in 1994 to $16.8 million in 1995, primarily as a result of the temporary reduction in debt due to application of the proceeds received by the Company in December 1994 from the Initial Public Offering, and in October 1995 from the second public offering, which substantially decreased the financial debt.

INCOME TAX. Provision for income tax was $108.3 million in 1995 compared to $49.5 million in 1994, primarily as a result of the substantial increase in profit before tax. In 1995 the accrued effective tax rate was approximately 17%, compared to 12% for 1994. The still favorable 1995 rate is mainly due to the application of benefits in certain countries associated with new capital expenditure programs. As such benefits may not be available after 1995, the Company expects to register an increase in the effective tax rate in the coming years.

1994 VS. 1993

The growth that the worldwide semiconductor market experienced in 1993 continued in 1994, with the markets in Europe, the Americas, the Asia Pacific region and Japan all showing strong growth. According to trade association data, the TAM increased by approximately 32% in 1994 over 1993. The estimated SAM increased by approximately 22% over the same period. The Company experienced strong increases in both revenues and profitability in 1994, caused by significant increases in volume and increased sales of new products. Prices were slightly lower in 1994 than in 1993, and were particularly lower for EPROMs commencing in the second quarter of 1994.

NET REVENUES. Net sales increased 29.6%, from $2,007.7 million to $2,602.2 million, in 1994 compared to 1993. This increase was primarily as a result of significantly increased volume of sales of existing products in each of the Company's principal product groups. Higher volumes accounted for the greatest part of the $594.5 million total increase in net sales, but increased sales of new products also contributed to the sales increase. Prices registered a marginally declining trend, mainly in memory products. There was no significant impact on sales due to changes in the value of the U.S. dollar in 1994 compared to 1993. Other revenues (consisting primarily of co-development contract fees, certain contract indemnity payments and patent royalty income) increased from $29.8 million to $42.7 million in the same period, reflecting primarily payments from certain strategic partners and patent royalty income. As a result, net revenues increased 29.8%, from $2,037.5 million to $2,644.9 million.

The Dedicated Products Group's net revenues increased 39.5% primarily as a result of significant growth in computer products (primarily higher sales of disk drive controller ICs), audio and automotive products,

video/image processing products and telecommunications products (primarily additional business secured from a strategic alliance with Northern Telecom that became effective in January 1994). The Discrete and Standard ICs Group's net revenues increased 23.6% due principally to volume increases in standard logic and linear devices, which were facilitated in part by increased back-end manufacturing capacity. Sales of power MOS transistors also increased over 1993. The Memory Products Group increased net revenues by 23.4% primarily through increased volumes of flash memory products and increased sales of EEPROMs, smartcard ICs used in European telephone and bank cards, and also EPROMs (notwithstanding a decline in pricing commencing in the second quarter of 1994 from historically high levels). Net revenues of the Programmable Products Group increased 19.0% principally from higher sales of digital semicustom products (which benefited from the introduction of advanced submicron product lines) and growth in sales of microcontroller products. In the second half of 1994, the Company commenced shipments of the x86 microprocessor product family.

Net revenues in Europe increased primarily as a result of increased sales of memory products, in particular flash memories, and automotive and audio products. Standard commodities, such as standard linear and voltage regulator products, some memory products, such as EEPROM and flash memory products, and microcontroller products also contributed to this growth. In the Americas, the 35.9% increase in net revenues was attributable to an improved economy in the United States, increased sales of image processing products as well as the alliance with Northern Telecom. Significant growth rates were also registered by microcontroller, flash memories and standard commodities. In the Asia Pacific region, the revenue increase was primarily due to a strong increase in sales of devices for computer peripherals (disk drive) and in the personal computer business in Singapore and Taiwan. A strong increase was also shown by digital semicustom products. The Company is expanding its business in China principally in the telecommunications and consumer (television and radio) segments. Despite difficult general economic conditions in Japan, the region managed good growth in net revenues fueled by sales of memory products, such as SRAMs, flash memories and EPROMs, and dedicated products for office equipment. In 1994, the Company opened a sales office in Osaka and a dedicated products design center in Tokyo.

GROSS PROFIT. The Company's gross profit increased 41.5%, from $789.1 million in 1993 to $1,116.2 million in 1994, primarily as a result of significantly increased net revenues. Although gross profit increased as a result of volume growth in all the Company's principal product groups, gross profit was particularly affected in 1994 by increased sales in the Dedicated Products Group of differentiated ICs, which generally have higher margins than standard commodity products. In addition, gross profit benefited from increased profitability in the Discrete and Standard ICs Group. As a percentage of net revenues, gross profit increased from 38.7% to 42.2%.

Increases in cost of sales from $1,248.4 million in 1993 to $1,528.7 million in 1994 were due primarily to higher variable costs associated with significantly increased volume and higher depreciation resulting from increased capital spending in recent periods. Increases in cost of sales were also attributable to the addition of the new fabrication plant in Crolles, France, which has recently commenced manufacturing. Cost of sales decreased as a percentage of revenues due primarily to manufacturing efficiencies resulting from increased production volume, and to a lesser extent to improved yields and labor productivity.

The exchange rate impact on gross profit in 1994 compared to 1993 was negligible, as the comparative positive impact on net revenues was partially offset by a negative impact on cost of sales. Cost of sales in 1994 and 1993 was net of $19.3 million and $20.4 million, respectively, of funds received to offset industrialization costs (which include certain costs incurred to bring prototype products to the production stage) included in cost of sales.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses increased 12.4%, from $302.5 million to $339.9 million. Approximately $28 million of this increase was due to increases in the Company's sales force and marketing efforts. In addition, a $15.0 million provision for patent risks was included. As a percentage of net revenues, selling, general and administrative expenses decreased from 14.8% to 12.9% due primarily to a higher sales rate.

RESEARCH AND DEVELOPMENT EXPENSES. Research and development continued to receive a substantial amount of the Company's net revenues, reaching $338.3 million

in 1994 and $270.9 million in 1993, a 24.9% increase. As a result of the strong growth in net revenues attained in 1994, research and development expenses as a percentage of net revenues fell slightly from 13.3% in 1993 to 12.8% in 1994. The Company plans to continue to increase its research and development staff so as to increase research and development activities. The Company's reported research and development expenses do not include design center, process engineering, pre-production or industrialization costs.

RESTRUCTURING COSTS. Restructuring costs decreased significantly from $49.9 million in 1993 to $37.0 million in 1994. The restructuring costs in 1994 were primarily charges incurred for fixed asset write-offs and other costs associated with the restructuring and upgrading of certain manufacturing activities. The restructuring costs for 1994 include provisions for activities for which management decisions have been made; some have occurred in 1994 and others were originally scheduled to occur during 1995, but have been postponed due to capacity requirements in light of current market conditions. Management believes these restructuring activities will contribute to its manufacturing capabilities and improve efficiency.

OTHER INCOME AND EXPENSES. Other income and expenses resulted in income of $32.0 million in 1994 compared to income of $49.7 million in 1993. Other income and expenses include primarily funds received from government agencies in connection with the Company's research and development programs, as well as foreign currency gains and losses, patent license payments, the costs of certain activities relating to intellectual property, and miscellaneous revenues and expenses. In 1994 other income and expenses included the charge for stock option compensation of $18.1 million. See Note 12 to the Consolidated Financial State-ments. In addition, in 1994 there was a significant increase in the cost of new plant start-ups, from $1.6 million to $8.8 million, principally associated with the new fabrication facility in Phoenix.

OPERATING PROFIT (LOSS). The Company's operating profit registered a record increase of 100.9% from 1993 to 1994, increasing by $217.5 million to $433.0 million primarily as a result of the increased net revenues. Changes in exchange rates did not have a material impact on operating profit.

NET INTEREST EXPENSES. The Company decreased its net interest expenses from $37.8 million in 1993 to $21.0 million in 1994, primarily as a result of the $500 million capital stock increase in 1993 (which substantially decreased financial debt).

INCOME TAX. Provision for income tax was $49.5 million in 1994 compared to $17.6 million in 1993, primarily as a result of the substantial increase in profit before tax. In 1994, the Company took advantage of certain tax benefits which allowed an effective tax rate of approximately 12.0%. As such benefits will no longer be available, the Company is expecting a significant increase in the effective tax rate in the coming years beginning in 1995.

QUARTERLY RESULTS OF OPERATIONS

The following table sets forth certain financial information for the years 1995, 1994 and 1993. Such information is derived from unaudited consolidated financial statements, prepared on a basis consistent with the audited financial statements, that include, in the opinion of management, only normal recurring adjustments necessary for a fair presentation of the information set forth therein. Operating results for any quarter are not necessarily indicative of results for any future period. In addition, in view of the significant growth experienced by the Company in recent years as well as the changes in the composition of sales and production among different geographic regions, the Company believes that period-to-period comparisons of its operating results should not be relied upon as an indication of future performance.

SGS-THOMSON Microelectronics N.V.

