As filed with the Securities and Exchange Commission on June 30, 1999

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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 ACT OF 1934

For the fiscal year ended: December 31, 1998

OR

|_| TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES ACT OF 1934

For the transition period from to

Commission file number: 1-13546

STMicroelectronics N.V.
(Exact name of Registrant as specified in its charter)

Not Applicable	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 01637 Saint Genis Pouilly France	Route de Pre-Bois ICC Bloc A 1215 Geneva 15 Switzerland

(Addresses 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 Euro 3.12 per share	New York Stock Exchange
Liquid Yield OptionTM Notes due June 10, 2008	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:

142,478,106 Common Shares

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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PART I

* Omitted because item is not applicable.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain of the statements contained in this annual report that are not historical facts, including without limitation, certain statements made in the sections hereof entitled "Item 1: Description of Business" and "Item 9: Management's Discussion and Analysis of Financial Condition and Results of Operations," are statements of future expectations and other forward-looking statements (within the meaning of Section 27A of the Securities Act of 1933, as amended) that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those in such statements due to, among other factors, (i) the highly cyclical nature of the semiconductor industry, (ii) competition, (iii) increased industry capacity, (iv) variability of operating results, (v) capital requirements, (vi) new product developments and technological change, (vii) manufacturing risks, (viii) the loss of key personnel, (ix) economic downturn in any of our major markets, (x) possible acquisitions, (xi) control of the Company and potential conflicts of interest, (xii) key customers and strategic relationships, (xiii) intellectual property issues, (xiv) certain legal proceedings, (xv) the uncertainties of state support for research and development and other funding, (xvi) international operations, (xvii) currency fluctuations, (xviii) dependence on certain sources of supply, (xix) environmental regulations and (xx) year 2000 compliance. See "Risk Factors" included in the Company's Prospectuses dated June 5, 1998.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

References in this annual report to published industry data are references to data published by Dataquest, Inc. ("Dataquest") and references to trade association data are references to World Semiconductor Trade Statistics ("WSTS"). Except as otherwise disclosed herein, all references to the Company's market positions in this annual report are based on 1998 revenues according to published industry data. Certain terms used in this annual report are defined in "Certain Terms."

In this annual report, references to the "EU" are to the European Union, references to the "Euro" and the "euro" are to the euro currency of the EU, references to the "United States" are to the United States of America and references to "$" or to "U.S. dollars" are to United States dollars.

PART I

Item 1: Description of Business

The Company

STMicroelectronics N.V. (the "Company") is a global independent limited liability 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 automotive products, computer peripherals, telecommunications systems, consumer products, industrial automation and control systems. According to published industry data, in 1998 STMicroelectronics ranked ninth among worldwide suppliers of semiconductor devices. On the basis of 1998 revenues, STMicroelectronics was the world's leading supplier of MPEG 2 decoder ICs, smartcard MCUs, special automotive ICs and EPROM memories, the second leading supplier of EEPROM memories and the third leading supplier of analog monolithic and mixed-signal ICs and EEPROM memories. The Company currently offers more than 3,000 main types of products to approximately 800 direct customers. Major customers include Alcatel, Bosch, Chrysler, Ericsson, Ford, Gemplus, Hewlett-Packard, IBM, Matsushita, Motorola, Nokia, Nortel Networks, Philips, Pioneer, Samsung, Schlumberger, Seagate Technology, Siemens, Sony, Thomson Multimedia and Western Digital. The Company also sells its products through distributors.

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. Within its diversified portfolio, the Company has focused on developing products that exploit its technological strengths in creating customized, system-level solutions with substantial analog and mixed-signal content. Products include differentiated ICs (which the Company defines as being its dedicated products, semicustom devices and microcontrollers) and analog ICs (including mixed-signal ICs), the majority of which are also differentiated ICs. As a leading provider of differentiated ICs, the Company has developed close relationships with customers, resulting in early knowledge of their evolving requirements and opportunities to access their markets for other products. Differentiated ICs, which are less vulnerable to competitive pressures than standard commodity products, accounted for approximately 62% of the Company's net revenues in 1998 compared to approximately 57% in 1997. The Company also targets applications that require substantial analog and mixed-signal content and can exploit the Company's system level expertise. Analog ICs accounted for approximately 51% of the Company's 1998 net revenues compared to approximately 49% in 1997, while discrete devices accounted for approximately 13% of the Company's net revenues in 1998 compared to approximately 14% in 1997. In recent years differentiated ICs, in particular analog ICs, have experienced less volatility in sales growth rates and average selling prices than the overall semiconductor industry.

STMicroelectronics' products are manufactured and designed using a broad range of manufacturing processes and proprietary design methods. STMicroelectronics uses all of the prevalent function-oriented process technologies, including CMOS, bipolar and nonvolatile 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, BCD technologies (bipolar, CMOS and DMOS) for intelligent power applications and embedded memory technologies. This broad technology portfolio, a cornerstone of the Company's strategy for many years, enables the Company to meet the increasing demand for "system-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 September 1997, STMicroelectronics was awarded the 1997 European Quality Award for Business Excellence in the category of large businesses by the European Foundation for Quality Management (the "EFQM"). In presenting STMicroelectronics with the award, the EFQM committee cited the Company's commitment to the principles

of Total Quality Management ("TQM") in its business practices. TQM 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. See "Item 2: Description of Property--Manufacturing."

The Company introduced in 1998 several new products and plans to further develop and produce superintegrated, system-level silicon solutions for a set of targeted applications such as computer peripherals (including hard disk drives, inkjet printers and monitors), digital consumer devices (including set-top boxes, DVDs and digital television), wireless telecommunications products (digital cellular handsets, digital cordless and pagers), digital networks (ADSL, already in high volume production, and ATM, currently under development) as well as automotive electronics (including injection control, safety, and car multimedia navigation).

In addition to the many dedicated and semicustom ICs developed using power analog, digital and mixed signal technologies, the Company has focused its research and manufacturing efforts on developing an advanced range of the key technological building blocks required by the targeted applications. These building blocks include (i) MPEG 2 ICs, (ii) a family of 16 bit (ST10) and 32 bit (ST20) microcontrollers, (iii) a family of DSP cores for embedded applications based on the current D950 solution and the ST100 (currently under development), (iv) microprocessor architecture (x86 equivalent) aimed at integrated applications and (v) the ability to integrate nonvolatile memory (particularly EEPROM and flash) functionality.

Applying its broad range of technologies and its expertise in diverse application domains, the Company is currently embedding dedicated, semicustom circuits and these advanced building blocks on the same chip. Superintegrated products developed to date include the STi5500 Omega chip (a platform for digital consumer applications such as set-top boxes), which has achieved significant design wins.

At the beginning of 1999, the Company implemented organizational changes to better orient its product groups to end use applications. As a result, the former Dedicated Products Group ("DPG") has become the Telecommunications, Peripherals and Automotive Groups ("TPA"), while the former Programmable Products Group has become the Consumer and Microcontroller Groups ("CMG"). Consequently, the Company's products are now organized into the following principal groups:

- Telecommunications, Peripherals and Automotive,
- Consumer and Microcontroller,
- Memory Products,
- Discrete and Standard ICs.

As part of its activities outside the above principal product groups, the Company also has a New Ventures Group, which identifies and develops new business opportunities to complement the Company's existing businesses, and a Subsystems Product Group, which produces subsystems for industrial and other applications.

The Telecommunications, Peripherals and Automotive Groups (formerly the Dedicated Products Group) produce application-specific semiconductor products using advanced bipolar, CMOS, BiCMOS, mixed-signal and power technologies. The Groups' products are used in all major end-user applications, including emerging applications such as mobile communications networks, asynchronous transfer mode communications systems, global positioning systems, flat panel displays, hard disk drives and printers. The breadth of the Groups' customer and application base provides it with a source of stability in the cyclical semiconductor market, while their position as a strategic supplier of application-specific products provides it with opportunities to supply customers' requirements for other products, including discrete devices, microcontrollers and memories.

The Consumer and Microcontroller Groups (formerly the Programmable Products Group) produce microcontrollers, graphic controllers and MPEG decoder ICs and image processing semicustom devices for digital set-top boxes, DVDs, digital cameras, TVs, monitors and other products particularly targeted at high growth digital applications.

The Memory Products Group produces a broad range of memory products, including EPROMs, chips for smartcards, EEPROMs, flash memories and specialty nonvolatile SRAMs. According to published industry data, the Company was the leading supplier of EPROMs in 1998, accounting for approximately 38% of worldwide EPROM sales, as well as the leading supplier of microcontroller-based smartcard ICs and the second leading supplier of EEPROMs. The Company has developed proprietary know-how for flash memory devices and has started mass production for this market. The Group does not produce DRAMs, a commodity memory product.

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.

One of the significant new product introductions of 1998 by the New Ventures Group was the STPC Industrial, a superintegrated PC-on-a-chip that offers full PC functionality for applications such as information kiosks, point-of-sale terminals, Internet-surfing boxes, security access systems and industrial PCs.

The Company has substantially increased its front-end manufacturing capacity in recent years through the addition of new 8-inch submicron fabrication plants designed to meet the growing demand for its products. Volume production of 8-inch wafers is now underway in Crolles, France which is already operating at close to full capacity, and production is ramping up in Phoenix, Arizona and Catania, Italy. The buildings for new 8-inch submicron fabrication plants have been completed at existing sites in Rousset (France) and Agrate (Italy) and construction of a new submicron facility is underway in Singapore. An additional 8-inch submicron fabrication plant in Italy is planned to become operational by the year 2001. The Company has decided to build a new 300 millimeter, 12-inch wafer research fabrication and pilot line at Crolles (France) using 0.18 micron and below process technology. The pilot line will be operated in partnership with LETI and CNET, which are already working with the Company in Crolles. The Company has also announced plans for a new center for advanced research and development and industrialization in the field of nonvolatile memories in Agrate (Italy) to target 0.13 micron CMOS technology generation by 2003.

STMicroelectronics is international in scope. The Company operates front-end and/or back-end manufacturing facilities in Europe, the United States, the Mediterranean and Asia Pacific regions, and conducts research and development primarily in France and Italy and design, marketing and sales activities in each of the electronics industry's major economic regions: Europe, the United States, the Asia Pacific region and Japan. In 1998, approximately 41.6% of the Company's net revenues originated in Europe (compared to 43.6% in 1997), approximately 22.1% in the Americas (compared to 22.4% in 1997), approximately 29.4% in the Asia Pacific region (compared to 26.5% in 1997), approximately 4.3% in Japan (compared to 5.3% in 1997) and approximately 2.6% in Region Five (including emerging markets such as South America, Africa, Eastern Europe and the Middle East) (compared to 2.2% in 1997). See "--Sales, Marketing and Distribution." In 1998, more than 30% of the 6-inch equivalent wafers manufactured by the Company were manufactured outside Europe and approximately 56% of the Company's employees were located outside Europe.

STMicroelectronics believes that strategic alliances are critical to success in the semiconductor industry, and has entered into strategic alliances with customers, other semiconductor manufacturers and major suppliers of design software. The Company has entered into several strategic customer alliances, including alliances with Alcatel, Bosch, Daewoo Electronics, Hewlett-Packard, Marelli, Nokia, Nortel Networks, Pioneer, Seagate Technology, Thomson Multimedia and Western Digital, among others. 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, such as the cooperation with Philips Semiconductors in Crolles, France, for the development of advanced CMOS logic manufacturing processes, the agreement with Mitsubishi for CMOS flash memory processes using 0.20 through 0.18 micron and the agreement with Hitachi on SuperH microprocessors, permit costly research and development and manufacturing resources to be shared to mutual advantage for joint technology development. Other agreements include the cooperation with Nortel Networks for the development of 0.5/0.35 micron BiCMOS technology. The Company has established joint development programs with leading suppliers such as Air Liquide, Applied Materials, ASM Lithography, Canon, Hewlett-Packard, KLA-Tencor, LAM, MEMC, Schlumberger, Teradyne and Wacker and with CAD tool producers including Cadence and Synopsys. It is a participant in Sematech I 300I for the development of 300 millimeter wafer manufacturing processes. STMicroelectronics is active in joint European research efforts such as the new MEDEA program (which succeeded JESSI in 1997), and also cooperates with major research institutions and universities.

In March 1998, STMicroelectronics with its partners Philips Semiconductors and CNET completed the first phase of the development of HCMOS-8, the next generation CMOS process, at Crolles, France. This process is targeted at high-performance and low-power applications and will have a 0.15 micron effective gate length (equivalent to 0.18 micron drawn). Prototyping in this process began in the second half of 1998. At the same time, STMicroelectronics has started production of its 0.20 micron effective gate length (0.25 micron drawn) CMOS technology, known as HCMOS- 7. This process is used to produce "system-on-chip" products incorporating tens of millions of transistors combined with embedded memory for telecom, digital consumer and PC applications.

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 (military applications and 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 the total available market (the "TAM"), which includes all semiconductor products, as a percentage of worldwide revenues from production of electronic equipment according to published industry data, semiconductor pervasiveness has increased from approximately 9% in 1991 to approximately 13% in 1998. 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 the TAM increased from $17.8 billion in 1983 to $125.6 billion in 1998 (growing at a compound annual rate of approximately 14%). At the same time the serviceable available market (the "SAM"), which prior to 1995 consisted of the TAM without DRAMS, microprocessors and opto-electronic products and commencing in 1995 and for all subsequent periods presented, includes microprocessors as a result of the Company's production of x86 products, increased from approximately $15.0 billion in 1983 to $107.0 billion in 1998 (growing at a compound annual rate of approximately 14%). In 1998, the TAM decreased by 8.4 %. Based on trade association data for the first quarter of 1999, the TAM increased in the first quarter of 1999 by 6.8% compared to the first quarter of 1998. The SAM decreased 5.2% in 1998 compared to 1997; however, based on trade association data for the first quarter of 1999, the SAM increased by 3.5% compared to the first quarter of 1998. In 1998, approximately

33% of all semiconductors were shipped to the Americas, 21% to Japan, 23% to Europe, and 23% to the Asia Pacific region.

Although 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, the semiconductor industry has experienced substantial growth over the long term. Factors that are contributing to long-term growth 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.

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 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, thyristors, transistors as well as opto-electronic products) 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. 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.

The primary volatile memory devices are DRAMs, which accounted for 60.9% of semiconductor memory sales in 1998, 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.

Nonvolatile memories are typically used to store program instructions that control the operation of microprocessors and electronic systems. Among such nonvolatile memories, read-only memories ("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. "Flash" memories are 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 can also 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.

Logic devices process digital data to control the operation of electronic systems. The largest segment of the logic market, standard logic devices, includes 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 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). Digital signal processors ("DSPs") are parallel processors used for high complexity, high speed real-time computations in a wide variety of applications, including answering machines, modems, digital cellular telephone systems, audio processors 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 table sets forth information with respect to worldwide semiconductor sales by type of semiconductor and geographic region:

	Worldwide Semiconductor Sales(1) (in billions $)						Compound Annual Growth Rates(2) (expressed as percentages)				
	1983	1988	1993	1996	1997	1998	83-88	88-93	93-95	97-98	93-98
Integrated Circuits.	$13.3	$35.9	$66.0	$114.9	$119.5	$109.1	22.0%	13.0%	38.2%	(8.8)%	10.6%
Analog (linear and mixed-signal)...	2.8	7.2	10.7	17.0	19.7	19.1	20.8	8.2	24.6	(3.4)	12.3
Digital Logic.....	6.7	17.8	34.1	61.9	70.4	67.0	21.6	13.9	28.1	(4.9)	14.5
Memory:											
DRAM.....	1.7	6.3	13.1	25.1	19.7	14.0	30.0	15.8	76.5	(29.2)	1.3
Others.....	2.0	4.6	8.1	10.9	9.6	9.0	18.1	12.0	24.7	(5.8)	2.0
Total Memory....	3.7	10.9	21.2	36.0	29.3	23.0	24.1	14.2	58.7	(21.6)	1.6
Total digital.....	10.4	28.7	55.3	97.9	99.6	90.0	22.5	14.0	40.7	(9.8)	10.2
Discrete.....	3.7	7.0	8.6	12.9	13.1	11.9	13.6	4.2	27.6	(9.4)	6.7
Opto-electronics....	0.7	2.1	2.6	4.1	4.5	4.6	24.6	4.4	28.6	2.5	11.7
TAM.....	17.8	45.0	77.3	132.0	137.2	125.6	20.4	11.4	36.7	(8.4)	10.2
Europe.....	3.3	8.1	14.6	27.6	29.1	29.4	19.7	12.5	39.0	1.1	15.0
Americas.....	7.8	13.4	24.7	42.7	45.9	41.4	11.4	13.0	37.9	(9.6)	10.9
Asia Pacific.....	1.2	5.4	14.2	27.5	30.1	28.9	35.1	21.3	44.1	(4.4)	15.3
Japan.....	5.5	18.1	23.8	34.2	32.1	25.9	26.9	5.6	29.2	(19.2)	1.7
TAM.....	$ 17.8	$45.0	$77.3	$132.0	$137.2	$125.6	20.4%	11.4%	36.7%	(8.4)%	10.2%

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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.

The Company believes that major new growth segments in the semiconductor market are developing, in particular for digital multimedia, networking and wireless communications applications. New applications have emerged, such as set-top boxes, digital television, digital video discs, digital mobile computing and communications, smartcards, automotive multimedia, digital still imaging and mass storage, that are requiring new and rapidly evolving semiconductor technologies. The Company believes many of these new products will require a high level of semiconductor integration, combining various technologies such as bipolar, analog, CMOS, power and nonvolatile memory, on a single chip.

To compete as a broad line 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) design extension and CAD tools in both analog and digital technologies; (v) an efficient, quality, global manufacturing infrastructure; (vi) global marketing and technical support; and (vii) a worldwide network of strategic alliances with customers and other semiconductor manufacturers. The Company also believes that its independence from any single system group manufacturer is an advantage for STMicroelectronics in working closely with customers in different market segments.

Strategy

In 1996 the Company achieved its Vision 2000 objective, originally adopted in 1993, 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. In 1998, according to published industry data, STMicroelectronics ranked ninth among worldwide suppliers of semiconductor devices. Management's objective is to consolidate and improve its ranking within the top ten semiconductor suppliers while sustaining or improving its operating results relative to its peer group. The key elements of the Company's strategy are set forth below.

Broad Range Supplier. 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. Within its diversified portfolio, the Company has focused on developing products that exploit its technological strengths in creating customized, system-level solutions with substantial analog and mixed-signal content. Products include differentiated ICs (which the Company defines as being its dedicated products, semicustom devices and microcontrollers) and analog ICs (including mixed-signal ICs), the majority of which are also differentiated ICs. As a leading provider of differentiated ICs, the Company has developed close relationships with customers, resulting in early knowledge of their evolving requirements and opportunities to access their markets for other products. Differentiated ICs, which are less vulnerable to competitive pressures than standard commodity products, accounted for approximately 62% of the Company's net revenues in 1998 compared to approximately 57% in 1997. The Company also targets applications that require substantial analog and mixed-signal content and can exploit the Company's system level expertise. Analog ICs accounted for approximately 51% of the Company's 1998 net revenues compared to approximately 49% in 1997, while discrete devices accounted for approximately 13% of the Company's net revenues in 1998 compared to approximately 14% in 1997. In recent years differentiated ICs, in particular analog ICs, have experienced less volatility in sales growth rates and average selling prices than the overall semiconductor industry.

However, as a broad range supplier, the Company can also benefit from selling standard products. Consistent with this view, the Company has established the Gold Standard program to promote the sale of certain standard products meeting specified quality, cost and lead-time criteria. The related initiatives include worldwide advertising, promotional task forces in all regions, special distribution initiatives and worldwide training of sales and marketing personnel.

Total standard products (including all nonvolatile memories, discrete devices, and all standard logical and linear ICs) represented approximately 38% of the Company's sales in 1998 and, in management's view, increased sales of these products represent an opportunity to improve cash flow because the manufacture of standard products requires little capital investment.

Leader in a Broad Range of 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 its capabilities. The Company is committed to continuing to increase research and development expenditures in the future as well as continuing to develop alliances with other semiconductor companies and suppliers of software development tools. Technological advances in the areas of transistor performance and interconnection technologies are being developed through the Company's logic products and semicustom devices. In 1998 the Company pursued the development of the advanced process steps necessary for its 0.18 micron seven metal layer process that can operate at high clock speeds (frequency of 500 MHZ at 1.8V) and capable of densities of up to 50,000 gates per square millimeter. The Company continually works with key suppliers to develop advanced and standardized design methodologies 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. It is also working closely with many of its key suppliers to develop easy-to-use design tools for specific applications. Alliances with other semiconductor manufacturers are generally designed both to permit costly research and development and manufacturing resources to be shared to mutual advantage for joint technology development and to reduce time to market.

Diversified Customer Base with Focus on Strategic Alliances. 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. Alliances with customers allow the Company and its customers to share some of the risks of product development and the customers to gain access to the Company's process technologies and manufacturing infrastructure. The Company has targeted alliances with customers in each of its key application markets of telecommunications, automotive, consumer and computer. It has established alliances with, among others, Alcatel, Bosch, Daewoo Electronics, Hewlett-Packard, Marelli, Nokia, Nortel Networks, Pioneer, Seagate Technology, Thomson Multimedia and Western Digital. In establishing these alliances, the Company has also aimed to cover its key geographical markets.

Integrated Presence in Key Regional Markets. The Company has consistently sought to develop a competitive advantage by building an integrated presence in each of the world's three major economic zones: Europe, Asia and North America. An integrated presence means having manufacturing, design, sales and marketing capabilities in each region, in order to ensure that the Company is well positioned to anticipate and meet its customers' business requirements in local markets. Therefore, the Company has established front-end manufacturing facilities in the United States (in Phoenix, Carrollton and Rancho Bernardo), in Europe (Agrate, Casteletto, Catania, Crolles, Rennes, Rousset and Tours) and in Asia (Singapore); the more labor-intensive back-end facilities have been located in Malaysia, Malta, Morocco, Singapore and China, enabling the Company to take advantage of favorable production costs (particularly labor costs). With major design centers and local sales and marketing groups within close proximity of key customers in each region, the Company believes it can maintain strong relationships with its customers. STMicroelectronics intends to continue to build its integrated local presence in each region where it competes in its efforts to better serve its customers and to develop an early presence in potential high growth markets such as China, where the Company has both a back-end facility and a design center, and India, where the Company has a design center.

Balanced Sales by Application and Region in High Growth Market Segments. The Company has developed a strong product portfolio across major application markets including computer peripherals, wireless communications, digital consumer electronics, smartcards, automotive and power management. While the Company is consolidating its

position in its established high volume businesses, including switching, engine management, car safety, traditional analog TV, VCR, computer peripherals, power and industrial and consumer appliances, it has also been investing research and development and design resources to develop the next generation of high growth applications, such as smartcards, portable computing, digital consumer (DVD, new generations of set-top boxes, digital TV), wireless communications (digital cellular phones), high speed modems (xDSL), new automotive products (car multimedia) and new generations of mass storage devices. The Company also maintains a geographically diverse customer base across a broad range of market applications.

To date, the Company's growth has been attributable primarily to internal growth. However, in 1998, the Company announced the acquisition from Adaptec of Peripheral Technology Solutions Group which is specialized in the design of products for the hard disk drive market, as well as the purchase of Vision Group, a leading designer and supplier of CMOS sensors. These purchases and acquisitions were completed in 1999. Furthermore, the Company may, from time to time, consider making selected acquisitions that the Company believes would complement or expand its existing business. Announcements concerning potential acquisitions could be made at any time. Acquisitions involve a number of risks that could adversely affect the Company's operating results, including: (i) the diversion of management's attention; (ii) the assimilation of the operations and personnel of the acquired companies; (iii) the assumption of potential liabilities, disclosed or undisclosed, associated with the business acquired, which liabilities may exceed the amount of indemnification available from the seller; (iv) the risk that the financial and accounting systems utilized by the business acquired will not meet the Company's standards; (v) the risk that the businesses acquired will not maintain the quality of products and services that the Company has historically provided; (vi) the inability to attract and retain qualified management for the acquired business; and (vii) the inability of the Company to retain customers of the acquired entity. There can be no assurance that (a) the Company will be able to consummate future acquisitions on satisfactory terms, if at all, (b) adequate financing will be available for future acquisitions on terms acceptable to the Company, if at all, or (c) any operations acquired will be successfully integrated or that such operations will ultimately have a positive impact on the Company. See "Item 9: Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources."

Customers and Applications

STMicroelectronics designs, develops, manufactures and markets over 3,000 main types of products that it sells to approximately 800 direct customers. The Company also sells its products through distributors. 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 significant customers and certain applications for its products:

Telecommunications

Customers:	Alcatel	Lucent Technologies	Nortel Network	Samsung
	Bosch	Motorola	Philips	Siemens
	Ericsson	Nokia	Sagem	Telital

Applications:	Answering machines	Modems
	Central office switching systems	PBX systems
	Digital cellular telephones	Telephone sets (corded and cordless)
	xDSL chip set	

Computer Systems

Customers:	ACER	Creative Technology	NEC	3D Labs
	Adaptec	Epson	Olivetti	Western Digital
	ATI Technologies	Hewlett-Packard	Quantum	Xerox
	Bull	IBM	Samsung	
	Compaq	Maxtor	Seagate Technology	

Applications:	Data storage	Photocopiers
	Monitors and displays	Printers
	Graphics chip sets	

Automotive

Customers:	Bosch	Delphi	Marelli	Siemens
	Chrysler	Ford	Motorola	Valeo
	Daimler-Benz	Kenwood	Pioneer	

Applications:	Alternator regulators	Ignition circuits
	Airbags	Injection circuits
	Antiskid braking systems	Multiplex wiring kits
	Automotive entertainment systems	Transmission control systems
	Body and chassis electronics	Global positioning systems
	Engine management systems	

Consumer Products

Customers:	Bose Corporation	Kenwood	Philips	Sony
	Daewoo	Matsushita	Pioneer	Thomson Multimedia
	General Instrument	NEC	Samsung	
	Lucky Goldstar	Nokia Networks	Scientific Atlanta	
	Grundig	Pace	Sharp	

Applications:	Audio power amplifiers	Digitial TVs
	Audio processors	Digital video disks
	Cable television systems	Set-top boxes
	Compact disk players	TV sets and monitors
	Digital cameras	Video cassette recorders

(continued)

Industrial and Other Applications				
Customers:	Astec	Giescke & Devrient	Philips	Siemens
	Delta	Liton	Schlumberger	
	De La Rue	Mannesman	Schneider	
	Emerson	Orga		
	Gemplus			
Applications:	Battery chargers		Motor controllers	
	Smartcards ICs		Power supplies	
	Industrial automation and control systems		Switch mode power supplies	
	Intelligent power switches			
	Lighting systems (lamp ballasts)			

In 1998, no single customer accounted for more than 10% of the Company's net revenues, and sales to the Company's top ten customers accounted for approximately 43% of the Company's net sales in 1998 (39% in 1997). 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 18% of the Company's net revenues in 1998 were made through distributors, compared to approximately 22% in 1997. 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, reduced bookings or product returns by its key customers or distributors, could adversely affect the Company's operating results. In addition, in a declining market the Company has been in the past and may in the future be driven to lower prices in response to competitive pressures. Despite price reductions, however, in an industry downturn order cancellations may be expected, particularly by distributors and for commodity products.

Products and Technology

STMicroelectronics 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 x86 microprocessors.

In 1998, the Company had four principal products groups: Dedicated Products, Programmable Products, Memory Products and Discrete and Standard ICs. Certain information with respect to revenues for these product groups for 1998 is shown in the table below. For a breakdown of the Company's net revenues by Group and geography for the last three years, see "Item 9: Management's Discussion and Analysis of Financial Condition and Results of Operations--Results of Operations." Revenues for future periods will be calculated according to the new groups described below.

	1998 Group Revenues by Region						
	(percentage of Group net revenues)						
	Total (in millions)	Total (% of total net revenues)	Europe	North America	Asia Pacific (1)	Region Five	Japan
Dedicated Products Group	$ 1,865.6	43.9%	36%	21%	37%	2%	4%
Programmable Products	783.4	18.4%	37%	33%	24%	3%	3%
Memory Products	659.6	15.5%	54%	16%	18%	2%	10%
Discrete and Standard ICs	828.7	19.5%	44%	21%	30%	4%	1%

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(1) Many of the products sold in the Asia Pacific region are sold to U.S.-based original equipment manufacturers located in the region.

At the beginning of 1999, the Company implemented organizational changes to better orient its products groups to end use applications. Its products are now organized into the following principal product groups: Telecommunications, Peripherals and Automotive (formerly Dedicated Products), Consumer and Microcontroller (formerly Programmable Products), Memory Products and Discrete and Standard ICs. As part of its activities outside the principal product groups, the Company also has a New Ventures Group, which identifies and develops new business opportunities to complement the Company's existing businesses, and a Subsystem Product Group, which produces subsystems for industrial and other applications.

Telecommunications, Peripherals and Automotive Groups

The Dedicated Products Groups was reorganized into the Telecommunications Group, which has two applications divisions, and the Automotive and Peripherals Group, which has four divisions. The video products which formed part of the former Dedicated Products Group are today encompassed within the Consumer and Microcontroller Groups. The Groups also have two support divisions (i) digital signal processing and microcontrollers cores and (ii) digital and mixed analog/digital semi-custom. The Telecommunications, Peripherals and Automative Groups are responsible for the design, development and manufacture of application-specific products using advanced bipolar, CMOS, BiCMOS mixed-signal and power technologies as well as mixed analog/digital semicustom devices. The Groups offer complete system solutions to customers in several application markets. All of the Groups' products are ASSPs, full-custom or semicustom devices that may also include DSP and micro-controllers cores.

The Telecommunications, Peripherals and Automotive Groups work closely with customers to develop application-specific products using STMicroelectronics' technologies and manufacturing capabilities. The breadth of the Groups' 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 provides them with opportunities to supply such customers' requirements for other products, including discrete devices, microcontrollers and memory products.

The Telecommunications, Peripherals and Automotive Groups particularly emphasize dedicated ICs for automotive, computer peripherals and industrial application segments, as well as for communication, computing and networking application segments.