(in millions, except percentages and per share data)	Quarter Ended Apr. 3, 1993	July 3, 1993	Oct. 2, 1993	Dec.31 , 1993	Apr. 2, 1994	July 2, 1994	Oct. 1, 1994
Consolidated Statement of Income Data:							
Net revenues	$ 438.9	$ 526.1	$ 521.3	$ 551.3	$ 599.3	$ 672.4	$ 657.2
Cost of sales	(281.1)	(329.6)	(309.0)	(328.8)	(346.8)	(389.4)	(380.5)
Gross profit	157.8	196.5	212.3	222.5	252.5	283.0	276.7
Operating expenses:							
Selling, general and administrative	(72.8)	(71.3)	(67.5)	(91.0)	(91.3)	(82.1)	(81.5)
Research and development	(64.0)	(69.6)	(68.3)	(68.9)	(72.5)	(82.7)	(83.4)
Restructuring cost	(0.6)	(1.8)	(16.9)	(30.6)	(0.2)	(22.9)	(10.7)
Other income and expenses	18.6	17.5	3.1	10.5	13.8	15.3	3.3
Total operating expenses	(118.8)	(125.2)	(149.6)	(180.0)	(150.2)	(172.4)	(172.3)
Operating profit (loss)	39.0	71.3	62.7	42.5	102.3	110.6	104.4
Net interest expenses	(13.6)	(10.5)	(10.1)	(3.7)	(4.8)	(5.6)	(5.6)
Profit (loss) before tax	25.4	60.8	52.6	38.8	97.5	105.0	98.8
Income tax	(1.0)	(2.1)	(7.1)	(7.3)	(18.0)	(18.5)	(11.5)
Profit (loss) before minority interests	24.4	58.7	45.5	31.5	79.5	86.5	87.3
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net earnings (loss)	$ 24.4	$ 58.7	$ 45.5	$ 31.5	$ 79.5	$ 86.5	$ 87.3
Net earnings (loss) per share	$ 0.46	$ 0.78	$ 0.52	$ 0.27	$ 0.67	$ 0.73	$ 0.73
Weighted average shares outstanding	53.6	75.4	87.2	119.0	119.0	119.0	119.0
As a Percentage of Net Revenues:							
Net revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of sales	(64.0)	(62.6)	(59.3)	(59.6)	(57.9)	(57.9)	(57.9)
Gross profit	36.0	37.4	40.7	40.4	42.1	42.1	42.1
Operating expenses:							
Selling, general and administrative	(16.6)	(13.6)	(12.9)	(16.5)	(15.2)	(12.2)	(12.4)
Research and development	(14.6)	(13.2)	(13.1)	(12.5)	(12.1)	(12.3)	(12.7)
Restructuring costs	(0.1)	(0.3)	(3.2)	(5.6)	0.0	(3.4)	(1.6)
Other income and expenses	4.2	3.3	0.6	1.9	2.3	2.3	0.5
Total operating expenses	(27.1)	(23.8)	(28.7)	(32.7)	(25.1)	(25.6)	(26.2)
Operating profit (loss)	8.9	13.6	12.0	7.7	17.1	16.4	15.9
Net interest expenses	(3.1)	(2.0)	(1.9)	(0.7)	(0.8)	(0.8)	(0.9)
Profit (loss) before tax	5.8	11.6	10.1	7.0	16.3	15.6	15.0
Income tax	(0.2)	(0.4)	(1.4)	(1.3)	(3.0)	(2.8)	(1.7)
Profit before minority interests	5.6	11.2	8.7	5.7	13.3	12.9	13.3
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net earnings loss	5.6%	11.2%	8.7%	5.7%	13.3%	12.9%	13.3%

(in millions, except percentages and per share data)	Quarter Ended Dec.31 , 1994	Apr. 1, 1995	July 1, 1995	Sept.30, 1995	Dec.31, 1995
Consolidated Statement of Income Data:					
Net revenues	$ 716.0	$ 778.6	$ 878.5	$ 922.6	$ 974.7
Cost of sales	(412.0)	(451.8)	(526.9)	(552.3)	(565.1)
Gross profit	304.0	326.8	351.6	370.3	409.6
Operating expenses:					
Selling, general and administrative	(85.0)	(90.7)	(99.8)	(103.6)	(119.0)
Research and development	(99.7)	(97.5)	(105.1)	(109.3)	(128.4)
Restructuring cost	(3.2)	(0.3)	(0.8)	(6.8)	(5.1)
Other income and expenses	(0.4)	3.4	11.8	15.7	28.3
Total operating expenses	(188.3)	(185.1)	(193.9)	(204.0)	(224.2)
Operating profit (loss)	115.7	141.7	157.7	166.3	185.4
Net interest expenses	(5.0)	(2.9)	(5.1)	(6.7)	(2.1)

Profit (loss) before tax	110.7	138.8	152.6	159.6	183.3
Income tax	(1.5)	(31.9)	(30.1)	(30.7)	(15.7)
Profit (loss) before minority interests	109.2	106.9	122.5	128.9	167.6
Minority interests	0.0	0.0	0.1	0.1	0.4
Net earnings (loss)	$ 109.2	$ 106.9	$ 122.6	$ 129.0	$ 168.0
Net earnings (loss) per share	$ 0.90	$ 0.83	$ 0.95	$ 1.00	$ 1.24
Weighted average shares outstanding	120.6	128.6	128.8	129.1	135.9
As a Percentage of Net Revenues:					
Net revenues	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of sales	(57.5)	(58.0)	(60.0)	(59.9)	(58.0)
Gross profit	42.5	42.0	40.0	40.1	42.0
Operating expenses:					
Selling, general and administrative	(11.9)	(11.6)	(11.4)	(11.2)	(12.2)
Research and development	(13.9)	(12.5)	(12.0)	(11.8)	(13.2)
Restructuring costs	(0.4)	(0.0)	(0.1)	(0.7)	(0.5)
Other income and expenses	(0.1)	0.4	1.3	1.7	2.9
Total operating expenses	(26.3)	(23.8)	(22.1)	(22.1)	(23.0)
Operating profit (loss)	16.2	18.2	18.0	18.0	19.0
Net interest expenses	(0.7)	(0.4)	(0.6)	(0.7)	(0.2)
Profit (loss) before tax	15.5	17.8	17.4	17.3	18.8
Income tax	(0.2)	(4.1)	(3.4)	(3.3)	(1.6)
Profit before minority interests	15.3	13.7	13.9	14.0	17.2
Minority interests	0.0	0.0	0.0	0.0	0.0
Net earnings loss	15.3%	13.7%	14.0%	14.0%	17.2%

In 1995, approximately 46% of the Company's net revenues originated in Europe, compared to 58% in 1991. The Company's third quarter revenues in Europe have averaged less than average revenues during other quarters due to production slowdowns by its European customers in July and August. During strong industry conditions, including in 1995, the negative impact of third quarter seasonality in Europe has generally been offset by increased sales in other regions. Quarterly results have also been and may be expected to continue to be substantially affected by the cyclicality of the semiconductor and electronic systems industries, the timing and success of new product introductions and the levels of provisions and other unusual charges incurred.

Gross profit as a percentage of net revenues in the last quarter of 1995 returned to the 42.0% level registered in the first quarter of 1995 after decreasing to 40.0% and 40.1% in the second and third quarters of 1995, respectively. The decrease registered in the second quarter of 1995 was due primarily to the weakening of the U.S. dollar registered against the principal European and Asian currencies and due to costs associated with the conversion of certain manufacturing facilities from the production of 4-inch and 5-inch wafers to production of 5-inch and 6-inch wafers. The decrease registered in the third quarter of 1995 was due primarily to the increase in the cost of sales attributable to the new plant in Phoenix, Arizona, which completed the start-up phase at the end of the 1995 second quarter and whose costs, as of the 1995 third quarter, are therefore included in cost of sales, and to a lesser extent due to costs associated with the conversion of certain manufacturing facilities from the production of 4-inch and 5-inch wafers to production of 5-inch and 6-inch wafers and to the weakening of the U.S. dollar registered against the principal European and Asian currencies.

The Company's quarterly and annual operating results are also affected by a wide variety of other factors that could materially and adversely affect revenues and profitability or lead to significant variability of operating results, including, among others, capital requirements and the availability of funding, competition, new product development and technological change and manufacturing. In addition, a number of other factors could lead to fluctuations in operating results, including order cancellations or reduced bookings by key customers or distributors, intellectual property developments, international events, currency fluctuations, problems in obtaining adequate raw materials on a timely basis, and the loss of key personnel. As only a portion of the Company's expenses varies with its revenues, there can be no assurance that the Company will be able to reduce costs promptly or adequately in relation to revenue declines to compensate for the effect of any such factors. As a result, unfavorable changes in the above or other factors have in the past and may in the future adversely affect the Company's operating results.

The Company believes that inflation has not had a material effect on the results of its operations during the periods presented.

IMPACT OF CHANGES IN EXCHANGE RATES

The Company's results of operations and financial condition can be significantly affected by changes in exchange rates between the U.S. dollar and other currencies, particularly the Italian lira, the French franc, the English pound, the German mark and the Singapore dollar.

Revenues for certain products (primarily dedicated products sold in Europe) that are quoted in currencies other than the U.S. dollar are directly affected by fluctuations in the value of the U.S. dollar. Revenues for all other products, which are quoted in U.S. dollars and translated into local currencies for payment, tend not to be affected significantly by fluctuations in exchange rates except to the extent that there is a lag between changes in currency rates and adjustments in the local currency equivalent price paid for such products.

Certain significant costs incurred by the Company, such as direct labor, selling, general and administrative expenses, and research and development expenses, are incurred in the currencies of jurisdictions where the Company's operations are located. Fluctuations in the value of these currencies, particularly the Italian lira and the French franc, compared to the U.S. dollar can affect the Company's costs and therefore its profitability.

The strong depreciation which the U.S. dollar registered in the first six months of 1995 against the principal European and Asian currencies which have a material impact on the Company resulted in a negative impact on results of operations for the period. In the third quarter of 1995 the slight appreciation of the U.S. dollar against the principal European and Asian currencies which have a material impact on the Company resulted in a marginal impact on the Company's results of operations. In 1994,

the Company estimates that the beneficial net impact of a stronger U.S. dollar compared to 1993 accounted for a marginal amount of the Company's improvement in operating profit. In 1993, the positive impact of the depreciation in the value of the Italian lira compared to the U.S. dollar significantly decreased selling, general and administrative expenses and research and development expenses as a percentage of net revenues. The Company estimates that the net exchange rate effect accounted for approximately 29% of its improvement in operating profit in 1993 over 1992. The net exchange rate impact in 1992 compared to 1991, however, was negligible. In 1991 and earlier periods, the net exchange rate impact was negative, and in some cases materially adversely affected results of operations.

The Company's principal strategies to reduce the risks associated with exchange rate fluctuations have been (i) to purchase certain raw materials and equipment in transactions denominated in dollars (thereby reducing the exchange rate risk for costs relative to revenues, which are principally denominated or determined by reference to the U.S. dollar), and (ii) to manage certain other costs, such as financial costs, to maintain an appropriate balance between U.S. dollars and other currencies based upon the currency environment at the time. Although from time to time the Company purchases or sells currencies forward to hedge currency risk in obligations or receivables, the Company's policy is not to take speculative positions through forward currency contracts. The Company has not experienced significant gains or losses as a result of hedging activities. Its management strategies to reduce exchange rate risks have served to mitigate, but not eliminate, the positive or negative impact of exchange rate fluctuations.