The Telecommunications Group has two divisions:

(i) Wireline Telecommunications Products. 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 Company is targeting applications in high speed communications networks and telephone sets and asynchronous transfer mode ("ATM") communication systems. During 1998, significant developments in the Company's telecommunications product area included the introduction of the ToscaTM two-chip set for Asymmetric Digital Subscriber Loop (ADSL) and the delivery of more than 300,000 full-rate ADSL chip sets to the leading equipment manufacturer. The Company also formed a partnership with Telia Research AB to develop a Very high bit-rate Digital Subscriber Loop (VDSL) system to support broadband communications facilities for interactive multimedia Internet access, video-on-demand, and other advanced services. The Company furthermore announced the Pegas.usBTM chip set, the first host signal processing modem to take advantage of the Universal Serial Bus for connection to personal computers, as well as a super-integrated IC that includes a digital signal processor (DSP) plus all of the analog functions needed for phone, fax, modem and answering machine functions.

(ii) Wirelesss Telecommunications Products. In wireless telecommunications, the Company focuses its product offerings on cellular phones, pagers and wireless local loop applications, serving the major OEMs in each of these areas with differentiated ICs. In cellular phones, the Company is supplying products for both the analog and digital market segments (including GSM and CDMA) and reinforcing its leading position in energy management (50 million units shipped in 1998), audio CODEC (30 million units shipped in 1998), and RF/IF ICs (30 million units shipped in 1998). The Company has gained experience and know-how with the major silicon components of cellular phone applications, and is developing system and software capabilities to provide full solutions for specifically targeted applications, particularly in the baseband processor, where in 1998 the Company shipped approximately 7 million D950 and pursued the development of its new ST100 DSP cross core currently under development.

The Peripherals and Automotive Group has four divisions:

(i) Data Storage. STMicroelectronics produces ICs for several data storage applications, in particular disk drives with advanced solutions for read and write digital channels, controllers, host interfaces, digital power processing and micromachinery. The group is working actively on super-integrating these macro-functions. In 1998, the Company announced the acquisition from Adaptec of Peripheral Technology Solutions Group which is specialized in the design of products for the hard disk drive market. The acquisition was completed in 1999. The acquisition complements the Company's activities with respect to (i) product line, giving the Company access to leading disk controller products and know-how, (ii) design teams, contributing Adaptec's designers with CMOS read channel product design expertise, (iii) geography, providing the Company a base in Silicon Valley, and (iv) customer base, adding customers in Asia Pacific and Japan. In 1998, the Company also signed a cooperation agreement with IBM to accelerate the development of advanced system-on-a-chip products, particularly ICs for data storage applications and PC-compatible information appliances.

(ii) Printers. STMicroelectronics is focusing on inkjet printer components and is an important supplier of pen chips, motor drivers, head drivers and image processors. The Company is an important partner of Hewlett-Packard for technology development and manufacturing. Since the beginning of the cooperation with Hewlett-Packard, the Company has supplied more than 400,000 wafers for pen chip applications.

(iii) Audio and Automotive Products. STMicroelectronics' 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, airbag controls, antiskid braking systems, ignition circuits, injection circuits, multiplex wiring kits and products for body and chassis electronics, engine management and instrumentation systems. The Company is currently developing solutions for global positioning systems (GPS) and multi-media in the car. In 1998, the Company signed a strategic alliance for car entertainment systems with Pioneer Electronics of Japan. Due to its super-integration know-how, the Company has successfully expanded its presence beyond Europe to the United States and Japan, further accessing key customers such as Mitsubishi and Denso.

In 1998, the Company announced the launch of two devices (ST20 GPG and STB 5600) that for the first time allow a complete GPS system to be implemented by using just two chips. In the fourth quarter of 1998, the Company also delivered the first working prototypes of a single chip system called Euterpe, that combines voice recognition, voice synthesis and text to speech technologies.

(iv) Industrial and Power Supplies. STMicroelectronics designs and manufactures products for industrial automation systems, lighting applications (lamp ballast), battery chargers and switch mode power supplies (SMPS). 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.

The Groups also have two support divisions (i) digital signal processing and microcontroller cores and (ii) digital and mixed analog/digital semicustom. These two divisions are centers of excellence to develop key competences in the field of semicustom (digital and analog) as well as in DSP and microcontrollers cores. The Company is currently developing superintegrated solutions using its broad range of technologies (CMOS, BiCMOS, BCD) and its expertise in microcontrollers/DSP cores, dedicated IC megacells and embedded memory capability for hard disk drive applications. The same methodology is being applied to develop ICs for other computer peripherals such as monitors and inkjet printers.

Consumer and Microcontroller Groups

The Consumer and Microcontroller Groups are the successors to the Programmable Products Group and is responsible for the design, development and manufacture of designs, develops and manufactures microcomponents (including microcontrollers and digital signal processors), digital semicustom devices, graphic controllers and MPEG decoder ICs and image processing semicustom devices for many diverse products targeted at high growth digital applications, including information technology, automotive and multimedia.

The Consumer and Microcontroller Groups are divided into the Consumer Group and the Microcontrollers Group, each further divided into several divisions.

The Consumer Group has four divisions:

(i) Digital Video. 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. In 1998, the digital consumer market grew due to the strong growth of digital TV satellite broadcasting in the United States and digital TV in the United Kingdom.

This division delivers large volumes of MPEG decoder ICs suitable for video CD products, personal computers, set-top boxes (including cable, satellite and terrestrial DVD) and digital TV applications. The majority of these products implement the MPEG 2 standard. In 1998, STMicroelectronics started volume production of the STi5500 Omega chip, the first in a family of highly integrated devices that combine an MPEG 2 audio/video decoder with a 32-bit microprocessor and other functions to create a complete set-top box back-end section on a single chip. Among recent important developments for digital TV, the Company introduced the STi5505, the world's first device to integrate a complete DVD back-end decoder and a 32-bit host processor on a single. In April 1998, STMicroelectronics introduced the STi7000 chip, the first integrated solution for High-Definition Television (HDTV) combining an MPEG 2 decoder with an advanced display and format converter into one single chip. Production of the STi7000 started in the fourth quarter of 1998. The Company has also been selected to provide the conditional access module to Canal+ for digital TV.

(ii) Consumer Broad Band Division. This division develops chip sets for the front-end section of all major digital video applications. For example, this division designs and manufactures semi-custom products for data input from compact disc-audio and digital video players, digital broadcast and data exchange on cable as well as for the IEEE 1394 serial digital interface.

(iii) TV, Monitor and Camera Division. This division targets analog television and video camera recorders, monitors and flat panel displays and image capturing and transmission. In addition to the traditional analog TV and monitor businesses, in 1998, the division started to address the market for digital cameras. In order to achieve its goals with respect to this market, the Company made in late 1998 an offer to acquire Vision Group plc, a U.K. company based in Edinburgh, Scotland, which has developed a technology for the production of CMOS sensors, and completed the acquisition in 1999. The Company also signed a partnership agreement with Live Picture to design a new microchip that will enable digital camera users to create instantly 360-degree panoramic photos and to introduce other virtual reality features. With CMOS imaging technology it is thus possible to produce the principal features of a camera on a single IC, which is significantly cheaper than using a multi-component chip set based on traditional Charge Coupled Devices (CCD) technology. Potential applications of the technology include PC cameras for transmitting images across the Internet, digital still cameras, camcorders, security cameras, videophones, automotive applications, biometrics and toys.

(iv) Graphics Products. In 1998, the Company produced over 5 million Riva 128 and 128ZY graphic accelerators to deliver visual computing on PC platforms. The RIVA 128 was developed in conjunction with nVidia. In early 1999, the Company entered into a partnership agreement with Videologic of the United Kingdom for developing the next generation 3D accelerator aimed at the PC and digital consumer market.

The Microcontroller Group has one division and two support groups:

(i) Microcontroller Division. This division provides competitive, high-volume 8-bit microcontrollers for all major application segments and 16-bit DSP for the mass market. This family of products has been developed with a wide portfolio of processes capable of embedding nonvolatile memories such as EPROM, EEPROM and flash memories.

Within the support groups, the Microcontroller Core Development group develops 32- and 64-bit microcontroller cores. Current products include the successful ST20 and ST40 products. The Company has entered an agreement with Hitachi to co-develop a 64-bit microcontroller core (ST50) based on Hitachi original Super H architecture and STMicroelectronics know-how in 64-bit

microprocessors for interactive set-top boxes, digital video products, car multimedia systems and other consumer oriented products.

The Microcontroller Development Tools Group is concerned with software and hardware development tools for microcontroller cores and with software methodology for the microcontrollers and application divisions.

Memory Products Group

The Memory Products Group designs, develops and manufactures a broad range of semiconductor memory products but does not produce DRAMs. According to published industry data, on the basis of 1998 revenues, STMicroelectronics was the leading producer of EPROMs, with a 38% market share, and the second leading supplier of EEPROMs.

According to published industry data, the total market for memory devices in 1998 was approximately $23.0 billion including DRAMs (61%), SRAMs (17%) and nonvolatile memories (22%).

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

EPROMs. STMicroelectronics produces a broad range of EPROMs, from 16 Kbit to 32 Mbit. According to published industry data, STMicroelectronics consolidated its world's leading market position for EPROMS in 1998, with revenues of $188 million or approximately 38% of worldwide EPROM sales. The Company currently produces EPROMs using 0.40 micron CMOS technologies.

The EPROM market is relatively mature, and worldwide sales declined in 1998 according to published industry data. The Company has succeeded in maintaining its market leadership because of its EPROM technology, which has allowed the Company to build one of the broadest product portfolios currently offered in the market. At the same time, this technology has permitted continuous improvement of manufacturing yields and reduction of die size, giving the Company an advantageous cost position. Efficient manufacturing in its Singapore assembly plant together with STMicroelectronics' sales and distribution channels have contributed to the exploitation of the Company's technological advantage.

Flash Memories. The Company currently supplies single voltage (down to 3.0 volt) NOR cell structure flash memory products up to 16 Mbit, and is introducing into production a family of 32 Mbit flash memories operating at 1.8 volt and manufactured using 0.25 micron technology. The Company is jointly developing with Mitsubishi a new generation of flash memory products, starting with multi-level 64 Mbit, as well as associated processes from 0.20 through 0.18 micron. The market for flash memories is growing fast, according to published industry data, driven by cellular phones and digital consumer applications growth.

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 States, United Kingdom and France). Other applications include medical record applications, card-access security systems and toll-payment applications. In 1998, the Company's total number of smartcard chips sold since 1983 exceeded one billion, with more than 100 million microcontroller-based smartcard ICs shipped per year since 1997. According to independent market analysts, the 1998 volume confirmed the Company's leading market position with approximately a 43% share in microcontroller-based smartcard ICs that form the basis for such advanced applications as electronic purses, bankcards, pay TV and GSM systems.

In 1998, the Company was awarded certifications to ITSEC level E3 High, the most stringent level normally required in commercial applications, for two products that will be used in the French health card project, indicating the

Company's leadership position in terms of independent security certifications. The Company also introduced the ST16RF product range, the world's first dual mode (contact/contactless) smartcard microcontrollers. Originally developed for the French public transport system in Paris (RATP) and rail operator (SNCF), these devices have potential uses in public transport ticketing, with trial now underway in Nice, France. In November 1998, the Company also announced the world's first ISO 1443 type B contactless memory designed for use in electronic tags, RF/ID and similar applications where the memory is powered by the received carrier electromagnetic wave as well as a new addition to the ST19 family of smartcard chips, the ST19 SF64, which is a device particularly suited to high end telecoms, Java Cards and similar multiapplication cards.

EEPROMs and Application-Specific Memories. The Company offers serial EEPROMs up to 256 Kbit and parallel EEPROMs up to 1 Mbit. 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. STMicroelectronics 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. In 1998, the sales of this division represented, according to industry data, approximately 17% of the world market for EEPROM and other nonvolatile memory compared to approximately 14% in 1997.

SRAMS. The Company focuses on producing nonvolatile SRAMs (battery back-up) used in computers and telecommunications equipment.

Discrete and Standard ICs Group

The Discrete and Standard ICs Group designs, develops and manufactures discrete power devices, power transistors, standard linear and logic ICs, and RF products. According to published industry data, based on 1998 revenues, STMicroelectronics is among the leading suppliers of power transistors and among the top two suppliers of thyristors, worldwide.

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. STMicroelectronics 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. The Company offers a highly successful range of standard products built with its proprietary Application Specific Discretes (ASDTM) technology, which allows a variety of discrete structures to be merged into a single device optimized for specific applications such as EMI filtering for cellular phones.

Power Transistors. STMicroelectronics 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) systems, television/monitor deflection circuits and lighting systems. According to published industry data, on the basis of 1998 revenues, STMicroelectronics is among the leading suppliers of bipolar transistors, including RF power transistors. 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. A new family of products, low voltage power MOSFETs known as the NE series, is being produced with a new technology that provides substantial advantages over conventional cellular power MOSFET processes.

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.

In the first quarter of 1998, the Company extended its offer of VIPower technology by introducing a Smart H Bridge Driver that can sustain high peak current streams for short time periods. The Company also introduced innovative front-end and packaging technologies that significantly increase MOSFET power density and a new range of products based on its Application Specific Discrete (ASD) technology that integrate two key telephone set functions into a single surface mounting package.

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. 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.

Sales, Marketing and Distribution

In 1998, the Company derived approximately 82% of its revenues from sales directly to customers through its regional sales organizations (compared to approximately 78% in 1997) and 18% of its net revenues from sales through distributors (compared to approximately 22% in 1997). The Company operates regional sales organizations in Europe, North America, the Asia Pacific region, Japan and, since January 1, 1998, in "Region Five" which includes emerging markets such as South America, Africa, Eastern Europe, the Middle East and India. In 1998, approximately 41.6% of the Company's revenues originated in Europe (compared to approximately 43.6% in 1997), while 22.1% originated in the Americas (compared to approximately 22.4% in 1997), 29.4% originated in the Asia Pacific region (compared to approximately 26.5% in 1997), 4.3% originated in Japan (compared to approximately 5.3% in 1997) and 2.6% originated in Region Five (compared to approximately 2.2% in 1997). In 1998, no single customer accounted for more than 10% of the Company's net revenues, and sales to the Company's top ten customers accounted for approximately 43% of the Company's net sales in 1998 (39% in 1997).

The European region is divided into ten sales and marketing units: five major accounts groups organized by market segments (telecom, industrial and smartcards, consumer, automotive and computer), four geographically configured units to cover mid-sized OEM customers (France and the Benelux, Central Europe, Northern Europe and Southern Europe) and a distribution unit.

In North America, the sales and marketing team is organized into five 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 and Longmont, Colorado following the acquisition of Adaptec), communications (Dallas, Texas) and distribution (Boston, Massachusetts). Each business unit has a sales force that specializes in the relevant business sector, providing local customer service, market development and specialized application support for differentiated system oriented products. This structure allows STMicroelectronics to monitor emerging applications, to provide local design support, and to identify new products for development in conjunction with the various product divisions as well as to develop new markets and applications with its current product portfolio. A central product marketing operation in Boston provides product support and training for standard products for the North America region, while a logistics center in Phoenix supports just-in-time delivery throughout North America. In addition, a comprehensive distribution business unit provides product and sales support for the nationwide distribution network.

In the Asia Pacific region, sales and marketing is organized by country and is managed from the Company's regional sales headquarters in Singapore. The Company has sales offices in Taiwan, Korea, China, Hong Kong, 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, Hong Kong and Shenzhen.

In Japan, the large majority of the Company's sales are made through distributors, as is typical for foreign suppliers to the Japanese market. However, the Company's sales and marketing engineers in Japan work directly with the customers as well as with the distributors to meet customers' needs. The Company provides marketing and technical support services to customers 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 STMicroelectronics' products in specific applications.

Region Five was created as of January 1, 1998 and includes emerging markets such as South America, Africa, Eastern Europe, the Middle East and India. Prior to that time, these markets had been covered, where appropriate, by the other existing sales and marketing organizations. Region Five also includes the design center in India, which employs 428 people in a wide range of activities. The Company intends to increase its focus on the new sales and marketing region to enhance its presence in these new markets.

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. The focus is on system research and development and the timely generation of the advanced system know-how and intellectual property that is critical to the successful introduction of future generations of differentiated products.

In 1996, the Company undertook the Gold Standard program, a long-term commitment to excellence in standard products. The program consists of manufacturing and offering standard products at the same price level as the market but with a superior level of quality, service and lead time. The related initiatives included worldwide advertising, promotional task forces in all regions, special distribution initiatives and worldwide training of salespeople and marketing personnel.

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. 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 five regional sales organizations operate dedicated distribution organizations. To support the distribution network, STMicroelectronics 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 STMicroelectronics' 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 STMicroelectronics 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. This commitment to research and development continues unabated, with the Company spending $690 million or 16.2% of revenue on research and development in 1998. The table below sets forth information with respect to the Company's research and development spending since 1994 (not including design center, process engineering, pre-production or industrialization costs):

	Year ended December 31,				
	1994	1995	1996	1997	1998
	(in millions, except percentages)				
Expenditures	$338.3	$440.3	$532.3	$610.9	$689.8
as a percentage of net revenues	12.8%	12.4%	12.9%	15.2%	16.2%

As a result of the history of the Company, approximately 81% of the Company's research and development expenses in 1998 were incurred in Europe, primarily in France and Italy. See "--State Support for the Semiconductor Industry." As of December 31, 1998, approximately 4,400 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. STMicroelectronics' central research and development activities are conducted in Crolles, France; Agrate, Italy; Carrollton, Texas; Phoenix, Arizona; Berkeley, California; and Noida, India. 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 in the legal form of a French Groupement d'interet economique ("GIE") pursuant to a partnership agreement in effect until the end of 1998 between the Company and CNET, the research laboratory of France Telecom, an indirect shareholder of the Company. This center has developed submicron process technologies

and is currently working on the development of 0.18 micron and future generation technologies, including copper interconnect, low k dielectric, silicon germanium, embedded RAMs and RF options. The Company and CNET have decided to extend the GIE to include as a member the Laboratoire d'Electronique de Technologie d'Instrumentation ("LETI"), a research laboratory of CEA-Industrie, one of the indirect shareholders of the Company. The Company is also cooperating with Philips Semiconductors to jointly develop sub-micron CMOS logic processes in Crolles, France under an agreement which has been extended through the year 2000.

In 1998, the Company also cooperated with GRESSI, the research and development GIE formed by the CNET and LETI. The objectives of the cooperation were 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 provided for a pluriannual plan through 1998, and the Company bore half of the program's total cost. The cooperation with GRESSI was superseded, as of January 1, 1999, by a tripartite cooperation arrangement between the Company, CNET and LETI, within the framework of an extended GIE named Centre Commun de Microelectronique de Crolles. This cooperation is directed towards sub 0.18 micron technologies with a view to preparing the technology to begin production of 12-inch wafers and associated wafer fabrication processes. The tripartite cooperation is intended to last until the end of 2002 and the related contractual arrangements are in the process of being finalized.

A technical center in Noida, India, develops design software and CAD libraries and tools. At the Agrate, Italy site, the Company is developing nonvolatile memory technologies and programmable logic processes using a pilot line which is being upgraded to 8-inch with a capability of 0.25 micron and below. See "Item 13: Interest of Management in Certain Transactions." The Company has developed a wide network of cooperation with several universities in the United Kingdom (Bristol and Newcastle), Italy (Bologna, Catania, Milan, Pavia and Turin), France (Grenoble, Marseille, Toulouse and Tours), in the United States (Carnegie Mellon, Stanford, Berkeley and UCLA) and Singapore for basic research projects on design and process development.

In addition to central research and development, each operating division also conducts independent 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 Micro-Electronics Development for European Application ("MEDEA") cooperative research and development program, (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 a period of several years. In Italy, both electronics and economic development programs are open to eligible companies regardless of their ownership or country of incorporation.

The MEDEA cooperative research and development program was launched in June 1996 by the Eureka Conference and is designed to bring together many of Europe's top researchers in a 12,000 man-year program that will cover the period 1997-2000. The MEDEA program replaced the joint European research program called JESSI, which was a European cooperative project in microelectronics among several countries that covered the period 1988 through 1996 and involved more than 80 companies. 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.

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. The Company has entered into funding agreements with France and Italy which set forth the parameters of state support under certain national programs and require, among other things, compliance with European Commission ("EC") regulations and approval by EC authorities and annual and project-by-project reviews and approvals.

The EC adopted guidelines in 1995 seeking to limit state aid for research and development activities routinely performed in the normal course of the business. There can be no assurance that the Company will be able to continue to benefit from state aid previously committed, that such aid will not be revoked or discontinued at any time or that aid granted by a national government for research and development will not be reviewed or challenged by the EC.

Funding of 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 favorable to the Company as those previously provided.

Public authority funding for research and development is reported in "Other Income and Expenses" in the Company's consolidated statements of income. See Note 18 to the consolidated audited financial statements for each of the years in the three-year period ended December 31, 1998, including the Notes thereto (collectively, the "Consolidated Financial Statements") included elsewhere in this annual report on Form 20-F. Such funding has totalled $63.8 million, 55.3 million and $63.5 million in the years 1996, 1997 and 1998, 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 $4.6 million, $6.2 million and $3.1 million in 1996, 1997 and 1998, respectively. See Note 18 to the Consolidated Financial Statements. Government support for capital expenditures funding has totalled $93.3 million, $30.2 million, and $182.4 million in the years 1996, 1997 and 1998, 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 1996, 1997 and 1998, the Company had $95.2 million, $63.7 million

and $49.4 million, respectively, of indebtedness outstanding under state-assisted financing programs at an average interest cost of 2.3%, 2.1% and 2.1%, respectively.

Intellectual Property

Intellectual property rights which apply to various Company products include patents, copyrights, trade secrets, trademarks and maskwork rights. STMicroelectronics owns more than 17,000 original invention patents or pending patent applications, most of which have been registered in several countries around the world. In 1998, the Company filed 671 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 and Korean semiconductor companies. The Company has announced that it has signed a broad patent cross-license agreement with IBM in June 1998 and with Intel in January 1999.

The Company's success depends in part on its ability to obtain patents, licenses and other intellectual property rights covering its products and their design 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. Competitors may also develop technologies that are protected by patents and other intellectual property rights and therefore such technologies may be unavailable to the Company or available to the Company subject to adverse terms and conditions. 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, maskworks, 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. 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.

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. During periods of industry overcapacity and declining selling prices, customer orders are not generally made as far in advance of the scheduled shipment date as during periods of capacity constraint. Such reduced lead time can reduce management's ability to forecast production levels and revenues.

The Company's backlog decreased during 1998 in difficult semiconductor market conditions. In the first quarter of 1999, backlog increased compared to year-end 1998.

STMicroelectronics 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 that may be ordered in the future. 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, order cancellation and modifications as to quantities actually ordered.

Competition

Markets for the Company's products are intensely competitive. While only a few companies compete with STMicroelectronics in all of the Company's product lines, the Company faces significant competition in each of its product lines. STMicroelectronics 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 companies are also increasing their participation in the semiconductor market, and semiconductor foundry companies have expanded significantly, particularly in Asia. 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 and foundry operations. Some of the Company's competitors are also its customers.

The Company gained market share in 1998, when the Company's net sales grew 5.7% while the TAM decreased 8.4% and the SAM decreased 5.2%, according to trade association data. The Company gained market share in 1995 and 1996 against both the TAM and the SAM although it lost market share against both the TAM and the SAM in 1997. The Company does not manufacture DRAMs, which are commodity memory products sold in high volumes that have experienced severe price cutting in 1996, 1997 and in 1998. The Company gained market share against both the TAM and the SAM in the first quarter of 1999, when the Company's revenues grew 10.7% compared to first quarter 1998 while the TAM grew 6.8% and the SAM grew 3.5%.

The Company believes that recent difficult market conditions have led certain of its competitors to redirect their marketing focus and manufacturing capacity toward products that compete with the Company's products. The Company believes increased competition in its core product markets is generating greater pricing pressure, increased competition for market share in the SAM, and a generally more challenging market environment for the Company.

According to published industry data and other industry sources, investment in worldwide semiconductor fabrication capacity totalled approximately $44 billion in 1996, $40 billion in 1997 and $28 billion in 1998, or approximately 33%, 29% and 22 %, respectively, of the TAM for such years. In addition to international semiconductor companies, companies specializing in operating semiconductor foundries such as UMC, TSMC and Chartered Semiconductors, have added significant capacity, particularly in Asia. These additions to capacity have contributed to an increase of supply over demand and to declines in average selling prices and the downturn in the industry. These has also been a shift in existing industry capacity to production of products that compete with the Company's products. The Company believes that fluctuations in the rate of industry capacity additions relative to the growth rate in demand for semiconductor products could continue to contribute to fluctuations in average selling prices and affect the Company's results of operations.

The Company's primary competitors include Advanced Micro Devices, Hitachi, Intel Corporation, Lucent Technologies, Mitsubishi Electric Corporation, Motorola, National Semiconductor Corporation, Nippon Electric Company, Philips Semiconductors, Samsung, Siemens, Texas Instruments and Toshiba. Companies primarily operating foundries include UMC, TSMC and Charter Semiconductors.

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. In particular, standard products may involve greater risk of competitive pricing, inventory imbalances and severe market fluctuations than differentiated products. 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.

Employees

At December 31, 1998, the Company employed approximately 29,182 people, of whom approximately 5,938 were employed in France, 6,357 were employed in Italy, 637 were employed in the rest of Europe, 2,655 were employed in the United States, 5,449 were employed in Malta and Morocco and 4,686 were employed in Singapore, Malaysia and Japan. As of December 31, 1998 approximately 4,400 employees were engaged in research and development, 1,700 in marketing and sales, 20,200 in manufacturing, 1,600 in administration and general services and 1,300 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.

As part of its commitment to the principles of TQM, the Company decided in July 1994 to develop an internal education organization called "ST University", responsible for organizing training courses to executives, engineers, technicians and sales personnel within the Company and coordinating all training for STMicroelectronics' employees. In 1998, ST University organized over 100,000 hours of training for 3,500 employees.

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. All of the Company's plants are certified for the Eco- Management and Audit Scheme ("EMAS") and have also obtained ISO 14001 certification.

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.

Year 2000

Reference is made to the information appearing under the caption "Year 2000" on pages 36 through 39 of the Registrant's 1998 Annual Report, which information is incorporated herein by reference.

As of May 29, 1999, the Company's groups have fully completed Phases 1 to 3 and substantially completed Phases 4 and 5. Approximately 83% of items involved have a status of tested and certified compliant. For the 17% not yet tested and certified compliant, approximately 85% of the preparatory work has been completed. Globally, the Company is near 95% completion relative to the total work load, and is on schedule relative to the Year 2000 Project plan. At May 29, 1999, 94% of front-end equipment and 96% of back-end equipment had been tested or certified compliant. The Company's target is to have 100% tested compliance by mid 1999, but there remains the possibility of some delays due to the late delivery of solutions by certain suppliers. At May 29, 1999, 95% of facilities equipment was tested or certified compliant. For business software systems including financial accounting, sales order management and human resources systems applications which are not otherwise being upgraded, specific year 2000 compliance is being worked on internally. The Company expects to complete most such upgrades by the end of June 1999. At May 29, 1999, 64% of corporate materials suppliers and virtually all corporate equipment suppliers have indicated that they are currently Year 2000 Compliant. Substantially all other significant suppliers are on schedule to achieve Year 2000 Compliance in due time before January 1, 2000. The Company has determined the magnitude of the remaining tasks (completion of Phases 4 and 5) and has fixed schedules and assigned resources accordingly. The Company has estimated the total capital costs related to its Year 2000 activities to be in the range of approximately $40 million.

Item 2: Description of Property

Manufacturing

STMicroelectronics currently operates 17 main manufacturing facilities around the world. The table below sets forth certain information with respect to STMicroelectronics' 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, microcontrollers and dedicated products	Fab-	8-inch 0.5/0.18 micron CMOS and 0.7/0.25 micron BiCMOS; R&D on VLSI submicron technologies in conjunction with CNET and Philips Semiconductors
Phoenix, Arizona	Dedicated products	Fab -	8-inch 0.7/0.35 micron CMOS, 0.5/0.35 micron BiCMOS
Agrate, Italy	Nonvolatile memories, microcontrollers and dedicated products	Fab 1-	6-inch 0.8/0.5 micron CMOS
		Fab 2-	6-inch 2.0/0.8 micron BiCMOS and BCD
		Fab 3-	6-inch 0.35/0.18 micron CMOS pilot line being converted to 8-inch
Rousset, France	Microcontrollers, nonvolatile memories and smartcard ICs	Fab -	6-inch 0.8/0.5 micron CMOS
Catania, Italy	Power transistors, smart power ICs and nonvolatile memories	Fab 1-	5-inch 3 micron bipolar power
		Fab 2-	6-inch 4/1 micron MOS power
		Fab 3-	6-inch 4/1 micron pilot line
		Fab 4-	8-inch 0.5/0.25 CMOS
Rennes, France	Dedicated and power products	Fab -	5-inch 2 micron BiCMOS, BCD and bipolar
Castelletto, Italy	Smart power BCD	Fab -	6-inch 4.0/0.8 micron BCD pilot line
Tours, France	Protection thyristors, diodes and application-specific discretes	Fab 1-	4/5-inch discrete
		Fab 2-	4/5-inch discrete
Ang Mo Kio, Singapore	Dedicated products, microcontrollers, power transistors and commodity products	Fab 1-	5-inch 1.5 micron CMOS and power MOS
		Fab 2-	5-inch 6/3 micron bipolar transistor
		Fab 3-	5-inch 2.0/1.2 micron bipolar ICs
		Fab 4-	5-inch 5 micron standard linear
Carrollton, Texas	Memories, microcontrollers, dedicated products and semicustom devices	Fab -	6-inch 0.7 micron BiCMOS, 1.0 micron BCD and 0.8/0.6 micron CMOS
Rancho Bernardo, California	Dedicated products	Fab -	6-inch 1.0 micron BCD
Back-end Facilities:			
Muar, Malaysia	Dedicated and standard products, microcontrollers		
Kirkop, Malta	Dedicated products, microcontrollers, semicustom devices		
Toa Payoh, Singapore	Nonvolatile memories and power ICs		
Ain Sebaa, Morocco	Discrete and standard products		
Shenzhen, China	Nonvolatile memories, discrete and standard products		
Bouskoura, Morocco	Subsystems, RF		

STMicroelectronics has expanded its diversified manufacturing infrastructure while improving the cost, quality and flexibility of its operations. STMicroelectronics has applied recent investments in its manufacturing facilities to bring to full capacity the 8-inch front-end manufacturing facility in Crolles, France, to continue the ramp up of the new

8-inch front-end manufacturing facilities in Phoenix, Arizona and Catania, Italy, and to continue to build and equip a new back-end facility in Shenzhen, China. Capital expenditures for 1998 were devoted principally (i) to the expansion of the 8-inch front-end wafer fabrication plant in Crolles, France, (ii) to equip and upgrade both the new 8-inch and existing 6-inch front-end facilities at the Catania, Italy plant, (iii) to the extension and conversion of an existing facility in Agrate, Italy, (iv) to the expansion of the 6-inch facility in Carrollton, Texas, (v) to the ramp-up of production at the Phoenix, Arizona 8-inch front-end facility, (vi) to the expansion of the back-end facilities in Muar, Malaysia, and (vii) to the expansion of the back-end facilities in Morocco, Malta and Shenzhen, China.