Assets, shareholders' equity and liabilities of non-Dutch subsidiaries are for consolidation purposes translated into U.S. dollars at the year-end exchange rate. See Note 2.3 to the Consolidated Financial Statements. Income and expenses are translated at the average exchange rate for the period. Adjustments resulting from the translation are recorded directly in shareholders' equity, and are shown as "translation adjustment" in the consolidated statements of shareholders' equity. The balance sheet impact of such translation adjustments has been, and may be expected to continue to be, material from period to period.

The Company's outstanding indebtedness is denominated principally in Italian lire, U.S. dollars, Singapore dollars and French francs. See "Liquidity and Capital Resources" and Note 15 to the Consolidated Financial Statements.

LIQUIDITY AND CAPITAL RESOURCES

The Company's net cash generated from operations totalled $825.1 million in 1995, compared to $728.1 million in 1994 and $460.9 million in 1993.

In 1993, 1994 and 1995, significantly increased net cash from operations and cash from a two-step $500 million capital stock increase in May and September 1993, and the net proceeds of $198.7 million and $371.6 million resulting from the Initial Public Offering and the second public offering, respectively, enabled the Company to substantially reduce its indebtedness, finance capital expenditure and improve its balance sheet. As a result, the Company has passed from net indebtedness of approximately $905 million and a net financial debt-to-equity ratio of 1.89:1 at December 31, 1991 to a positive net financial position (cash, cash equivalents and marketable debt securities net of total debt) of $64.9 million at December 31, 1995. As the average interest cost on the Company's outstanding indebtedness is approximately equal to its investment return on short-term investments, the Company has elected not to make any further pre-payments on its indebtedness. Including the $371.6 million in net proceeds from the second public offering completed in October 1995, the Company had approximately $758.4 million in cash, cash equivalents and marketable securities at December 31, 1995. Cash and cash equivalents increased from $263.5 million at December 31, 1993 to $457.2 million at December 31, 1994 and to $754.0 million at December 31, 1995. At December 31, 1995, the aggregate amount of the Company's long-term credit facilities was approximately $289 million, all of which was outstanding, and the aggregate amount of the Company's unconfirmed short-term facilities was approximately $784 million, under which approximately $405 million of indebtedness was outstanding. The Company has approximately $88 million of long-term indebtedness that will become due within one year, and expects to fund such debt repayments from available cash. The Company enters into interest rate swap agreements from time to time.

The Company's capital expenditures totalled $181.2 million in 1991, $196.0 million in 1992, $445.9 million in 1993, $779.7 million in 1994 and $1,001.9 million in 1995. Capital spending prior to 1994 was used primarily to increase capacity with market growth and to modify existing manufacturing facilities to improve efficiency. Commencing in 1993, however, the Company began a more substantial capital expenditure program intended to enable the Company to increase manufacturing capacity through the construction of new manufacturing facilities. Capital expenditures for 1994 were principally devoted to completion of the Crolles facility, expansion of certain 5-inch facilities, conversion of certain facilities to 6-inch production, and expansion of certain back-end assembly and test facilities. Capital expenditures for 1995 were principally devoted to completion of the first phase of the Phoenix 8-inch front-end manufacturing facility, completion of the 8-inch wafer equipment installation in Crolles, conversion of existing facilities to 5-inch and 6-inch wafer fabrication and equipping of an 8-inch front-end manufacturing facility in Catania.

The Company currently expects that capital spending for the foreseeable future will continue to be at high levels, as in 1994 and 1995. Specifically, in light of the currently expected market trends and conditions, for 1996 the Company has again planned a significant amount for capital expenditures that will be used for a variety of projects. The most significant of the Company's 1996 capital expenditure projects are expected to be (i) the completion of the 8-inch front-end wafer fabrication plant in Crolles, France (currently budgeted at approximately $150 million), (ii) the completion of phase two of its project to ramp up production at its Phoenix, Arizona 8-inch front-end facility for wafer fabrication (currently budgeted at approximately $120 million), (iii) the completion of phase two of its project to equip its 8-inch front-end facility located in Catania, Italy (currently budgeted at approximately $100 million) and (iv) the extension and the conversion of an existing facility in Agrate, Italy to 8-inch wafer fabrication (currently budgeted at approximately $40 million). Other individual projects scheduled for 1996, involving both front-end and back-end facilities, are budgeted to require further amounts. In 1995, the Company's receivables from government agencies increased to $184.7 million from $178.0 million at December 31, 1994, due primarily to the execution of contracts for research and development and capital expenditure grants. See Note 7 to the Consolidated Financial Statements. In 1995, the Company's advances from government agencies increased to $11.2 million from $6.8 million at December 31, 1994. See Note 16 to the Consolidated Financial Statements. Although the timing of receipt of funds under government contracts had been delayed from time to time, in the past the Company has always received the full amounts recorded in such receivables.

The Company expects to have significant capital requirements in the coming years and intends to continue to devote a substantial portion of its net revenues to research and development. The Company plans to fund its capital requirements from cash from operations, available funds, available support from third parties (including state support, principally from the French and Italian governments) and may make recourse to borrowings under available credit lines and, to the extent necessary or attractive based on market conditions prevailing at the time, the sale of debt or additional equity securities. There can be no assurance that additional financing will be available as necessary to fund the Company's working capital requirements, research and development, industrialization costs or expansion plans, or that any such financing, if available, will be on terms acceptable to the Company.

The Company believes that its available funds, the proceeds of the offering completed in October 1995, available support from third parties and additional borrowings will be sufficient to meet its anticipated needs for liquidity through at least 1996.

(Currency-thousands of U.S. dollars except per share amounts)	Twelve months ended December 31, 1993	1994	1995
Net sales	2,007,669	2,602,205	3,520,670
Other revenues (Note 17)	29,864	42,736	33,749
Net revenues	2,037,533	2,644,941	3,554,419
Cost of sales	(1,248,420)	(1,528,694)	(2,096,039)
Gross profit	789,113	1,116,247	1,458,380
Selling, general and administrative	(302,495)	(339,858)	(413,148)
Research and development	(270,904)	(338,361)	(440,334)
Restructuring costs(Note 19)	(49,900)	(37,032)	(12,975)
Other income and expenses(Note 20)	49,673	31,984	59,107
Operating profit	215,487	432,980	651,030
Net interest expenses (Note 21)	(37,787)	(21,022)	(16,854)
Profit before tax	177,700	411,958	634,176
Income tax	(17,613)	(49,464)	(108,282)
Profit before minority interests	160,087	362,494	525,894
Minority interests	--	--	584
Net earnings	160,087	362,494	526,478
Net earnings per share (Note 12)	1.92	3.04	4.03
Number of shares at the end of the period	118,997,640	128,603,880	138,208,680
Number of weighted average shares	83,537,518	119,392,417	130,647,079

The accompanying notes are an integral part of these income statements.

(Currency-thousands of U.S. dollars)	As at December 31, 1993	1994	1995
Assets			
Current assets			
Cash and cash equivalents (Note 4)	263,536	457,234	754,046
Marketable debt securities (Note 4)	63,910	4,249	4,354
Trade accounts and notes receivable (Note 5)	350,615	449,855	595,419
Inventories, net (Note 6)	283,514	343,037	450,649
Other receivables and assets (Note 7)	269,514	320,685	360,262
Total current assets	1,231,089	1,575,060	2,164,730
Fixed assets			
Goodwill, net (Note 8)	3,189	1,752	315
Other intangible assets, net (Note 9)	9,965	15,480	13,071
Property, plant and equipment (Note 10)	2,185,778	3,125,079	4,180,495
Less-Accumulated depreciation (Note 10)	(1,205,628)	(1,503,739)	(1,880,993)
Investments and other non-current assets (Note 11)	16,535	11,059	8,388
Total fixed assets, net	1,009,839	1,649,631	2,321,276
Total assets	2,240,928	3,224,691	4,486,006
Liabilities and shareholders' equity			
Current liabilities			
Bank overdrafts and current portion of long-term debt (Note 15)	231,056	322,456	492,788
Trade accounts and notes payable	285,619	470,894	507,889
Other debts and accrued liabilities (Note 16)	221,361	280,144	342,738
Accrued and deferred income tax	6,626	71,469	138,256
Total current liabilities	744,662	1,144,963	1,481,671
Long-term debt (Note 15)	374,845	277,219	200,660
Reserves for pension and termination indemnities (Note 13)	67,906	81,992	94,956
Other non-current liabilities (Note 14)	49,504	40,478	37,462
Total liabilities	492,255	399,689	333,078
Minority interests	--	--	9,542
Capital stock (1995: 138,208,680 shares; 1994: 128,603,880 shares; 1993:118,997,640 shares) (Note 12)	906,451	981,500	1,066,528
Capital surplus	484,009	625,906	922,065
Accumulated result	(304,778)	57,716	584,039
Translation adjustments	(81,671)	14,917	89,083
Shareholders' equity	1,004,011	1,680,039	2,661,715
Total liabilities and shareholders' equity	2,240,928	3,224,691	4,486,006

For commitments and contingencies: Note 26
The accompanying notes are an integral part of these balance sheets.