The Company currently expects that capital spending for 1999 will continue to be at levels at least as high as in each of the last three years, and possibly higher. The most significant of the Company's 1999 capital expenditure projects are expected to be the conversion from 6-inch to 8-inch and expansion at one of its front-end wafer fabrications plants in Agrate, Italy, the increase of capacity of the 8-inch facilities in Catania, Italy, the completion of construction of its new 8-inch front-end wafer fabrications facility in Rousset, France, the conversion of its facilities in Crolles, France to 0.25 micron and 0.18 micron processes, the increase of capacity of the 8-inch facilities in Phoenix, Arizona and the expansion of the back-end facilities in Muar and Morocco. The Company has also identified an additional 8- inch wafer fabrication facility to be built in Italy that is planned to be operational by the year 2001. The Company has decided to build a new 300 millimeter, 12-inch wafer research fabrication and pilot line at Crolles (France) using 0.18 micron and below process technology. The Company will continue to monitor its level of capital spending, however, taking into consideration factors such as trends in the semiconductor market, capacity utilization and announcements by competitors.

In 1994, the Company created a joint venture with a subsidiary of the Shenzhen Electronics Group ("SEG") that built and equipped a back-end manufacturing facility mentioned above in the Futian free-trade zone of Shenzhen in southern China. STMicroelectronics owns a 60% interest in the joint venture, with a subsidiary of SEG owning the remaining 40%. Construction of the plant and equipment installation was completed in 1996 as scheduled and production started at the end of 1996. The joint venture will have invested approximately $150 million in the project by the end of 1999. 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 develop local presences, better serve customers and mitigate manufacturing risks by having key processes operated in different manufacturing plants. The Company is also seeking to take advantage of current industry overcapacity by qualifying subcontractors on a limited basis both for wafer foundry and back-end services and thereby minimizing its capital expenditure needs.

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, interrupt production or result in losses of products in process. As system complexity has increased and sub-micron technology has become more advanced, manufacturing tolerances have been reduced and requirements for precision have become even more demanding. Although the Company's increased manufacturing efficiency has been an important factor in its improved results of operations, the Company has from time to time experienced production difficulties that have caused delivery delays and quality control problems, as is common in the semiconductor industry. 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.

STMicroelectronics is fostering a corporate-wide 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, production and consignment for all product lines. TQM in STMicroelectronics is based on five key principles:

management commitment, employee empowerment, continuous improvement, management by fact and customer focus. TQM has become an integral part of the STMicroelectronics' culture and it is designed to develop a self-directed work force with a common set of values, objectives and problem-solving processes. Since 1987, the Company has improved average AIQ (electrical) status levels from 5,000 ppm to 14 ppm at the end of 1998. The Company uses through-the-wall mounted equipment for clean rooms to reduce the risk of wafer contamination from equipment. The Company also uses robot confinement systems to reduce the risk of wafer contamination. The Company's CIM systems provide management with real time data on all aspects of the performance of its manufacturing systems. Most of the Company's manufacturing facilities have been certified to conform to ISO international quality standards. Several major customers, including Hewlett-Packard, Nokia, Sharp, Chrysler and Sanyo, have recognized STMicroelectronics' commitment to quality and have honored the Company with quality awards in the recent past. In September 1997, the Company was awarded the 1997 European Quality Award For Business Excellence in the category of large business by the EFQM.

STMicroelectronics' manufacturing processes use many raw materials, including silicon wafers, lead frame, mold compound, ceramic packages and chemicals and gases. The Company obtains its raw materials and supplies from diverse sources on a just-in-time basis. Although supplies for the raw materials used by the Company are currently adequate, shortages could occur in various essential materials due to interruption of supply or increased demand in the industry.

The Company has principal executive offices located in the vicinity of Geneva Airport at Route de Pre-Bois 20, ICC Bloc A, 1215 Geneva 15, Switzerland and at Technoparc du Pays de Gex-BP112, 165 rue Edouard Branly, 01637 St. Genis Pouilly, France. The latter office is maintained by the Company's French subsidiary. The Company's corporate seat is in Amsterdam, The Netherlands. The Company also operates nine research and development centers and 31 design centers. The Company maintains regional sales headquarters in Geneva, Switzerland, Boston, Massachusetts, Singapore and Tokyo, Japan, and has 62 sales offices in 24 countries throughout Europe, North America, Japan, the Asia Pacific region and Region Five. In general, the Company owns its manufacturing facilities and leases most of its sales offices.

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, product delivery delays or interruptions in production 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, changing its process technologies, or contamination or fires, storms, earthquakes or other acts of nature, any of which could result in a loss of future revenues. In addition, the development of larger fabrication facilities that include 8-inch or larger capabilities and require 0.25 micron or smaller technology has increased the potential for losses associated with production difficulties, imperfections, or other causes of defects. In the event of an incident leading to an interruption of production at a fab, the Company may not be able to shift production to other facilities on a timely basis or the customer may decide to purchase products from other suppliers, and in either case the loss of revenues and impact on the Company's relationship with its customers could be significant. 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.

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; however, the Company does not believe that the ultimate resolution of pending legal proceedings will have a material adverse effect on its financial condition.

The public prosecutor in Catania, Italy commenced a criminal investigation into alleged unauthorized use of public funds for research and development. Based on a report from a panel of experts appointed by the public prosecutor, the prosecutor issued a request for indictment in June 1997 against the 11 members of the Board of Directors of the research and development consortium Corimme, in which the Company's Italian subsidiary ("STMicroelectronics Italy") has a two-thirds voting interest (the remaining one-third interest is held by the University of Catania). The people indicted included eight employees or ex-employees of STMicroelectronics Italy and three professors of the University of Catania.

Following the request for indictment, the 11 members of Corimme's Board of Directors filed an incidente probatorio in December 1997, requesting the appointment of a panel of independent experts to verify the assertions made by the public prosecutor's experts. During a hearing on March 25, 1998, the judge for the preliminary hearing accepted the incidente probatorio and named a panel of independent experts. The college of independent experts, in their public report filed with the court in February 1999, concluded that not only were the accusations formulated by the public prosecutor concerning the use of public funds for research and development unfounded, but also that the research and development performed by Corimme had been very wide ranging, complex, as well as fully in line with requirements for the public funding received. The court will now hold hearings to make a decision on the pursuit of charges against the 11 indicted persons in light of the report from the independent college of experts.

In parallel, the tax authorities in Catania had issued proceedings against Corimme for alleged unauthorized VAT deductions and irregular invoicing for the years 1988 to 1993, and the tax authorities in Milan had issued proceedings against STMicroelectronics Italy for alleged VAT infringements during the years 1990 to 1994 and income tax infringements during the years 1990 to 1992 for invoicing for allegedly noneligible production services performed by Corimme for the account of STMicroelectronics Italy.

In a final ruling in March 1999, the Commissione Tributaria Centrale confirmed the previous decisions favorable to Corimme entered by the Commissione Tributaria Provinciale and the Commissione Tributaria Regionale, with respect to the years 1988 and 1989.

The Commissione Tributaria Provinciale of Catania has ruled in favor of Corimme with respect to the years 1990 to 1993, in first instance, and the Commissione Tributaria Provinciale of Milan has ruled in favor of STMicroelectronics Italy with respect to VAT claims for the years 1990 to 1994. Presently, appeals are pending before the Commissione Tributaria Regionale.

The Commissione Tributaria Provinciale of Milan has also ruled in favor of STMicroelectronics Italy on the various income tax proceedings for the period 1990-1992. The tax authorities have accepted these rulings by waiving their right of appeal.

The Company's management believes that Corimme's contractual and other requirements have been honored in all material respects in accordance with the requirements and with applicable financial procedures provided by the Italian government and has no grounds to suspect malfeasance. The Company has cooperated fully with the authorities in the conduct of the inquiry. Although it remains impossible to determine with certainty the ultimate outcome of the remaining ongoing investigations, management believes the investigations will not have a material effect on the financial condition or results of operations of the Company.

Item 4: Control of Registrant

Principal Shareholders

The following table sets forth certain information with respect to the ownership of the Company's Common Shares as of June 10, 1999.

Shareholders	Common Shares Owned (1)	
	Number(2)	%
STMicroelectronics Holding II B.V. ("ST Holding II").....	79,863,880	55.9

(1) Prior to the offer and sale of Common Shares by the Company and ST Holding II, completed on June 10, 1998 (the "Share Offering"), ST Holding II held 68.9% of the outstanding Common Shares of the Company. Simultaneously with the Share Offering, the Company offered and sold $513,852,000 principal amount at maturity Liquid Yield OptionTM Notes (the "Notes") convertible, subject to certain conditions, into Common Shares at a conversion rate of 8.952 Common Shares per $1,000 principal amount at maturity. Assuming all Notes are converted, ST Holding II will own 54.2% of the outstanding Common Shares. These calculations do not give effect to Common Shares that may be issued under the Employee Stock Plan or pursuant to options granted to members and professionals of the Supervisory Board.

(2) On June 16, 1999, the Company effected a 2:1 stock split.

ST Holding is 50% owned by a group of French shareholders that are indirectly controlled by the French government and 50% owned by a group of Italian shareholders that are indirectly controlled by the Italian government. The group of French shareholders is comprised of France Telecom, the French state-controlled telephone company, and CEA-Industrie, a corporation controlled by the French atomic energy commission, who hold through FT1CI. The group of Italian shareholders is represented by MEI-Microelettronica Italiana s.r.l. ("MEI"), an Italian holding company owned by Istituto per la Ricostruzione Industriale-IRI S.p.A. ("I.R.I."), the holding company for Italian state-owned industrial and commercial interests, and Comitato per l'intervento nella SIR ed in settori ad alta tecnologia ("Comitato SIR"). As of June 18, 1999, the interest previously held by Comitato SIR was transferred to Ministero del Tesoro del Bilancio e della Programmazione Economica-Dipartimento del Tesoro, the Italian Ministry of Treasury. The shares of France Telecom are listed on the ParisBourse and the New York Stock Exchange. Certificats d'investissement of CEA-Industrie are listed on the ParisBourse.

The officers and directors of the Company as a group do not own a material number of Common Shares.

The chart below illustrates the current shareholding structure as of June 10, 1999:

This information was represented by an organizational chart in the original document.

Description of Shareholding Structure: STMicroelectronics N.V. is owned 55.9% by STMicroelectronics Holding II B.V. and 44.1% by the public. STMicroelectronics Holding II B.V. is a wholly-owned subsidiary of STMicroelectronics Holding N.V. which is 50% owned by a group of French shareholders and 50% owned by a group of Italian shareholders. The French shareholder, FT1CI, is owned 51% by CEA-Industrie and 49% by France Telecom, respectively. The Italian shareholder, MEI, is owned 50.1% and 49.9% by I.R.I. and Comitato SIR(1), respectively.

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(1) As of June 18, 1999, the interest previously held by Comitato SIR was transferred to Ministero del Tesoro del Bilancio e della Programmazione Economica-Dipartimento del Tesoro, the Italian Ministry of the Treasury.

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 ST 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 ST 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 ST 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.

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 ST Holding and the Company. Under the Holding Shareholders Agreement, the Supervisory Board of ST Holding, which is composed of three representatives of the French Owner and three representatives of the Italian Owner, must give its prior approval before ST 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 ST Holding. In addition, the Supervisory Board of ST 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, ST 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 ST Holding or the Company is intended to be provided pro rata based on the parties' respective shareholdings in ST 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. See "Item 1: Description of Business--State Support for the Semiconductor Industry."

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 ST 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 ST Holding.

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 ST Holding and maintain, together, ownership of the majority of ST Holding's issued voting shares. As a result of the merger of FT1CI and FT2CI, the rights and obligations of FT2CI under the Holdings Shareholders Agreement have been transferred to FT1CI. The admission of a third party to the share capital of ST Holding, whether through the sale of ST Holding's outstanding shares or through the issue by ST 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 is maintained until at least December 31, 1998. Pursuant to a Memorandum of Understanding dated February 24, 1998, the arrangements set forth in the Holding Shareholders Agreement were extended until at least December 31, 1998. The Company has also been informed that the Shareholders Agreement between FT1CI and Thomson-CSF relating to the management of their respective holdings in ST Holding and the Company terminated on October 6, 1997.

The Company has been informed that the shareholders of FT1CI have also entered into a separate shareholder agreement that requires the consent of the Board of Directors of each such company to certain actions taken by ST Holding, the Company and its subsidiaries. These agreements provide for the management of the interests of CEA-Industrie and France Telecom in ST Holding and the Company, with the object of defining between them the positions, strategies and decisions to be taken by the French Owner in ST Holding affecting the management of ST Holding, and the Company and its subsidiaries. The Company is not a party to such agreement.

The agreement between the shareholders of FT1CI (CEA-Industrie and France Telecom) provides that the following acts with respect to ST 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 ST Holding or the Company, (ii) any change in the capital of ST Holding or the Company, or issuance, purchase or sale by ST 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 ST Holding or the Company, (iii) the liquidation or dissolution of ST Holding or the Company or the sale of all or an important and material part of the business or assets of ST 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 ST Holding or the Company participates or in which a proposal is made to participate, or the establishment by ST Holding or the Company of new companies or groups, (v) approval of the balance sheets and consolidated accounts of ST Holding, the Company and its subsidiaries as well as the policies of distributions of profits among the group, (vi) any agreement between ST 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 ST Holding or the Company and (viii) approval of strategic multi-year plans and annual consolidated budgets of ST 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 acquirer 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 a Commissaire du Gouvernement and a Controleur d'Etat for FT1CI. 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 (ii) to veto any board resolution or any decision of the president of FT1CI 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 is 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 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, ST Holding II and the Company entered into a registration rights agreement pursuant to which the Company agreed that, upon request from ST Holding II, the Company will file a registration statement under the Securities Act of 1933, as amended, to register Common Shares held by ST 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 ST Holding II the right to include its Common Shares in any registration statements covering offerings of Common Shares by the Company. ST 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 ST 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 ST Holding II and its affiliates own less than 10% of the Company's outstanding Common Shares.