(Currency-thousands of U.S. dollars)	Twelve months ended December 31, 1993	1994	1995
Net Profit (loss)	160,087	362,494	525,894
Add (deduct):			
- Depreciation and amortization of fixed assets	229,404	287,985	392,390
- Other non-cash items	35,581	94,108	23,246
- Minority interest in net income of subsidiaries	--	--	584
Change in:			
- Trade receivable	(61,106)	(71,290)	(126,603)
- Inventories	(2,382)	(35,031)	(91,412)
- Trade payables	21,689	78,144	17,005
- Other assets and liabilities, net	77,585	11,718	84,025
Net cash from operating activities	460,858	728,128	825,129
Payments for purchase of tangible assets(Note 10)	(445,881)	(779,696)	(1,001,936)
Proceeds from sales of tangible assets	5,775	1,455	
Payment for purchases of intangible assets	(11,103)	(5,951)	2,868
Net cash used in operational investing activities	(451,209)	(784,192)	(999,068)
Net operating cash-flows	9,649	(56,064)	(173,939)
Investment in marketable debt securities (net)	(63,910)	59,618	5
Net cash used in investing activities	(515,119)	(724,574)	(999,063)
Proceeds from issuance of long-term debt	44,707	13,702	11,741
Repayment of long-term debt	(151,789)	(148,554)	(96,202)
Increase (decrease) in short-term facilities	(162,724)	101,224	165,298
Capital increase	500,000	202,836	391,321
Net cash from financing activities	230,194	169,208	472,158
Effect of changes in exchange rates	(11,880)	20,936	(1,412)
Net cash total	164,053	193,698	296,812
Cash and cash equivalents at beginning of the period	99,483	263,536	457,234
Cash and cash equivalents at end of the period	263,536	457,234	754,046

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Shareholders' Equity
SGS-THOMSON Microelectronics N.V.

(Currency-thousands of U.S. dollars)	Capital stock*	Capital surplus	Accumulated earnings (deficits)	Translation adjustment	Shareholders' equity
Balance as of January 1, 1993	674,340	216,120	(464,865)	(12,705)	412,890
Capital stock adjustment	(267,889)	267,889			0
Capital increase in cash	500,000				500,000
Net earnings for the year			160,087		160,087
Translation adjustment				(68,966)	(68,966)
Balance as of December 31, 1993	906,451	484,009	(304,778)	(81,671)	1,004,011
Capital increase in cash	75,049	123,772			198,821
Stock option compensation		18,125			18,125
Net earnings for the year			362,494		362,494
Translation adjustment				96,588	96,588
Balance as of December 31, 1994	981,500	625,906	57,716	14,917	1,680,039
Capital increase in cash	85,028	294,455			379,483
Deferred compensation		1,704	(155)		1,549
Net earnings for the year			526,478		526,478
Translation adjustment				74,166	74,166
Balance as of December 31, 1995	1,066,528	922,065	584,039	89,083	2,661,715

*138,208,680 shares of NLG 13.75 par value each at December 31, 1995; 128,603,880 shares of NLG 13.75 par value each at December 31, 1994; 2,974,941 shares of NLG 550 par value each at December 31, 1993.

The accompanying notes are an integral part of these financial statements.

1. THE COMPANY

SGS-THOMSON Microelectronics N.V. (the "Company") was formed in 1987 by the combination of the semiconductor business of SGS Microelettronica (then owned by Societa Finanziaria Telefonica S.p.A. (S.T.E.T.), an Italian corporation) and the non-military business of Thomson Semiconducteurs (then owned by Thomson-CSF, a French corporation), whereby each company contributed their respective semiconductor businesses in exchange for a 50% interest in the Company.

The Company is registered in the Netherlands with its statutory domicile in Amsterdam.

As of December 31, 1995, the Company was 69.36% (December 31, 1994: 80.89%) owned by SGS-THOMSON Microelectronics Holding II B.V., 0% by Thorn Emi plc (December 31, 1994: 2.78%) and 30.64% by the public (December 31, 1994: 16.33%).

At December 31, 1995, SGS-THOMSON Microelectronics Holding II B.V. was 100% owned by SGS-THOMSON Microelectronics Holding N.V.

At December 31, 1995 and at December 31, 1994, SGS-THOMSON Microelectronics Holding N.V. was owned:

- - 50% by FT2CI, a French holding company, whose shareholders in turn are FT1CI (50.1%) and Thomson-CSF (49.9%); FT1CI, a French holding company, is owned by CEA-Industrie (51%) and France Telecom (49%);

- - 50%, (48.14% in 1993) by M.E.I.-Microelettronica Italiana s.r.l. ("M.E.I."), an Italian Holding company, whose shareholders are Comitato per l'intervento nella SIR ed in settori ad alta tecnologia ("Comitato SIR") (49.9%) and Istituto per la Ricostruzione Industriale S.p.A. (I.R.I.) (50.1%).

The Company operates in an environment subjected to the following risks and factors:

- - the highly cyclical nature of the semiconductor industry,

- - the need for significant amounts of capital and funding to undertake the research and development necessary to meet the rapidly changing technological needs of customers,

- - intense competition,

- - costs of obtaining, protecting and enforcing essential patents and other intellectual property rights,

- - a high sensibility to the U.S. dollar exchange rate,

- - a certain dependence toward raw material suppliers, mainly for silicium purchases.

2. SUMMARY OF ACCOUNTING POLICIES

2.1) Principles of consolidation

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP).

The Company maintains its books and presents its financial statements in accordance with Dutch accounting principles, which have been restated to conform with U.S. GAAP.

The financial statements of the consolidated subsidiaries, when prepared in accordance with the accounting principles generally accepted in their local country, have been restated to conform with U.S. GAAP.

The initial combination of the SGS Microelettronica and Thomson Semiconducteurs civilian semi-conductor businesses was accounted for as the creation of a joint venture. Accordingly, the assets and liabilities of the combined entities were recorded in the books of the joint venture at their carrying amounts at the date of combination.

All significant intercompany balances and transactions were eliminated upon consolidation.

2.2) Income recognition

- - Sales: Revenues on sales of semiconductor products are recognized upon shipment of the products. A portion of the Company's sales are made to distributors who participate in certain programs common to the semiconductor industry whereby the distributors are allowed to return merchandise under certain circumstances and may receive future price reductions. Provision for estimated future returns and allowances is made at the time the revenue is recognized.

- - Subsidies: Government subsidies are recognized as related costs are incurred commencing when the subsidies' contract is signed with the relevant government department or agency. Government subsidies for research and development are included in "other income and expenses". Government subsidies for industrialization costs are offset against related expenses in "cost of sales". Government subsidies for capital expenditures are deducted from the cost of the

related fixed assets.

2.3) Translation of foreign subsidiaries' financial statements

The United States dollar is the reporting currency for the Company because the Company does not have any operations in the Netherlands and the dollar is the currency

of reference in terms of market pricing in the worldwide semiconductor industry. Furthermore, there is no currency in which the majority of transactions are denominated, and revenues from external sales in U.S. dollars exceed revenues in any other currency.

The functional currency used by each significant subsidiary throughout the group is the local currency.

Financial statements of foreign subsidiaries are translated into U.S. dollar equivalents as follows:

- - balance sheet items are translated at the exchange rate prevailing at balance sheet date,

- - income statement items are translated at the average exchange rate for the period.

Translation gains or losses are recorded directly in shareholders' equity under "Translation adjustment".

2.4) Foreign currency transactions

Assets, liabilities, revenue, expenses, gains or losses arising from foreign currency transactions are recorded in the functional currency of the recording entity at the exchange rate in effect at the date of the transaction. At each balance sheet date, recorded balances denominated in a currency other than the recording entity's functional currency are translated at the exchange rate prevailing at that date. The related exchange gains and losses are recorded in the income statement.

2.5) Marketable debt securities

Prior to 1994, marketable debt securities were stated at the lower of cost or market value. Any variation in the carrying amount is recorded in the income statement.

As of January 1, 1994, the Company applied the provisions of FASB Statement N(degree)115 "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS 115"). Under SFAS 115, the Company accounts for its investments in marketable debt securities as "available for sale" securities. "Available for sale" securities are stated at market value with changes in market value recognized in shareholders' equity.

The cumulative effect of adopting SFAS 115 was immaterial.

2.6) Goodwill

Goodwill acquired in a business combination is amortized over its estimated useful life. When factors indicate that goodwill should be evaluated for possible impairment, the Company uses an estimate of the related acquired business' undiscounted net income over the remaining life of the goodwill in measuring whether the goodwill is recoverable.

2.7) Other intangible assets

Other intangible assets include the cost of technologies and licenses purchased from third parties. They are amortized over a period ranging from five to eighteen years.

2.8) Property, plant and equipment

Property, plant and equipment are stated at acquisition cost, net of equipment subsidies. Depreciation is computed under the straight-line method over the following estimated useful lives:

Buildings	33 years
Leasehold improvements	10 years
Machinery and equipment	6 years
EDP and R&D equipment	3-6 years
Other	2-5 years

Assets subject to leasing agreements and classified as capital leases are included in property, plant and equipment and depreciated as described above, except for some buildings in the United Kingdom which are amortized over the lease term (20 years). The related lease obligation is recorded as a liability.

2.9) Investments

The equity accounting method is used when the Company has a 20% to 50% equity interest and the ability to exercise significant influence over the investee. As of January 1, 1994, under the requirements of SFAS 115, other equity investments are classified as "available for sale" securities and stated at market value, with changes in market value recognized in shareholders' equity. Prior to 1994, those investments were stated at the lower cost and market value.

The Company's share in the two French Research & Development interest groups' results ("G.I.E. Centre Commun CNET SGS-THOMSON Microelectronics S.A." and "G.I.E. Thomson Consumer Electronic Components") is recorded in research and development expenses and the Company's share in the French manufacturing groups' result ("Groupement Europeen d'Assemblage Automatique G.I.E.") is recorded in cost of sales.

2.10) Inventory

Raw materials and supplies are stated at the lower of cost (using the average cost method) and market value. Finished goods and work in process are stated at the lower of production cost and market value. Production cost includes direct material and labor costs and indirect overhead. No administrative and general costs are included in inventories. Market value for raw materials is based on replacement cost and for other inventory classifications on net realizable value.

2.11) Accounts receivable

Accounts receivable are stated at face value, less an allowance for possible uncollectible accounts.

2.12) Research and development

Research and development costs are charged to expenses as incurred. For some of its research and development programs, the Company receives grants from governmental agencies; these grants are recognized in the income statement in "Other income and expenses".

2.13) Pension and termination indemnities

- - Pension: Upon retirement, the Company's employees receive such benefits as are provided by pension plan arrangements; these plans conform with local regulations and practices of the countries in which the Company operates.

The Company follows the requirements of FASB Statement N(degree) 87 ("SFAS 87") in accounting for pension costs and obligations.

- - Termination indemnities:

Italy

Italian law provides for an indemnity to be paid to personnel upon termination of employment. The amount of indemnity is based upon the number of years of service.

As provided for by EITF N(degree) 88-1 the undiscounted value of the vested benefit obligation at the balance sheet date is recorded as a liability. That vested benefit obligation exceeds the amount that would be provided under the actuarial approach of FASB 87.

France

In France, an indemnity is paid to personnel only upon retirement from the Company. The French entity recognizes the related cost and liability in accordance with SFAS 87, with the prior years' liability being amortized over the average remaining service period until retirement age.

2.14) Restructuring costs

Restructuring costs include incremental costs to be incurred as a result of the adoption by management of a formal plan to reorganize its manufacturing activities. Such costs may include severance payments, moving costs and fixed asset write-offs.

2.15) Income taxes

Since January 1, 1993, the Company accounts for income taxes in accordance with the requirements of FASB Statement N(degree) 109, "Accounting for Income Taxes" ("SFAS 109"). Under SFAS 109, the provision for current taxes represents the income taxes payable based on the tax return for the period. Deferred tax assets and liabilities are recorded for all temporary differences arising between the tax and book basis of assets and liabilities and for the benefits of tax credits and loss carryforwards.

Those deferred tax assets and liabilities are measured using the enacted tax rates at which they are expected to be realized or paid. A valuation allowance is provided for deferred tax assets that are more "likely than not" to be realized in the future.

The cumulative effect of adopting SFAS 109 in 1993 was immaterial. Prior to 1993, the Company followed the requirements of APB 11.

2.16) Financial instruments

- - Interest rate swap agreements: The Company enters into interest swap agreements with the purpose of changing the floating rates of certain loans into fixed rates.

The differential to be paid or received is recognized over the life of the agreements.

- - Forward exchange contracts: The Company enters into foreign exchange contracts as a hedge against accounts payable and receivable in foreign currencies and against firm sale commitments (ranging from one to six months from the balance sheet date). Premiums or discounts on those contracts are recognized in the income statement over the life of the contract. Unrealized gains or losses are matched against the corresponding asset or liability.

- - Sale of receivables with recourse: In accordance with SFAS 77, receivables sold with recourse to banks are removed from the balance sheet when the transaction purports to be a sale and the recourse obligations can be reasonably estimated.

2.17) New statements of accounting principles.

In 1995, the Financial Accounting Standards Board issued a statement, SFAS 121, "Impairment of long lived assets". The cumulative effect of adopting SFAS 121 in 1995 is not material.

3. CONSOLIDATED ENTITIES

The consolidated financial statements include the accounts of SGS-THOMSON Microelectronics N.V. and the following entities as of December 31, 1995:

	Legal Seat	Name	Common Stock (Thousands)	Percentage Ownership (Direct or Indirect)
United Kingdom	London	SGS-THOMSON Microelectronics LTD	9,900 GBP	100
	London	Thomson Components LTD	1,150 GBP	100
	Bristol	SGS-THOMSON E.E.I.G.	0 GBP	100
Sweden	Stockholm	SGS-THOMSON Microelectronics A.B.	16,000 SEK	100
Germany	Munich	SGS-THOMSON Microelectronics GmbH	12,901 DEM	100
Switzerland	Geneva	SGS-THOMSON Microelectronics S.A.	500 CHF	100
Malta	Malta	SGS-THOMSON Microelectronics LTD	21,590 MTP	100
Spain	Madrid	SGS-THOMSON Microelectronics S.A.	55,000 ESP	100
France	Paris	SGS-THOMSON Microelectronics S.A.	2,027,939 FRF	100
	Paris	Thomson Composants Distribution S.A.	6,850 FRF	100
	Paris	SGS-THOMSON Microelectronics S.N.C.	0 FRF	100
Italy	Milano	SGS-THOMSON Microelectronics SRL	424,888,000 ITL	100
	Catania	CORIMME	14,000,000 ITL	100
Singapore	Singapore	SGS-THOMSON Microelectronics PTE LTD	179,997 SGD	100
	Singapore	SGS-THOMSON Microelectronics ASIA PACIFIC PTE LTD	13,982 SGD	100
Malaysia	Muar	SGS-THOMSON Microelectronics SDN BHD	196,805 MYR	100
	Muar	SGS-THOMSON (Malaysia) SDN BHD	0,002 MYR	100
Japan	Tokyo	SGS-THOMSON Microelectronics KK	68,000 JPY	100
Hong Kong	Hong Kon g	SGS-THOMSON Microelectronics LTD	780 HKD	100
Australia	Sydney	SGS-THOMSON Microelectronics PTY LTD	185 AUD	100
United States	Dallas	SGS-THOMSON Microelectronics Inc.	22,000 USD	100
	Dallas	SGS-THOMSON Microelectronics Leasing Co Inc.	1 USD	100
Brazil	Sao Paulo	SGS-THOMSON Microelectronics Ltda	8,925,300 BRN	100
Morocco	Casablanca	SGS-THOMSON Microelectronics S.A.	66,000 MAD	100
	Casablanca	Electronic Holding S.A.	3,110 MAD	100
China	Shenzhen	Shenzhen STS Microelectronics Co LTD	211,118 CNY	60
India	New Delhi	SGS-THOMSON Microelectronics PTE LTD	62,000 INR	100

In January 1994, Northern Telecom and SGS-THOMSON Microelectronics signed an agreement for joint technology development and manufacturing of custom integrated circuit components. Under this agreement SGS-THOMSON Microelectronics has acquired a manufacturing plant located in Rancho Bernardo, California, U.S.A.

In December 1994, INMOS Ltd (U.K.) and SGS-THOMSON Microelectronics Ltd (U.K.) were merged. The merged Company is named SGS-THOMSON Microelectronics Ltd.

In 1994, the Company created a joint venture with a subsidiary of the Shenzhen Electronics Group ("SEG") that is building and will operate a back-end manufacturing facility and design center in the Futian free-trade zone of Shenzhen in southern China. SGS-THOMSON Microelectronics owns a 60% interest in the joint venture, with a subsidiary of SEG owning the remaining 40%.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	December 31, 1994	1995
Cash	6,007	801
Bank accounts	396,669	748,591
Marketable securities (with maturity under 3 months)	54,558	4,654
Total	457,234	754,046
Marketable securities (with maturity over 3 months)	4,249	4,354

Marketable securities consist mainly of certificates of deposit not traded. There was no significant difference between the book value of traded marketable debt securities and their fair market value as of December 31, 1995.

5. TRADE ACCOUNTS AND NOTES RECEIVABLE

Trade accounts and notes receivable consist of the following:

	December 31, 1994	1995
Trade accounts and notes receivable, gross	463,873	613,300
Less valuation allowance	(14,018)	(17,881)
Total	449,855	595,419

During 1995, no customer represented individually over 5% of consolidated net revenues.

6. INVENTORIES

Inventories consist of the following:

	December 31, 1994	1995
Raw materials	70,851	126,756
Work-in-process	177,789	202,817
Finished products	94,397	121,076
Total	343,037	450,649

7. OTHER RECEIVABLES AND CURRENT ASSETS

	December 31, 1994	1995
Receivables from government agencies*	177,989	184,670
Taxes and other government receivables	73,483	53,996
Down payments to suppliers	1,883	7,577
Loans to employees	4,910	5,201
Prepaid expenses	16,108	21,685
Sundry debtors	13,597	18,419
Deferred tax (note 22)	14,572	43,331
Other	18,143	25,383
Total	320,685	360,262

* Related to research and development contracts, industrialization contracts and capital expenditures.

8. GOODWILL

Goodwill consists of the following:

	December 31,			
	Gross	Depreciation	1995, net	1994, net
INMOS	17,888	(17,888)	0	0
MSC	2,423	(2,423)	0	0

TAG	4,311	(3,996)	315	1,752
Total	24,622	(24,307)	315	1,752

9. OTHER INTANGIBLE ASSETS

Other intangible assets consist of the following:

	December 31,	
	1994	1995
Pension transition obligation	4,166	2,142
Technologies and licenses, gros	68,762	61,806
Less--accumulated amortization	(57,448)	(50,877)
Total	15,480	13,071

10. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	Gross	Depreciation	Net
DECEMBER 31, 1993			
Land and building	195,517	(39,807)	155,710
Machinery and equipment	1,755,535	(1,078,117)	677,418
Other tangible fixed assets	119,561	(87,544)	32,017
Prepayments and construction in progress	115,165	(160)	115,005
TOTAL	2,185,778	(1,205,628)	980,150
DECEMBER 31, 1994			
Land and building	259,690	(50,196)	209,494
Machinery and equipment	2,444,442	(1,350,180)	1,094,262
Other tangible fixed assets	163,747	(103,203)	60,544
Prepayments and construction in progress	257,200	(160)	257,040
TOTAL	3,125,079	(1,503,739)	1,621,340
DECEMBER 31, 1995			
Land and building	344,439	(63,957)	280,482
Machinery and equipment	3,414,102	(1,689,923)	1,724,179
Other tangible fixed assets	197,375	(127,113)	70,262
Prepayments and construction in progress	224,579	--	224,579
TOTAL	4,180,495	(1,880,993)	2,299,502

The increase in capital expenditures in 1995, 1994 and 1993 was mainly due to capacity expansions in the manufacturing plants in order to support the strong billing increase and to significant investments in research and development facilities. Major investments were made in European plants (Agrate, Catania, Crolles, Rennes, Rousset), in Asia/Pacific (Malaysia and Singapore), in the United States (Dallas and Phoenix), and in the People's Republic of China (Shenzhen).

In 1993, the Company decided to change prospectively the useful lives for purposes of depreciation of workstations and office automation equipment from 5 to 3 years. The effect of this change for 1993 amounted to $12,068 and was reflected partly in research and development expenses and partly in selling, general and administrative expenses in the income statement.