The French and Italian shareholders of ST Holding have agreed in the Memorandum of Understanding dated February 24, 1998, which has not been modified, to continue to manage their interest in the Company through ST Holding until at least December 31, 1998, and accordingly, for so long as they hold their interests in ST Holding, they have undertaken (i) to jointly hold 100% of ST Holding's capital and voting rights, (ii) to maintain equality between the shareholdings of the French and Italian shareholders, (iii) to ensure that ST Holding maintains more than 50% 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 ST Holding's management bodies.

On May 31, 1999, the Company's shareholders at the annual general meeting approved the creation of 180,000,000 Preference Shares. These Preference Shares entitle a holder to full voting rights at any meeting of shareholders and to a preferential right to dividends. On May 31, 1998, the Company entered into an option agreement with ST Holding II, which provides that Preference Shares shall be issued to ST Holding II upon request subject to the adoption of a resolution of the Supervisory Board of the Company recognizing that a hostile takeover or similar action exists and giving its consent to the exercise of the option and upon payment of at least 25% of the par value of the Preference Shares to be issued. The option is contingent upon ST Holding II retaining at least 33% of the issued share capital of the Company.

Item 5: Nature of Trading Market

Common Shares

Since 1994, the Common Shares have been traded on the New York Stock Exchange under the symbol "STM" and on the ParisBourse and were quoted on SEAQ International. On June 5, 1998, the Common Shares were also listed for the first time on the Italian Stock Exchange, where they have been traded since that date.

The Common Shares have been included in the CAC 40, the principal index published by the SBF-ParisBourse, since November 12, 1997. The CAC 40 is derived daily by comparing the total market capitalization of 40 stocks included in the monthly settlement market of the ParisBourse to a baseline established on December 31, 1987. Adjustments are made to allow for expansion of the sample due to new issues. The CAC 40 indicates the trends in the French stock market as a whole and is one of the most widely followed stock price indices in France.

The table below indicates the range of the high and low prices in U.S. dollars for the Common Shares on the New York Stock Exchange and the high and low prices in euros for the Common Shares on the ParisBourse during each quarter in 1997, 1998 and to date 1999. In December 1994, the Company completed the Initial Public Offering of 21,000,000 Common Shares at an initial price to the public of $22.25 per share. On June 16, 1999, the Company effected a 2:1 stock split. The table below has been adjusted to reflect the split.

Calendar Period	New York Stock Exchange Price per Common Share		ParisBourse Price per Common Share(1)	
	High	Low	High	Low
1997				
First quarter	$ 40-7/16	$ 31-7/8	Euro 33.39	Euro 26.91
Second quarter	$ 44	$ 31-1/4	Euro 37.66	Euro 28.06
Third quarter	$ 49-17/32	$ 40-9/32	Euro 47.79	Euro 35.83
Fourth quarter	$ 47	$ 25-3/4	Euro 43.07	Euro 23.87
1998				
First quarter	$ 39-3/8	$ 25-5/8	Euro 37.24	Euro 23.63
Second quarter	$ 45-7/8	$ 32-1/4	Euro 42.46	Euro 29.42
Third quarter	$ 36-1/4	$ 22	Euro 33.26	Euro 18.37
Fourth quarter	$ 41-7/16	$ 17-15/16	Euro 34.99	Euro 15.02
1999				
First quarter	$ 53-13/16	$ 40-1/4	Euro 48.50	Euro 34.40
Second quarter (through June 23)	$ 72-1/2	$ 49	Euro 67.95	Euro 44.50

(1) For periods prior to January 1, 1999, the share prices on the ParisBourse have been converted into euros at the official exchange rate of Euro 1.00 = FRF 6.55957.

At December 31, 1998, there were 142,478,106 Common Shares issued and outstanding, of which 14,331,742 or 10.05% were registered in the Common Share registry maintained on the Company's behalf in New York.

Since June 5, 1998, the Common Shares have also been listed on the Italian Stock Exchange. The table below indicates the range of high and low prices in euros for the Common Shares on the Italian Stock Exchange, as adjusted for the 2:1 stock split.

Calendar Period	Italian Stock Exchange Price per Common Share(1)	
	High	Low
1998		
Second quarter (since June 5, 1998)	Euro 32.79	Euro 30.38
Third quarter	Euro 32.53	Euro 19.92
Fourth quarter	Euro 34.77	Euro 15.73
1999		
First quarter	Euro 46.53	Euro 34.96
Second quarter (through June 23)	Euro 67.23	Euro 45.94

(1) For periods to January 1, 1999, the share prices on the Italian Stock Exchange have been converted into euros at the official exchange rate of Euro 1.00 = Lit. 1,936.27.

Dividends

On May 31, 1999, the Company's shareholders approved the payment of a cash dividend with respect to the year ended December 31, 1998 of $0.16 per Common Share payable as of June 15, 1999 to shareholders of record on June 1, 1999.

Liquid Yield OptionTM Notes

The Liquid Yield OptionTM Notes ("LYONs") of the Company are traded on the New York Stock Exchange and the ParisBourse. The table below indicates the range of the high and low prices on the New York Stock Exchange and the high and low prices for the LYONs on the ParisBourse, in both cases as a percentage of principal amount at maturity, during each quarter in 1998 and to date in 1999.

	New York Stock Exchange Price per LYON		ParisBourse Price per LYON	
Calendar Period	High	Low	High	Low
1998				
Second quarter (since June 5, 1998)...	85-1/8%	83-1/2%	99%	85.5%
Third quarter.....	85-1/8%	80%	88.5%	72.1%
Fourth quarter.....	83%	80%	89%	75%
1999				
First quarter.....	94%	84%	97.5%	90%
Second quarter (through June 23).....	130%	94%	122.1%	101.3%

ParisBourse

The securities of most large public companies are listed on the Premier Marche with the Second Marche available for small and medium-sized companies. Both the Premier Marche and the Second Marche are operated by the SBF-ParisBourse (the "SBF"). Securities are also traded on the Marche Libre-OTC which is also operated by the SBF.

The Common Shares are listed on the Premier Marche. Shares listed on the ParisBourse are placed in one of four categories depending on the volume of transactions. The Common Shares are listed in the category known as Continu A, which includes the most actively traded shares (with a minimum daily trading volume of FF250,000 or twenty trades).

Official trading of listed securities on the ParisBourse is transacted through providers of investment services (investment companies and other financial institutions) and takes place continuously on each business day from 10:00 a.m. to 5:00 p.m., with a pre-opening session from 8:30 a.m. to 10:00 a.m. Any trade effected after the close of a stock exchange session will be recorded, on the next ParisBourse trading day, at the closing price for the relevant security at the end of the previous day's session. The SBF publishes a daily Official Price List that includes price information on each listed security. The ParisBourse has introduced continuous trading by computer for most listed securities.

Trading in the listed securities of an issuer may be suspended by the SBF if quoted prices exceed certain price limits defined by the regulations of the SBF. In particular, if the quoted price of a Continu A security varies by more than 10 percent from the previous day's closing price, trading may be suspended for up to 15 minutes. Further suspensions for up to 15 minutes are also possible if the price again varies by more than five percent. The SBF may also

suspend trading of a listed security in certain other limited circumstances, including, for example, the occurrence of unusual trading activity in such security.

Trades of securities listed on the Premier Marche of the ParisBourse are settled in either of two ways: in the cash settlement market or the monthly settlement market. The Common Shares are settled in the marche a reglement mensuel (monthly settlement market). In the monthly settlement market, the purchaser may elect to settle on the third trading day following the trade (reglement immediat or immediate settlement) or decide on the determination date (date de liquidation), which is the fifth trading day prior to the end of the month) either (i) to settle the trade no later than on the last trading day of such month or (ii) upon payment of an additional fee, to extend to the determination date of the following month the option either to settle no later than the last trading day of such month or to postpone further the selection of a settlement date until the next determination date (a procedure known as report). Such purchaser may decide to renew its option on each subsequent determination date upon payment of an additional fee. The majority of transactions in equity securities on the ParisBourse are settled on the monthly settlement market. In accordance with French securities regulation, any sale of shares executed on the monthly settlement market during the month of a dividend payment date is deemed to occur after payment of the dividend, and the purchaser's account will be credited with an amount equal to the dividend paid and the seller's account will be debited in the same amount.

Securities Trading in Italy

The Mercato Telematico Azionario (the "MTA"), the Italian automated screen-based quotation system on which the Company's Common Shares are listed, is organized and administered by Borsa Italiana S.p.A. ("Borsa Italiana") subject to the supervision and control of CONSOB, the public authority charged, inter alia, with regulating investment companies, securities markets and public offerings of securities in Italy to ensure the transparency and regularity of dealings and protect investors. Borsa Italiana was established to manage the Italian regulated financial markets (including the MTA) as part of the implementation in Italy of the EU Investment Services Directive pursuant to Legislative Decree No. 415 of July 23, 1996 (the "Eurosim Decree"). Borsa Italiana became operative in January 1998, replacing the administrative body Consiglio di Borsa, and has issued rules governing the organization and the administration of the Italian stock exchange, futures and options markets as well as the admission to listing on and trading in these markets. The shareholders of Borsa Italiana are primarily financial intermediaries.

A five-day rolling cash settlement period applies to all trades of equity securities in Italy effected on a regulated market. Any person, through an authorized intermediary, may purchase or sell listed securities following (i) in the case of sales, deposit of the securities; and (ii) in the case of purchases, deposit of 100% of such securities' value in cash, or deposit of listed securities or government bonds of an equivalent amount. No "closing price" is reported for the electronic trading system, but an "official price", calculated for each security as a weighted average of all trades effected during the trading day net of trades executed on a "cross-order" basis, and a "reference price", calculated for each security as a weighted average of the last 10% of the trades effected during such day, are reported daily.

If the opening price of a security (established each trading day prior to the commencement of trading based on bids received) differs by more than 10% (or such other amount established by Borsa Italiana) from the previous day's reference price, trading in that security will not be permitted until Borsa Italiana authorizes it. If in the course of a trading day the price of a security fluctuates by more than 5% from the last reported sale price (or 10% from the previous day's reference price), an automatic five minute suspension in the trading of that security will be declared. In the event of such a suspension, orders already placed may not be modified or canceled and new orders may not be processed. Borsa Italiana has the authority to suspend trading in any security, among other things, in response to extreme price fluctuations. In urgent circumstances, CONSOB may, where necessary, adopt measures required to ensure the transparency of the market, orderly trading and protection of investors.

Italian law requires that trading of equity securities, as well as any other investment services, may be carried out on behalf of the public only by registered securities dealing firms and banks (with minor exceptions). Banks and

investment services firms organized in a member nation of the EU are permitted to operate in Italy provided that the intent of the bank or investment services firm to operate in Italy is communicated to (i) Bank of Italy and to (ii) Bank of Italy and CONSOB, respectively, by the competent authority of the member state. Non-EU banks and non-EU investment services firms may operate in Italy subject to a specific authorization granted by decree of the Italian Ministry of Treasury and CONSOB, respectively. The settlement of stock exchange transactions is facilitated by Monte Titoli.

The settlement of stock exchange transactions is facilitated by Monte Titoli, a centralized securities clearing system owned by the Banca d'Italia and certain major Italian banks and financial institutions. Almost all Italian banks and some registered securities dealing firms have securities accounts with Monte Titoli. Beneficial owners of shares may hold their interests through specific deposit accounts with any depositary having an account with Monte Titoli. Beneficial owners of shares held with Monte Titoli may transfer their shares, collect dividends, create liens and exercise other rights with respect to those shares through such accounts.

Participants in Euroclear and Cedelbank may hold their interests in shares and transfer the shares, collect dividends and exercise their shareholders' rights through Euroclear and Cedelbank. A holder may require Euroclear and Cedelbank to transfer its shares to an account of such holder with an Italian bank or any authorized broker having an account with Monte Titoli.

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 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 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 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").

Withholding Tax

Dividends distributed by the Company are subject to a withholding tax imposed by The Netherlands at a rate of, generally, 25%. The expression "dividends distributed by the Company" as used herein includes, but is not limited to:

(i) distributions in cash or in kind, deemed and constructive distributions and repayments of paid-in capital not recognized for Netherlands dividend withholding tax purposes;

(ii) liquidation proceeds, proceeds of redemption of Common Shares or, as a rule, consideration for the repurchase of Common Shares by the Company in excess of the average paid-in capital recognized for Netherlands dividend withholding tax purposes;

(iii) the par value of Common Shares issued to a Holder of Common Shares or an increase of the par value of Common Shares, as the case may be, to the extent that it does not appear that a contribution, recognized for Netherlands dividend withholding tax purposes, has been made or will be made; and

(iv) partial repayment of paid-in capital, recognized for Netherlands dividend withholding tax purposes, if and to the extent that there are net profits ("zuivere winst"), unless the general meeting of shareholders of the Company has resolved in advance to make such repayment and provided that the par value of the Common Shares concerned has been reduced by an equal amount by way of an amendment of the Articles of Association.

If a Holder of Common Shares is resident in a country other than The Netherlands and if a double taxation convention is in effect between The Netherlands and such country, such Holder may, depending on the terms of such double taxation convention, be eligible for a full or partial exemption from, or refund of, Netherlands dividend withholding tax.

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 Common 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 (as opposed to the dividends withholding tax discussed above) 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 have an enterprise or an interest in an enterprise that is, in whole or in part, carried on through a permanent establishment or a permanent representative in The

Netherlands and to which enterprise or part of an enterprise, as the case may be, the Common Shares are attributable; and

(b) the non-resident Shareholder does not have a substantial interest or a deemed substantial interest in the Company or, in the event the Shareholder does have such an interest, it forms part of the assets of an enterprise.

Generally, a Shareholder will not have a substantial interest if he, his spouse, certain other relatives (including foster children) or certain persons sharing his household, do not hold, alone or together, whether directly or indirectly, the ownership of, or certain other rights over, shares representing five per cent or more of the total issued and outstanding capital (or the issued and outstanding capital of any class of shares) of the Company or rights to acquire shares, whether or not currently issued, that represent at any time (and from time to time) five percent or more of the total issued and outstanding capital (or the issued and outstanding capital of any class of shares) of the Company or the ownership of certain profit participating certificates that relate to five percent or more of the annual profit of the Company and/or to five percent or more of the liquidation proceeds of the Company. A deemed substantial interest is present if (part of) a substantial interest has been disposed of, or is deemed to have been disposed of, on a non-recognition basis.

Net Wealth Tax

A non-resident individual Shareholder is not subject to Netherlands net wealth tax with respect to the Shares, provided that the non-resident Shareholder does not have an enterprise or an interest in an enterprise that is, in whole or in part, carried on through a permanent establishment or a permanent representative in The Netherlands and to which enterprise or part of an enterprise, as the case may be, the Common Shares are attributable.

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, unless:

(a) the non-resident Shareholder at the time of the gift has or at the time of his death had an enterprise or an interest in an enterprise that is or was, in whole or in part, carried on through a permanent establishment or a permanent representative in The Netherlands and to which enterprise or part of an enterprise, as the case may be, the Common Shares are attributable; or

(b) in the case of a gift of Common Shares by an individual Shareholder who at the time of the gift was neither resident nor deemed to be resident in The Netherlands, the death of such individual occurs within 180 days after the date of the gift, while such individual is resident or deemed to be resident in The Netherlands.