11. INVESTMENTS AND OTHER NON-CURRENT ASSETS

Investments and other non-current assets consist of the following:

	December 31,	
	1994	1995
Investments carried at fair value	577	578
Long-term deposits and receivables	10,482	7,810
TOTAL	11,059	8,388

In December 1992, SGS-THOMSON Microelectronics (through its subsidiary INMOS Ltd) acquired 30% of "Newport Wafer Fab Ltd.", a company incorporated in the United Kingdom which manufactures and sells wafers to the semiconductor industry. Newport Wafer Fab Ltd. was acquired through a contribution in kind and its net equity amounted to $11,997 as of December 31, 1993. SGS-THOMSON Microelectronics sold its shares in Newport Wafer Fab. Ltd. for $4,157 in December 1994.

Long-term deposits and receivables consist of indemnities receivable from third parties on the sale of businesses, which bear interest or are discounted to reflect their present value, and of loans to Newport Wafer Fab Ltd. and its parent company amounting to $772 at December 31, 1995 ($1,976 in 1994; $8,500 in 1993).

12. SHAREHOLDERS' EQUITY

CAPITAL STOCK

In May 1993, the Company's net equity structure was modified through a par value reduction of each share from NLG 1,000 to NLG 550. The financial effect of the reduction ($267,889) was initially applied against accumulated deficit (at that date ($464,865)) and the remainder to capital surplus ($196,976). As this operation was not a quasi-reorganization, the net effect of the par value reduction was applied against capital surplus.

During 1993, the Company issued 1,634,318 Common Shares with a par value of NLG 550 each, representing a capital stock increase of $500,000.

In 1994, the Shareholders decided to effect a stock split from one share with a par value of NLG 550 to 40 shares with a par value of NLG 13.75. Consequently, except as otherwise indicated, all per share amounts included in these financial statements reflect this split.

In connection with the public sale of SGS-THOMSON Microelectronics N.V.'s shares by the Shareholders in December, 1994, (the "Initial Public Offering"), the Company also increased the capital stock through the issuance of 9,606,240 shares with a par value of NLG 13.75 each. These shares were also sold to the public. As a result, the capital stock increased $75,049 and the capital surplus by $123,772.

As of December 31, 1994, the capital stock was made up of 128,603,880 shares with a par value of NLG 13.75 each.

In connection with the public sale of SGS-THOMSON Microelectronics N.V.'s shares by the Shareholders in October 1995, the Company also increased the capital stock through the issuance of 8,960,000 shares with a par value of NLG 13.75 each. These shares were also sold to the public at a price of $42.09 net of underwriting discounts and commissions. As a result, the capital stock increased $79,356 and the capital surplus by $292,075.

In connection with the exercise of stock options (see below), the Capital stock increased by 644,800 shares with a par value of NLG 13.75 each. As a result, the capital stock increased by $5,672 and capital surplus by $2,380.

As of December 31, 1995, the capital stock was made up of 138,208,680 shares with a par value of NLG 13.75 each.

Weighted average number of shares used to determine the earning per share amounts are as follows:

1995:	130,647,079
1994:	119,392,417
1993:	83,537,518

STOCK OPTION PLAN

The Shareholders' general meeting held on June 30, 1989 approved the issuance of 1,634,400 options (after the effect of the 40:1 share split to be effected in connection with the Initial Public Offering) granted to 136 individuals. These options may be exercised until December 18, 1999. As of December 31, 1995, 644,800 options had been exercised.

At the time these options were granted, the Company determined the exercise price based on the nominal value of the Common Stock (NLG 25), which was higher than estimated fair value. In 1994, the minimum exercise price for the existing plan was reduced to NLG 17.50. As a result, the Company incurred a compensation charge in the fourth quarter of 1994, amounting to $18,125.

The shares corresponding to the options will be created through capital increase.

The Company expects that any future stock options will be granted at an exercise price at least equal to the fair market value of the Common Stock at the date of grant.

EMPLOYEE OFFERING PLAN

Pursuant to a resolution of the Supervisory Board of the Company dated November 24, 1995, the Company offered to certain of its employees worldwide to acquire up to a maximum number of 1,000 shares of Common Stock of the Company per employee, at a price of $33.725 per share. Participating employees having purchased shares in the Employee Share Offering and having held such shares at least until the first anniversary of the day on which such shares were issued will be entitled to purchase, for each lot of ten shares purchased in the Employee Share Offering, one additional share (a bonus share) at a discounted price of $9. Upon completion of the Employee Share Offering, a total of 243,710 shares were sold to participating employees worldwide.

This plan resulted in compensation expenses amounting to $1,549 in 1995.

RETAINED EARNINGS

At December 31, 1995, the amount of retained earnings available to pay dividends under Dutch law was approximately $1,595,000 (1994: $698,000). Retained earnings for purposes of this calculation are based upon generally accepted accounting principles in The Netherlands.

13. RESERVES FOR PENSION AND TERMINATION INDEMNITIES

Reserves for pension and termination indemnities consist of the following:

	December 31,	
	1994	1995
Italy (a)	75,237	86,733

Other countries (b)	6,755	8,223
TOTAL	81,992	94,956

(A) ITALY

In Italy, an indemnity for personnel termination is payable immediately upon termination. The accrued undiscounted value of the benefit payable (the "Undiscounted Benefit") exceeds the actuarial present value of the benefit if payment is estimated to occur at the employee's expected termination date. The Company has elected to record the Undiscounted Benefit in accordance with EITF 88-1.

Changes in the Undiscounted Benefit consist of the following:

	December 31,	
	1994	1995
Accrual at the beginning of the period	65,275	75,237
Accrued benefits	11,901	14,533
Payments	(5,091)	(5,044)
Translation adjustment	3,152	2,007
TOTAL	75,237	86,733

(B) OTHER COUNTRIES (FRANCE, UNITED KINGDOM AND GERMANY)

The funded status of pension plans and termination indemnities is as follows:

	December 31,	
	1994	1995
Vested benefits	(30,589)	(36,635)
Non-vested benefits	(15,589)	(16,597)
Projected benefit obligation	(46,178)	(53,232)
Plan assets at fair value	36,309	45,455
Funded status	(9,869)	(7,777)
Unrecognized transition obligation	(4,752)	(4,377)
Unrecognized prior service cost	7,844	7,298
Unrecognized net gains or losses	2,289	825
Net accrued for pension plans	(4,488)	(4,031)
Accrual	(6,755)	(8,223)
Prepaid	2,267	4,192

The accumulated benefit obligation amounted to $45,046 as of December 31, 1995 ($38,118 as of December 31, 1994).

The periodic net pension and termination indemnities cost includes the following:

	December 31,		
	1993	1994	1995
Service cost of benefits earned	1,330	2,819	3,613
Interest cost on liability	1,585	2,482	3,016
Return on plan assets	(2,466)	986	(3,716)
Net amortization and deferral	(118)	(3,379)	418
TOTAL	331	2,908	3,331

Assumptions	1993	1994	1995
Discount rate	7.0%	7.0%	7-8.5%
Salary increase rate	4.5-6%	4.5-6%	4-6.5%
Expected rate of return on funds	8.5%	8.5%	8-10%

14. OTHER NON-CURRENT LIABILITIES

	December 31,	
	1994	1995

Provision for claims and litigation	--	16,000
Provision for restructuring cost	5,000	--
Provision for patent risks	20,000	20,000
Long-term payables	13,666	--
Other	1,812	1,462
TOTAL	40,478	37,462

15. LONG-TERM DEBT

Long-term debt consists of the following:

GUARANTEES	December 31,	
	1994	1995
Secured (mainly mortgages on land, building and liens on equipment)	21,129	14,407
Unsecured	256,090	186,253
TOTAL	277,219	200,660

REPAYMENT SCHEDULE	December 31,	
	1994	1995
N+2	90,142	86,509
N+3	85,387	33,058
N+4	29,559	30,163
N+5	28,647	29,814
Thereafter	43,484	21,116
TOTAL	277,219	200,660

INTEREST RATES	December 31,	
	1994	1995
Non interest bearing*	5,242	4,661
From 0 to 3%	98,580	87,005
From 3 to 6%	39,452	36,071
From 6 to 10%	114,873	66,035
From 10 to 15%	19,072	6,888
TOTAL	277,219	200,660

* Non-interest bearing and low interest bearing borrowings relate to borrowings under Italian and French governmental programs.

Currencies	December 31,	
	1994	1995
U.S. dollar	33,498	141
Italian lira	138,187	120,333
French franc	27,627	15,830
Singapore dollar	33,420	26,622
Other	44,487	37,734
TOTAL	277,219	200,660

At December 31, 1995, the current portion of long-term debt included in current liabilities amounted to $88,248 (1994: $124,864).

At December 31, 1995, the above long-term debt included $746 obligations under capital leases (1994: $1,139).

Financial debt includes mainly:

	1994	1995
SGS-THOMSON Microelectronics NV		
Libor + 0,45% Bank Loan 1991-1996	66,667	33,333
Libor + 1/8 Bank Loan 1988-1995	15,000	--
SGS-THOMSON Microelectronics S.A.		
Libor + 0,55% Bank Loan 1992-1997 (French francs 100,000,000)	11,223	--
RTDI + 0,5% Bank Loan 1985-1995 (French francs 183,000,000)	6,418	--
Libor + 0,55% Bank Loan 1992-1997 (French francs 100,000,000)	11,223	8,163
SGS-THOMSON Microelectronics PTE Ltd		
PR + 0,25% Bank Loan 1991-1997 (Singapore dollars 50,000,000)	19,019	11,783
5.44% Bank Loan 1992-1997 (Singapore dollars 40,000,000)	21,910	22,623
SGS-THOMSON Microelectronics s.r.l.		
2,15% 1991-2001 Government Loan (Italian lira 155,694,000,000)	95,879	86,933

16. OTHER PAYABLES AND ACCRUED LIABILITIES

	December 31,	
	1994	1995
Taxes other than income tax	35,370	29,739
Salaries and wages	61,768	69,062
Social charges	40,484	74,217
Advances received on fundings	6,764	11,188
Provision for restructuring costs and assets write-down	38,459	23,957
Litigation and other risks	4,359	19,853
Commercial rebates	16,154	31,992
Royalties payable	18,470	38,427
Other	58,316	44,303

TOTAL	280,144	342,738

PROVISION FOR RESTRUCTURING COSTS

During 1993, the Company decided to upgrade the technology of its main production plants around the world. This upgrading began in 1994 and will continue through 1996. It will involve significant fixed asset write-offs and moving costs. The last restructuring operations are planned to occur in 1996.