United States Taxation

The following discussion is a summary of certain U.S. federal income tax consequences of the ownership of Common Shares by U.S. Holders, as defined below. This summary applies only to a beneficial owner of Common Shares (a) who owns, directly or indirectly, less than 10% of the voting stock of the Company, (b) who is (i) a citizen or resident of the United States for U.S. federal income tax purposes, (ii) a U.S. domestic corporation or (iii) otherwise subject to U.S. federal income taxation on a net income basis in respect of the Common Shares, (c) who holds the Common Shares as capital assets, (d) whose functional currency is the U.S. dollar, (e) who is a resident of the United

States and not also a resident of The Netherlands for purposes of the Convention, (f) who is entitled under the "limitation on benefits" provisions contained in the Convention to the benefits of the Convention and (g) who does not have a permanent establishment or fixed base in The Netherlands (a "U.S. Holder"). Certain holders (including, but not limited to, United States expatriates, tax-exempt organizations, persons subject to the alternative minimum tax, securities broker-dealers and certain other financial institutions, persons holding the Common Shares in a hedging transaction or as part of a straddle or conversion transaction or holders whose functional currency is not the U.S. dollar) may be subject to special rules not discussed below. Because this is a general summary, prospective purchasers are advised to consult their own tax advisors with respect to the U.S. federal, state, local and applicable foreign tax consequences of the purchase, ownership and disposition of Common Shares.

This summary is based on the Internal Revenue Code of 1986, as amended (the "Code"), the Convention, judicial decisions, administrative pronouncements and existing and proposed Treasury regulations as of the date hereof, all of which are subject to change, possibly with retroactive effect.

Dividends

For U.S. federal income tax purposes, the gross amount of distributions made by the Company with respect to the Common Shares (including the amount of any Netherlands taxes withheld therefrom) will generally be includable in the gross income of a U.S. Holder in the year received as foreign source dividend income to the extent that such distributions are paid out of the Company's current or accumulated earnings and profits as determined under U.S. federal income tax principles. To the extent, if any, that the amount of any such distribution exceeds the Company's current or accumulated earnings and profits, it will be treated first as a tax-free return of the U.S. Holder's tax basis in the Common Shares (thereby increasing the amount of any gain or decreasing the amount of any loss realized on the subsequent sale or disposition of such Common Shares) and thereafter as capital gain. No dividends received deduction will be allowed with respect to dividends paid by the Company. The amount of any distribution paid in Dutch guilders will be equal to the U.S. dollar value of such Dutch guilders on the date of distribution, regardless of whether the payment is in fact converted into U.S. dollars at that time. Gain or loss, if any, realized on the sale or other disposition of such Dutch guilders will be U.S. source ordinary income or loss. The amount of any distribution of property other than cash will be the fair market value of such property on the date of distribution.

Subject to certain limitations, Netherlands taxes withheld from a distribution at the rate provided in the Convention will be eligible for credit against a U.S. Holder's U.S. federal income tax liability. Under current Dutch law, the Company under certain circumstances may be permitted to deduct and retain from such withholding a portion of the amount that would otherwise be required to be remitted to the taxing authorities in The Netherlands. This amount generally may not exceed 3% of the total dividend distributed by the Company. To the extent that the Company has withheld an amount from dividends paid to shareholders which it then is not required to remit to any taxing authority in The Netherlands, such amount in all likelihood would not qualify as a creditable tax for U.S. tax purposes. The Company will endeavor to provide to U.S. Holders information concerning the extent to which it has applied the reduction described above to dividends paid to U.S. Holders. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, dividends distributed by the Company with respect to the Common Shares will generally constitute "passive income" or, in the case of certain U.S. Holders, "financial services income." The rules relating to the determination of the U.S. foreign tax credit are complex and holders should consult their tax advisors to determine whether and to what extent a credit would be available. U.S. Holders that do not elect to claim a foreign tax credit may instead claim a deduction for all foreign taxes paid in the taxable year.

Sale or Other Disposition of Common Shares

Upon a sale or other disposition of Common Shares, a U.S. Holder will recognize gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the amount realized and the U.S. Holder's tax basis

in such Common Shares. Such gain or loss will be capital gain or loss. Any such gain or loss, if any, will generally be U.S. source gain or loss. In the case of a U.S. Holder who is an individual, any capital gain generally will be subject to U.S. federal income tax at preferential rates if specified minimum holding periods are met.

U.S. Information Reporting and Backup Withholding

Dividend payments with respect to Common Shares and proceeds from the sale, exchange or redemption of Common Shares may be subject to information reporting to the Internal Revenue Service ("IRS") and possible U.S. backup withholding at a 31% rate. Backup withholding will not apply, however, to a holder who furnishes a correct taxpayer identification number or certificate of foreign status and makes any other required certification or who is otherwise exempt from backup withholding. Persons required to establish their exempt status generally must provide such certification on IRS Form W-9 (Request for Taxpayer Identification Number and Certification) in the case of U.S. persons and on IRS Form W-8 (Certificate of Foreign Status) in the case of non-U.S. persons. Finalized Treasury regulations have generally expanded the circumstances under which information reporting and backup withholding may apply for payments made after December 31, 2000. Holders of Common Shares should consult their tax advisors regarding the application of the information reporting and backup withholding rules, including the finalized Treasury regulations.

Amounts withheld as backup withholding may be credited against a holder's U.S. federal income tax liability, and a holder may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the IRS and furnishing any required information.

Item 8: Selected Consolidated Financial Data

Reference is made to the information appearing under the caption "Selected Consolidated Financial Data" on page 27 of the Registrant's 1998 Annual Report, 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 28 through 40 of the Registrant's 1998 Annual Report, which information is hereby incorporated by reference.

Item 9A: Quantitative and Qualitative Disclosures About Market Risk

The principal market risks to which the Company is exposed are changes in interest rates and foreign currency exchange rates. The Company's exposure to market risk for changes in interest rates relates primarily to the Company's investment portfolio and long-term debt obligations.

The Company places its cash and cash equivalents with high credit quality financial institutions. The Company manages the credit risks associated with 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. The Company is averse to principal loss and ensures the safety and preservation of its invested funds by limiting default risk, market risk and reinvestment risk. The Company primarily enters into debt obligations to support general corporate and local purposes including capital expenditures and working capital needs.

The Company enters into forward contracts and foreign currency options to protect against the volatility of foreign currency exchange rates and to cover a portion of both its probable anticipated, but not firmly committed, transactions and transactions with firm foreign currency commitments. The risk of loss associated with purchased options is limited to premium amounts paid for the option contracts. The risk of loss associated with forward contracts is equal to the exchange rate differential from the time the contract is made until the time it is settled.

Forward contracts outstanding as of December 31, 1998 have remaining terms of one to 25 months, maturing mainly during first quarter 1999, and amount to $342.5 million forward sale of U.S. dollars, $20.1 million forward purchase of U.S. dollars, $200.4 million forward sale of other foreign currencies, and $71.8 million forward purchase of other foreign currencies. There were no foreign currency options outstanding as of December 31, 1998. The principal currencies covered are the German mark, the Singapore dollar, the Japanese yen, the French franc, the Swiss franc and the Italian lira.

The Company does not anticipate any material adverse effect on its financial position, results of operations or cash flow resulting from the use of these instruments in the future. There can be no assurance that these strategies will be effective or that transaction losses can be minimized or forecasted accurately. The Company does not use financial instruments for speculative or trading purposes.

The information below summarizes the Company's market risks associated with cash equivalents, debt obligations, and other significant financial instruments as of December 31, 1998. The information below should be read in conjunction with Notes 14 and 23 to the Consolidated Financial Statements.

The table below presents principal amounts and related weighted-average interest rates by year of maturity for the Company's investment portfolio and debt obligations:

	1999	2000	2001	2002	2003	Thereafter	Total	Fair value at December 31, 1998
	(in thousands of U.S. dollars, except percentages)							
Assets:								
Cash equivalents.....	$1,100,752	--	--	--	--	--	$1,100,752	$1,100,752
Average interest rate.....	6.63%	--	--	--	--	--	6.63%	
Long-term debt:								
Fixed rate.....	$45,245	$109,936	$102,460	$77,741	$9,200	$456,527	$801,109	$802,565
Average interest rate.....	4.12%	4.84%	5.29%	5.45%	5.00%	1.91%	3.28%	

Long-term debt by currency:

	Amount in thousands of original currency	Amount in thousands of U.S. dollars
U.S. dollar.....	455,885	$ 455,885
Italian lira (in million lira).....	383,109	231,752
French franc.....	552,347	98,628
Other currencies.....	--	14,844
Total in U.S. dollars.....		$ 801,109

As of December 31, 1997, fixed-rate debt of $415.0 million was outstanding, with a fair value of $405.4 million, at an average interest rate of 5.19%. Additionally, cash equivalents of $702.2 million were outstanding, at an average interest rate of 5.64%.

The following table provides information about the Company's foreign exchange forward contracts at December 31, 1998:

	Notional Amount(1)	Average Contract Rate	Fair Value in thousands of U.S. dollars
Foreign Currency Forward Exchange Contracts to buy (sell) U.S. dollars for foreign currencies:			
Deutsche mark	(14,000)	1.692	$ (14,050)
Malaysian ringgit	4,672	3.796	4,667
French franc	(120,000)	5.610	(120,504)
Italian lira	(115,000)	1,662.102	(115,440)
Singapore dollar	(78,000)	1.641	(77,391)
Total net in U.S. dollars	(322,328)		$ (322,718)
Foreign Currency Forward Exchange Contracts to buy (sell) German marks for foreign currencies:			
U.S. dollar	(80,000)	1.702	$ (47,826)
Malaysian ringgit	661	2.278	396
French franc	6,910	1.016	4,213
Total net in German marks	(72,429)		
Total net in U.S. dollars	(43,376)		$ (43,217)
Foreign Currency Forward Exchange Contracts to buy (sell) Japanese yen for foreign currencies:			
U.S. dollar	(150,000)	121.550	$ (1,313)
Italian lira	200,000	14.407	1,775
Malaysian ringgit	12,000	31.250	101
French franc	650,000	21.693	5,736
Singapore dollar	(2,950,000)	71.686	(25,628)
Total net in Japanese yen	(2,238,000)		
Total net in US dollars	(19,461)		$ (19,329)
Foreign Currency Forward Exchange Contracts to buy (sell) Swiss francs for foreign currencies:			
U.S. dollar	55,001	1.356	$ 40,265
Italian lira	1,500	1,218.500	1,107
French franc	3,900	4.113	2,856
Singapore dollar	277	1.227	199
Total net in Swiss francs	60,678		
Total net in U.S. dollars	44,355		$ 44,427
Foreign Currency Forward Exchange Contracts to buy (sell) Italian lira for foreign currencies (in million lira):			
U.S. dollar	(200,000)	1,738.979	$ (125,137)
Malaysian ringgit	103	425.710	63
Singapore dollar	934	1,002.000	559
Total net in Italian lira	(198,963)		
Total net in U.S. dollars	(120,358)		$ (124,515)

(1) Amounts in thousands of original currency (Italian lira expressed in millions).

The Company also entered into additional forward contracts as of December 31, 1998, for a countervalue of $19.4 million denominated in various currencies including pounds sterling, French francs, Spanish pesetas and European Currency Units, which approximated the fair value of such contracts.

The notional amount of cross-currency contracts outstanding at December 31, 1997 was $305.2 million, which approximated the fair value of such contracts. These contracts expired in 1998.

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 under Dutch law, the members of the Supervisory Board must serve the interests of the Company and its business.

The Supervisory Board consists of such number of members as is 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-third of the outstanding share capital is present or represented.

Pursuant to various shareholders agreements, the membership of the Supervisory Board of the Company must include three members designated by the French shareholders from the Board of Directors of FT1CI (following the merger of FT2CI and FT1CI, a corporation owned by CEA-Industrie and France Telecom), and three members designated by the Italian shareholders (of whom I.R.I. has the right to appoint two members and Ministero del Tesoro (following transfer of the interest previously held by Comitato SIR on June 18, 1999) has the right to appoint one member). See "Item 4: Control of Registrant--Shareholder Agreements." The Supervisory Board of the Company currently includes two members who are not affiliated with ST Holding and its direct and indirect shareholders.

The members of the Supervisory Board 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 has authorized (i) the establishment of a secretariat (headed by an individual approved by it and appointed for a one-year renewable term) whose functions are to: (a) assist the Chairman and Vice Chairman of the Supervisory Board in the operations of the Board, (b) implement and oversee the execution within the Company of decisions adopted by the Supervisory Board, and (c) 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 the members of the Supervisory Board of assistants 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. In addition, the Supervisory Board has established procedures for the preparation of Supervisory Board resolutions and the setting of the 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 re-elected. A member of the Supervisory Board must retire at the ordinary general meeting of shareholders held in the year in which he reaches the age prescribed by Dutch law for retirement of a supervisory director (currently at age 72). 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 group of French shareholders and the group of Italian shareholders, as shareholders of ST Holding, also includes certain provisions requiring the approval of the Supervisory Board of ST Holding for certain actions by ST Holding, the Company and its subsidiaries. In addition, pursuant to the shareholders agreement among the group 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 FT1CI and is subject to a veto by certain Ministries of The Republic of France. 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.

The members of the Supervisory Board are:

Name	Position	Year Appointed	Age
Jean-Pierre Noblanc	Chairman	1994	60
Bruno Steve	Vice Chairman	1989	57
Tom de Waard	Member	1998	52
Remy Dullieux	Member	1993	48
Riccardo Gallo	Member	1997	55
Francis Gavois	Member	1998	63
Alessandro Ovi	Member	1994	55
Robert M. White	Member	1996	60

Jean-Pierre Noblanc has been the Chairman of the Supervisory Board since May 31, 1999, and has been a member of the Supervisory Board since 1994. He served as Vice Chairman of the Supervisory Board from June 1996 to May 31, 1999. 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. Mr. Noblanc holds a degree in engineering from the Ecole Superieure d'Electricite and a doctoral degree in 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.

Bruno Steve has been a member of the Company's Supervisory Board since 1989 and its Chairman until May 31, 1999. 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 17 years. Mr. Steve is currently Chairman of MEI, President of the board of statutory auditors of Alitalia S.p.a. and Iritecna S.p.a. in liquidazione and member of statutory auditors of Alitalia Express S.p.A., Stretto di Messina S.p.A. and Sigma S.p.A. He served as the Chief

Operating Officer of Finmeccanica from 1988 to July 1997 and Chief Executive Officer from May 1995 to July 1997. 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 Telecom Italia, I.R.I.'s holding company for the telecommunications sector.

Tom de Waard was appointed to the Supervisory Board in 1998. Mr. de Waard is a partner of Stibbe Simont Monahan Duhot, a leading Dutch law firm, where he has held several positions since 1979 and has gained extensive experience working with major international companies, particularly with respect to corporate finance. He is a member of the Amsterdam bar and received his law degree from Leiden University in 1979.

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.

Riccardo Gallo was appointed to the Supervisory Board in 1997. He is Associate Professor of Industrial Economics at the Engineering Faculty of "La Sapienza" University in Rome. He is also a member of the board of directors of Comitato Sir. From 1982 to 1991, he served as Director General at the Italian Ministry of the National Budget. In the early 1990s, he served as Vice Chairman of I.R.I. In 1994, he was appointed by the Italian Minister of Industry as Extraordinary Commissioner of Fidia, a research-oriented pharmaceutical company.