The provision includes:

	December 31,	
	1994	1995
Non-cash items:		
- --Equipment, machinery and facilities write-offs (net book value at forecasted closing dates)	23,200	4,292
Cash items:		
- --Lay-off	4,539	6,882
- --Moving costs	15,720	12,783
Total	43,459	23,957
Of which short-term	38,459	23,957
Of which long-term (see note 14)	5,000	--

17. OTHER REVENUES

Other revenues consists of the following:

		December 31,	
	1993	1994	1995
Royalties and indemnities received	5,412	14,056	16,549
Development services invoiced to customers	22,329	23,126	9,800
Miscellaneous sales	1,481	5,554	7,346
Other	642	--	54
TOTAL	29,864	42,736	33,749

18. PERSONNEL

Labor costs consists of the following:

		December 31,	
	1993	1994	1995
Salaries and wages	453,573	524,844	643,559
Social security contribution	131,047	162,235	194,650
Other	28,951	37,053	48,251
TOTAL	613,571	724,132	886,460

These costs are allocated to cost of sales, selling, general and administrative expenses and research and development costs.

At December 31, 1995, the Company employed 25,523 persons (1994: 22,017).

19. RESTRUCTURING COSTS

Restructuring costs consists of the following:

		December 31,	
	1993	1994	1995
Cash items			
Severance	4,900	13,009	3,602
Moving costs	22,400	2,957	9,373
Non-cash items			
Asset write-offs	22,600	21,066	--
TOTAL	49,900	37,032	12,975

The cash outlays relating to the restructuring costs are for the most part made in the period the costs are recorded in the income statement or in the subsequent period.

The main benefits of the asset write-offs done in 1993 and 1994 will occur in

1995 and subsequent periods. However, the benefits will not be significant because of relative immateriality of the costs involved and the increased depreciation expense in future periods related to the upgrading of some manufacturing plants around the world (see Note 14).

20. OTHER INCOME AND EXPENSES

Other income and expenses consists of the following:

	December 31,		
	1993	1994	1995
Research and development fundings*	84,257	80,139	89,643
Patents income (expense) net	(8,631)	(7,598)	(8,055)
Exchange gain (loss)	8,886	1,982	5,082
Start-up costs	(1,602)	(8,847)	(26,489)
Litigation and other risks	(10,000)	0	0
Goodwill amortization and write-off	(15,496)	(1,437)	(1,437)
Stock-option plan compensation charge	0	(18,125)	0
Other	(7,741)	(14,130)	363
TOTAL	49,673	31,984	59,107

* Does not include certain other funding received for industrialization costs (which include certain costs incurred to bring prototype products to the production stage). Such funding and costs are netted in cost of sales in the income statement (in the amount of $20,400 for 1993; $19,276 for 1994 and $11,825 for 1995).

21. NET INTEREST EXPENSES

Net interest expenses consists of the following:

	December 31,		
	1993	1994	1995
Income	11,300	20,500	35,206
Expense	(49,087)	(41,522)	(52,060)
TOTAL	(37,787)	(21,022)	(16,854)

22. INCOME TAX

SGS-THOMSON Microelectronics N.V. and its subsidiaries are individually liable for income tax. Tax losses can only offset profits generated by the company incurring a loss.

	December 31,		
	1993	1994	1995
Domestic (The Netherlands)	0	0	0
U.S.	(3,162)	(6,304)	(9,558)
Foreign	(9,642)	(24,280)	(105,089)
Current	(12,804)	(30,584)	(114,647)
Deferred	(4,809)	(18,880)	6,365
TOTAL	(17,613)	(49,464)	(108,282)

Reconciliation between the provision for income tax and pre-tax income is as follows:

	December 31,		
	1993	1994	1995
Net earnings (loss)	160,087	362,494	525,894
Income tax	17,613	49,464	108,282
Equity in earnings of affiliates			
Pre-tax income	177,700	411,958	634,176
Theoretical income tax (35%--statutory tax in The Netherlands)	62,195	144,185	221,962
Permanent differences	(5,713)	(12,403)	(50,601)
Changes in unrecognized net deferred tax assets			
Variation in valuation allowance	(41,656)	(70,645)	(25,528)
Other taxes and credits	3,037	(9,962)	(32,252)
Effect of tax rate differences	(250)	(1,711)	(5,299)
Net income tax	17,613	49,464	108,282

Permanent differences reflect mainly (i) the effects of the special pioneer regimes existing in certain Southeast Asian countries and (ii) the non-deductible goodwill depreciation.

Pioneer status currently applies to one of the Company's two Singapore factories. Under this regime all the profits of this operation calculated in accordance with normal taxation rules and after deduction of capital allowances are exempt from Singapore income tax for the specified pioneer period. In the case of the Company, this pioneer period expires on December 31, 1996. After this date, the part of the Company's operations currently enjoying pioneer status will cease to enjoy any tax privileges and will be subject to taxation on the same basis as the second (non-pioneer) factory unless further incentives are applied for and obtained. The aggregate effect of the tax holiday amounts to $13,190 in 1995 (per share: $0.10), $12,166 in 1994 (per share: $0.10) and $9,354 in 1993 (per share: $0.11). The tax holiday had no effect in 1991. In

determining the deferred tax under U.S. GAAP, the Company records a liability (or asset) for a temporary difference that reverses after the tax holiday period ends using the normal taxation rate.

Sources of deferred tax assets and liabilities consist of the following:

	1995
Tax losses carryforward and capital allowances	103,789
Other assets	53,099
Total assets, gross	156,888
Valuation allowance	(28,091)
Total assets, net	128,797
Fixed assets depreciation	140,224
Other liabilities	7,362
Total liabilities	147,586

As a result of offsetting net deferred tax assets against deferred tax liabilities in each tax-paying entity and jurisdiction, a deferred tax assets of $43,331 and a deferred tax liability of $62,120 were covered.

As of December 31, 1995, the Company and its subsidiaries had net operating losses carryforwards and capital allowance carryforwards expiring in the following years:

	December 31, 1995
Year + 1	26,823
Year + 2	10,252
Year + 3	9,222
Year + 4	--
Year + 5 and after	3,978
No limit	246,962
Total	297,237

23. CREDIT FACILITIES

As of December 31, 1995, the aggregate amount of the Company's long-term credit facilities was approximately $289,000 under which $289,000 of indebtedness was outstanding, and the aggregate amount of the Company's short-term facilities was approximately $784,000 under which $404,540 of indebtedness was outstanding.

24. CAPITAL AND OPERATING LEASES

The Company leases land, buildings, plant and equipment under non-cancelable capital and operating lease agreements.

As of December 31, 1995, the future minimum lease payments to which the Company was committed consisted of the following:

Year	Capital Leases	Operating Leases
1996	7,605	5,152
1997	472	4,605
1998	0	2,012
1999	0	91
2000 and thereafter	0	85
Total	8,077	11,945

In 1995, the Company has not financed any equipment through a capital lease.

25. FINANCIAL INSTRUMENTS

Financial instruments and derivatives are used exclusively for purposes other than trading.

- - INTEREST RATE SWAP AGREEMENTS In 1992 the Company entered into three interest rate swap agreements maturing in December 1996 for $90,000 (notional amount) with the purpose of changing the floating rates of certain loans into fixed rates. One swap was terminated in 1994.

- - FORWARD EXCHANGE CONTRACTS The Company enters into forward contracts as a hedge against commercial transactions. Such contracts mature mainly during the first quarter of 1996, and amount to $191,000 forward sale of U.S. dollars and $59,717 forward sale of other foreign currencies and to $14,396 forward purchase of U.S. dollars and $18,192 forward purchase of other foreign currencies.

- - SALE OF RECEIVABLES WITH RECOURSE As of December 31, 1995 there was no outstanding receivable sold with recourse.

- - FINANCIAL INSTRUMENTS WITH OFF BALANCE SHEET RISKS AND CONCENTRATIONS OF CREDIT RISK The Company uses financial instruments with off-balance sheet risks primarily to manage its exposure to fluctuations in interest rates and foreign currency exchange rates. The Company controls the credit risks associated with these financial instruments through credit approvals, investment limits and centralized monitoring procedures but does not normally require collateral or other security from the parties to the financial instruments with off-balance sheet risk. In addition, the Company conducts its operations with customers located throughout the world.

Management believes that receivables are well diversified, thereby reducing potential credit risk to the Company. As a consequence, the Company does not anticipate non-performance by counterparties which could have a significant impact on its financial position or results of operations.

Interest rate and foreign currency agreements (notional amounts):

	December 31,	
	1994	1995
Long-term interest rate swaps (pay fixed, receive variable)	60,000	30,000
Forward exchange contracts:		
Sales	159,535	250,717
Purchases	(36,537)	(32,588)

	Remaining term	Interest rate
Long-term interest rate swap	12 months	paid: 6/6.5% received: Libor + 45Bp
Forward exchange contracts	1 month	N/A

- - FAIR VALUE OF FINANCIAL INSTRUMENTS In December 1991, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 107 ("SFAS 107") "Disclosures about Fair Value of Financial Instruments". SFAS 107 requires disclosures of the estimated fair value of all financial instruments other than specified items such as lease contracts, subsidiary and affiliate investments and employers' pension and benefit obligations. Except for publicly traded equity and marketable debt securities for which market prices have been used, these values have been estimated for the majority of the Company's financial instruments.

Accordingly, fair values are based on estimates using various valuation techniques, such as present value of future cash flows.

However, methods and assumptions followed to disclose data presented herein are inherently judgmental and involve various limitations, including the following:

- - Fair values presented do not take into consideration the effects of future interest rate and currency fluctuations,

- - Estimates as of December 31, 1995 are not necessarily indicative of the amounts that the Company would record upon further disposal/termination of the financial instrument.

As a consequence, the use of different estimations, methodologies and assumptions may have a material effect on the estimated fair value amounts. The methodologies used are as follows:

CASH AND CASH EQUIVALENTS, ACCOUNTS AND NOTES RECEIVABLE, BANK OVERDRAFTS, SHORT-TERM BORROWINGS, ACCOUNTS AND NOTES PAYABLES

The carrying amounts reflected in the consolidated financial statements are reasonable estimates of fair value because of the relatively short period of time between the origination of the instruments and their expected realization.

LONG-TERM DEBT AND CURRENT PORTION OF LONG-TERM DEBT

The fair values of these financial instruments were determined by estimating future cash flows on a borrowing-by-borrowing basis and discounting these future cash flows using the Company's incremental borrowing rates for similar types of borrowing arrangements.

INTEREST RATE SWAPS AND FORWARD EXCHANGE CONTRACTS

The fair value of these instruments is the estimated amount that the Company would receive or pay to settle the related agreements as of December 31, 1995 and 1994 based upon current interest rates and the creditworthiness of the counterparties.

	1994		1995	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
BALANCE SHEET				
Investments	577	577	578	578
Marketable debt securities	58,807	58,807	9,008	9,008
Bank loans (including current portion)	402,083	369,955	288,908	260,515
OFF-BALANCE SHEET				
Long-term interest swap	--	882	--	48
Forward exchange contracts	--	(340)	--	(507)

26. OTHER COMMITMENTS AND CONTINGENCIES

- - LITIGATION The Company is involved in a number of litigations incidental to the normal conduct of its operations. However, the ultimate unrecorded liability with respect to these contingencies is not considered to be material in relation to the consolidated results.

- - OTHER CONTINGENT LIABILITY The Company's position on certain tax regulation may differ from the tax authorities' interpretation, which could result in a tax liability. However, the Company believes the risk of incurring a significant liability is remote and, therefore, no significant provision was made as at December 31, 1995.

27. RELATED PARTY TRANSACTIONS

The main transactions and balances with the shareholders of SGS-THOMSON Microelectronics Holding N.V. and their affiliates were as follows:

	December 31,		
	1993	1994	1995
Sales	72,719	158,457	195,352
Research and development expenses	(12,800)	(12,317)	(17,815)
Other purchases			

and expenses	--	(13,757)	(42,237)

Indebtedness of the Company was supported by guarantees from the shareholders of SGS-THOMSON Microelectronics Holding N.V. as follows:

	December 31,	
	1994	1995
Long-term debt	140,763	156,359
Short-term debt	69,792	79,117
Total	210,555	235,476

28. SEGMENT INFORMATION
(In thousands of U.S. dollars)

	Americas	Asia/Pacific	Europe	Other, Corporate & Elimination	Total
1993					
Income statement					
Net revenues	495,462	566,086	975,985	--	2,037,533
Intersegment sales	86,603	602,823	682,968	(1,372,394)	0
Total	582,065	1,168,909	1,658,953	(1,372,394)	2,037,533
Operating profit	7,688	65,768	146,212	(4,181)	215,487
Depreciation	(22,549)	(53,759)	(153,096)	--	(229,404)
Research & development expenses	(28,286)	(568)	(242,050)	--	(270,904)
Cash-flow statement					
Capital expenditures	53,596	107,469	284,816	--	445,881
Balance-sheet					
Identifiable assets	205,684	469,096	1,225,172	340,976	2,240,928
Other information					
Employees	1,481	6,468	11,949	--	19,898
Wages & salaries	(76,934)	(88,466)	(448,171)	--	(613,571)
1994					
Income statement					
Net revenues	673,514	752,301	1,217,126	2,000	2,644,941
Intersegment sales	130,575	1,352,481	2,521,539	(4,004,595)	--
Total	804,089	2,104,782	3,738,665	(4,002,595)	2,644,941
Operating profit	33,578	141,723	288,430	(30,751)	432,980
Depreciation	(29,442)	(70,000)	(188,543)	--	(287,985)
Research & development expenses	(37,157)	(1,705)	(299,499)	--	(338,361)
Cash-flow statement					
Capital expenditures	163,302	131,996	484,398	--	779,696
Balance sheet					
Identifiable assets	411,555	591,202	1,742,175	479,759	3,224,691
Other information					
Employees	2,057	7,010	12,950	--	22,017
Wages & salaries	(110,840)	(101,111)	(512,181)	--	(724,132)
1995					
Income statement					
Net revenues	846,406	1,080,428	1,627,585	--	3,554,419
Intersegment sales	179,767	3,411,776	3,372,542	(6,964,085)	0
Total	1,026,173	4,492,204	5,000,127	(6,964,085)	3,554,419
Operating profit	63,348	242,113	355,208	(9,639)	651,030
Depreciation	(51,263)	(90,450)	(250,677)	--	(392,390)
Research & development expenses	(48,607)	(4,875)	(386,852)	--	(440,334)
Cash-flow statement					
Capital expenditures	187,517	204,694	609,725	--	1,001,936
Balance-sheet					
Identifiable assets	574,730	845,536	2,336,956	728,784	4,486,006
Other information					
Employees	2,439	7,934	15,150	--	25,523
Wages & salaries	(139,640)	(120,832)	(625,988)	--	(886,460)

The Company is engaged in the design, development, manufacture and marketing of a wide variety of semiconductor products. SGS-THOMSON Microelectronics N.V. operates in three main geographic areas. In the information above, sales include local sales and exports made by operations within each area. Total sales by geographic area include sales to unaffiliated customers and intergeographic transfers. To control costs, a substantial portion of the Company's products are transported between the U.S., Asia and Europe in the process of being manufactured and sold. Sales to unaffiliated customers have little correlation with the location of manufacture. As a global participant in the semiconductor industry, the Company's business is subject to risks beyond its control, such as instability of foreign economies and governments and changes in law and politics affecting trade and investment.

To the Supervisory Board and the Shareholders of SGS-THOMSON Microelectronics N.V.:

We have audited the accompanying consolidated balance sheets of SGS-THOMSON Microelectronics N.V. (a Dutch corporation) and subsidiaries as of December 31, 1995 and 1994, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SGS-THOMSON Microelectronics N.V. and subsidiaries as of December 31, 1995 and 1994, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1995 in conformity with generally accepted accounting principles, as applied in the United States of America.

/s/ Arthur Anderson & Co.
Arthur Andersen & Co.
Amsterdam, The Netherlands
January 26th, 1996

Supervisory Board and Executive Officers

SUPERVISORY BOARD

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General Manager, Components Sector - CEA Industrie

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Chief Executive Officer and Chief Operating Officer - Finmeccanica

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GIOVANNI RUOPPOLO President, Board of Auditors - Ente Nazionale Idrocarburi S.p.A.

HENRI STARCK
Advisor to the President - Thomson-CSF

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Strategic Planning and Human Resources

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GIORDANO SERAGNOLI
Corporate Vice President, Back-end Manufacturing
and Subsystems Products Group

KEIZO SHIBATA
Corporate Vice President, Japan Region
Corporate Information

PRINCIPAL EXECUTIVE OFFICE

SGS-THOMSON Microelectronics
Technoparc du Pays de Gex - B.P. 112
165, Rue Edouard Branly
01630 St. Genis Pouilly - France
Telephone: 33-50-40-26-40

STOCK LISTING

The common stock of SGS-THOMSON Microelectronics N.V. is traded on the New York Stock Exchange under the symbol "STM". The common stock is also listed on the Bourse de Paris and quoted on SEAQ International.

TRANSFER AGENT AND REGISTRAR
For questions about transfer procedures or other stock account matters, please contact:
Bank of New York
(for Shares of New York Registry)
Telephone: 212-815-5800 or 1-800-524-4458

Netherlands Management Company B.V.
(for Shares of Dutch Registry)
Telephone: 31-20-622-9726

INVESTOR RELATIONS
For copies of financial reports and other investor information, please contact: Francois Guibert, Group Vice President Business Planning and Development, at the Principal Executive Office noted above, or call 33-50-40-25-94. In the U.S., you may call 214-466-7699.

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SENIOR
MANAGEMENT
TEAM

[PHOTO]

- - PRODUCT GROUPS

ALDO ROMANO
Corporate Vice President,
Dedicated Products Group

PHILIPPE GEYRES
Corporate Vice President, Programmable Products Group

PIER ANGELO MARTINOTTI
Corporate Vice President,
New Ventures Group

ENNIO FILAURO
Corporate Vice President,
Memory Products Group

SALVATORE CASTORINA
Corporate Vice President,
Discrete and Standard ICs Group

[PHOTO]

- - REGIONAL

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Vice President,
Marketing and Sales
Americas Region

CARLO BOZOTTI
Corporate Vice President,
European and
Headquarters Region

KEIZO SHIBATA
Corporate Vice President,
Japan Region

JEAN-CLAUDE MARQUET
Corporate Vice President,
Asia Pacific Region

[PHOTO]

- - STAFF FUNCTIONS

PIERO MOSCONI
Corporate Vice President,
Treasurer

ALAIN DUTHEIL
Corporate Vice President,
Strategic Planning and Human
Resources

MAURIZIO GHIRGA
Corporate Vice President,
Chief Financial Officer

MURRAY DUFFIN
Corporate Vice President,
Total Quality and Environmental
Management

[PHOTO]

- - CENTRAL FUNCTIONS

LAURENT BOSSON
Corporate Vice President,
Front-end Manufacturing and
Americas Region

JOEL MONNIER
Corporate Vice President,
Central Research and
Development

GIORDANO SERAGNOLI
Corporate Vice President,
Back-end Manufacturing and
Subsystems Products Group

[LOGO] SGS-THOMSON
MICROELECTRONICS

ARTHUR ANDERSEN & CO.
Accountants

June 27, 1996

Securities and Exchange Commission
Division of International Corporate Finance
450 Fifth Street
Washington D.C.

SGS-THOMSON Microelectronics N.V.
Information required pursuant to Item 304(a) of
regulation SK under the Securities Act of 1933

We have read Item 18 in the Annual Report on Form 20-F dated June 27, 1996 of SGS- THOMSON Microelectronics N.V. to be filed with the Securities and Exchange Commission and are in agreement with the statements contained therein.

/s/Arthur Andersen & Co.