Francis Gavois was appointed to the Supervisory Board in 1998. Mr. Gavois is the Chairman of the Supervisory Board of ODDO et Cie. He is also a member of the Board of Directors of Plastic Omnium and the Supervisory Board of the Consortium de Realisation (CDR). From 1984 to 1997, Mr. Gavois held several positions, including Chairman of the Board of Directors and President of Banque Francaise du Commerce Exterieur (BFCE). Prior to that time Mr. Gavois held positions in the French government. He is a graduate of the Institut d'Etudes Politiques de Paris and the Ecole Nationale d'Administration.

Alessandro Ovi has been a member of the Supervisory Board since 1994. He received a doctoral degree in Nuclear Engineering from the Politecnico in Milan and a masters degree in operations research from Massachusetts Institute of Technology. He is currently the Chief Executive Officer of Tecnitel S.p.A., a subsidiary of Telecom Italia Group. 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 Italtel (a Telecom Italia and Siemens Company), MEI, Sirti, Carnegie Mellon University and Corporation Development Committee of the Massachusetts Institute of Technology.

Robert M. White was appointed to the Supervisory Board in June 1996. Mr. White is a University Professor and Department Head at Carnegie Mellon University and serves as a member of several corporate boards, including those of Ontrack Data Systems, Inc., and Zilog, Inc. He is a member of the U.S. National Academy of Engineering. 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 Massachusetts Institute of Technology.

The Supervisory Board has established an Audit Committee comprised of Messrs. Dullieux, Ovi and an independent director, Mr. White, and a Compensation Committee comprised of the Chairman (Mr. Noblanc), the Vice Chairman (Mr. Steve) and an independent director (Mr. White).

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 must obtain prior approval 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 multi-year plans of the Company and the budget for the 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. The Management Board must seek approval 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 and which the Supervisory Board considers to be of material significance. 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 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 shareholders 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 the Company's French and Italian subsidiaries; 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 Company's Articles of Association provide that the Management Board must obtain shareholder approval prior to (i) the sale of all or 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 and which the Supervisory Board considers to be of material significance. See "Item 1: Description of Business" 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 at the general shareholders' meeting by a majority of the votes cast at a meeting where at least one-third 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. His term expires in 2002.

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

The executive officers of the Company support the Management Board in its management of the Company, without prejudice to the Management Board's ultimate responsibility. 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:

Name	Position	Years with the Company(1)	Years in Semiconductor Industry	Age
Pasquale Pistorio	President and Chief Executive Officer	19	35	63
Georges Auguste	Corporate Vice President, Total Quality and Environmental Management	12	25	50
Laurent Bosson	Corporate Vice President, Front-end Manufacturing	16	16	56
Carlo Bozotti	Corporate Vice President, Memory Products Group	22	22	46
Salvatore Castorina	Corporate Vice President, Discrete and Standard ICs Group	17	33	62
Alain Dutheil	Corporate Vice President, Strategic Planning and Human Resources	16	29	54
Pietro Fox	Corporate Vice President, European Region	35	41	61
Philippe Geyres	Corporate Vice President, Consumer and Microcontroller Group	15	23	47
Maurizio Ghirga	Corporate Vice President, Chief Financial Officer	16	16	61
Jean-Claude Marquet	Corporate Vice President, Asia/Pacific Region	13	32	57
Pier Angelo Martinotti	Corporate Vice President, New Ventures Group	18	31	58
Joel Monnier	Corporate Vice President, Central Research and Development	16	25	53
Piero Mosconi	Corporate Vice President, Treasurer	35	35	59
Richard Pieranunzi	Corporate Vice President, Americas Region	18	33	60
Aldo Romano	Corporate Vice President, Telecommunications, Peripherals and Automotive Group	33	33	58
Giordano Seragnoli	Corporate Vice President, Back-end Manufacturing and Subsystems Products Group	34	36	62
Keizo Shibata	Corporate Vice President, Japan Region	7	34	62
Enrico Villa	Corporate Vice President, Region Five	31	31	58

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

Pasquale Pistorio has more than 35 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.

Georges Auguste has served as Corporate Vice President, Total Quality and Environmental Management since 1999. Mr Auguste received a degree in engineering from the Ecole Superieure d'Electricite (SUPELEC) in 1974 and

a diploma in business administration from the Caen University in 1976. Prior to joining the Company, Mr. Auguste worked with Philips Components from 1974 to 1986, in various positions in the field of manufacturing. From 1990 to 1997 he headed the Company's operations in Morocco and from 1997 to 1999 Mr. Auguste served as director of Total Quality and Environmental Management.

Laurent Bosson has served as Corporate Vice President, Front-end Manufacturing and VLSI Fabs since 1989 and from 1992 to 1996 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, Memory Products since August 1998. 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. Mr. Bozotti has served as Corporate Vice President, Memory Products since August 1998, after having served as Corporate Vice President, Europe and Headquarters Region from 1994 to 1998.

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 General Manager of Transistors in Catania and became the General Manager of the Company's Discrete Division in 1989.

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. 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.

Pietro Fox has served as Corporate Vice President, Europe Region since October 1998. He graduated from the Istituto Industriale A. Rosse in Vicenza in 1957 and studied Electrical Engineering at the Burrough Polytechnic in London. His professional career started in 1958 at Standard Telephones & Cables (the English ITT affiliate) where he worked as an Applications Engineer in the semiconductor field. In 1962, he returned to Italy to work as Product Marketing Engineer for semiconductors at Raytheon-Elsi SpA. His career in the Product Marketing sector of SGS Fairchild SpA, the company that subsequently became STMicroelectronics, began in 1964. In September 1971, he then became Marketing Manager for North America and was appointed President of the newly created SGS-Ates Semiconductor Corp. In March 1976, Mr. Fox moved to Germany and became General Manager of SGS-Thomson Microelectronics GmbH in Munich. In 1997, Mr. Fox gained increased responsibility in the European Telecom field when he became Vice President of the Telecom Business Unit for Europe.

Philippe Geyres has served as Corporate Vice President, General Manager Consumer and Microcontroller Group (formerly 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 French National 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.

Richard Pieranunzi has served as Corporate Vice President, Americas Region since August 1996. Mr. Pieranunzi received his BSEE from the University of Rhode Island, and started his career in process engineering. Later, he joined Motorola's international marketing organization, including in Europe where he held management positions in sales and strategic marketing and applications. Mr. Pieranunzi joined SGS Semiconducteurs in 1981 as Marketing and Sales Manager and, upon the formation of the Company in 1987, he became Vice President Marketing and Sales for the U.S. organization. For three years, Mr. Pieranunzi headed the Company's Corporate Strategic Marketing and Corporate Key Account programs.

Aldo Romano has served as Corporate Vice President, General Manager Telecommunications, Peripherals and Automotive Group (formerly Dedicated Products Group) since 1987. Mr. Romano is also Managing Director of the Company's Italian subsidiary. A graduate in Electronic Engineering from the University of Padua 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 Products Group 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 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 the Company, 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.

Enrico Villa has served as Corporate Vice President, Region Five since January 1, 1998. Mr. Villa has served in various capacities within the Company since 1968 after obtaining a degree in Business Administration from the University of Genoa and has 30 years of experience in the semiconductor industry. He is currently a member of the European Electronics Component Association ("EECA") for which he is now Chairman of the European Semiconductor Council as well as Chairman for Europe at the Joint Steering Committee of the World Semiconductor Council.

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 payable for 1998 to the members of the Supervisory Board by the Company was approximately $240,000. The amount of cash compensation for 1998 paid to the executive officers of the Company and members of the Management Board as a group by the Company and its subsidiaries was approximately $7.5 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 the Management Board were also covered in 1998 under certain group life and medical insurance programs provided by the Company. The aggregate additional amount set aside by the Company in 1998 to provide pension, retirement or similar benefits for executive officers and the Management Board of the Company as a group is estimated to have been approximately $3.3 million.

Item 12: Options to Purchase Securities from Registrant or Subsidiaries

Stock Option Plans

The following description of the Company's stock options plans does not include adjustments for the 2:1 stock split effected on June 16, 1999.

As of June 10, 1999, options to purchase up to an aggregate of 18,000 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. Of such outstanding options, 8,000 are held by executive officers of the Company as a group. All options outstanding under the 1989 Stock Option Plan expire 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 has granted a total of 2,495,500 options pursuant to the 1995 Stock Option Plan as follows:

- The Company granted options to purchase 1,200,000 Common Shares with an exercise price per Common Share of $36.25, half of which vested and became exercisable on March 1, 1999 and half of which will vest and become exercisable on March 1, 2000. All such options will expire on March 1, 2004. As of June 10, 1999, 893,215 options were outstanding.

- The Company granted options to purchase 645,500 Common Shares with an exercise price per Common Share of $85.375, which will vest and become exercisable on September 12, 2001 and will expire on September 12, 2005. As of June 10, 1999, 638,575 options were outstanding.

- The Company granted options to purchase 650,000 Common Shares with an exercise price per Common Share of $72.1875, which will vest and become exercisable on July 28, 2002 and will expire on July 28, 2006. As of June 10, 1999, 648,265 options were outstanding.

As of June 10, 1999, of the total options outstanding under the 1995 Stock Option Plan, 626,050 options were held by executive officers as a group.

In June 1996, the general meeting of shareholders approved the granting of options to members and professionals of the Supervisory Board to purchase approximately 72,000 Common Shares of the Company over a period of three years, beginning in 1996. The following options have been granted:

- The Company granted to members and professionals of the Supervisory Board options to purchase 33,000 Common Shares with an exercise price per Common Share of $54.00, which expire on October 22, 2004. As of June 10, 1999, 23,000 options were outstanding.

- The Company granted to members and professionals of the Supervisory Board options to purchase 15,000 Common Shares with an exercise price per Common Share of $85.375, which expire on September 12, 2005. As of June 10, 1999, 13,500 options were outstanding.

- The Company granted to members and professionals of the Supervisory Board options to purchase 15,000 Common Shares with an exercise price per Common Share of $72.1875, which expire on July 28, 2006. As of June 10, 1999, 15,000 options were outstanding.

Employee Stock Plan

In 1998, the Company implemented an Employee Stock Plan under which employees have subscribed for a total of 288,299 Common Shares at a 12% discount from the public offering price used in the Share Offering ($72.1875 per Common Share). These Shares were subject to a six-month holding period which expired on December 10, 1998.

Item 13: Interest of Management in Certain Transactions

One of the Company's key customers is Thomson Multimedia. Thomson Multimedia and Thomson-CSF were indirect shareholders of the Company until October 1997 and 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, videocassette 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 Groupement d'Interet Economique ("GIE") with Thomson Multimedia to conduct joint research and development on advanced television products, including digital television products. The Company and Thomson Multimedia share equally 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 GIE. CNET is a research laboratory that is wholly owned by France Telecom, one of the indirect shareholders of the Company. See "Item 1: Description of Business--Research and Development" and "Item 4: Control of Registrant." The research center is housed at the Company's Crolles, France manufacturing facility, and is developing submicron process technologies. The joint venture between the Company and CNET was created in 1990 before France Telecom became an indirect shareholder of the Company.

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, a research laboratory that is a department of CEA- Industrie, the parent of one of the indirect shareholders of the Company. See "Item 4: Control of Registrant." The objectives of the cooperation is to develop basic 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 was based upon a multi-year plan through 1998, of which the Company bore half of the total cost. The cooperation with GRESSI was superseded, as of January 1, 1999, by a tripartite cooperation arrangement between the Company, CNET and LETI, within the framework of an extended GIE named Centre Commun de Microelectronique de Crolles. This cooperation is directed towards sub 0.18 micron technologies with a view to preparing the technology to begin production of 12-inch wafers and associated wafer fabrication processes. The tripartite cooperation is intended to last until the end of 2002 and the related contractual arrangements are in the process of being finalized.

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 ST 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 $5.6 million in 1998.

PART II

Item 14: Description of Securities to be Registered

Not applicable.

PART III

Item 15: Default Upon Senior Securities

None.

Item 16: Changes in Securities and Changes in Security for Registered Securities and Use of Proceeds

On May 31, 1999, the Company's shareholders approved a 2:1 stock split and simultaneous redenomination of the par value of each Common Share to Euro 3.12. The changes became effective June 16, 1999. Shareholders authorized the creation of 180,000,000 Preference Shares which would entitle a holder to full voting rights at any meeting of shareholders and to a preferential right to dividends and designated the Supervisory Board as the corporate body authorized to issue the Preference Shares. See "Item 4: Control of Registrant -- Shareholder Agreements." After these changes in the Company's authorized share capital, its share capital was Euro 1,809,600,000, consisting of 400,000,000 Common Shares and 180,000,000 Preference Shares of Euro 3.12 nominal value each.

PART IV

Item 17: Financial Statements

Not applicable.

Item 18: Financial Statements

See "Item 19: Financial Statements and Exhibits" for a list of financial statements filed pursuant to this Item 18.

Item 19: Financial Statements and Exhibits

With the exception of the items incorporated by reference elsewhere in this annual report, the 1998 Annual Report is not deemed to be filed as part of this annual report.

(a) Financial Statements

The financial statements, together with the report thereon of PricewaterhouseCoopers NV dated January 25, 1999, appearing on pages 41-56 and 58 of the 1998 Annual Report are incorporated herein by reference.

	Reference Page	
	Form 20-F	1998 Annual Report to Shareholders
Financial Statements:		
Report of Independent Accountants for Years Ended December 31, 1998, 1997 and 1996		58
Consolidated Statement of Income for the Years Ended December 31, 1998, 1997 and 1996	--	41
Consolidated Balance Sheet as of December 31, 1998 and 1997	--	42
Consolidated Statement of Cash Flows for the Years Ended December 31, 1998, 1997 and 1996	--	43
Consolidated Statement of Shareholders' Equity for the Years Ended December 31, 1998, 1997 and 1996	--	44
Notes to Consolidated Financial Statements		45
Financial Statement Schedules:		
For each of the three years in the period ended December 31, 1998 Schedule II Valuation and Qualifying Accounts	S-1	--
All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.		
Report of Independent Accountants on Financial Statement Schedule	S-2	--

(b) Exhibits

3.(i) Articles of Association, as amended as of June 16, 1999, of the Company

10 Option Agreement, signed May 31, 1999 between the Company and STMicroelectronics Holding II B.V.

21 Subsidiaries of the Company (see Note 3 to the Consolidated Financial Statements)

23 Consent of PricewaterhouseCoopers NV

Pages 27 to 56 and 58 of the 1998 Annual Report, submitted as a Report on Form 6-K by STMicroelectronics N.V. on June 30, 1999.

CERTAIN TERMS

ASD	application-specific discrete technology
ASIC	application-specific IC
ASSP	application-specific standard product
ATM	asynchronous transfer mode
BCD	bipolar, CMOS and DMOS process technology
BiCMOS	bipolar and CMOS process technology
CAD	computer aided design
CIM	computer integrated manufacturing
CMOS	complementary metal oxide silicon
DMOS	diffused metal oxide silicon
DRAMS	dynamic random access memory
DSP	digital signal processor
EEPROM	electrically erasable programmable read-only memory
EPROM	erasable programmable read-only memory
GPS	global positioning system
HCMOS	high-speed complementary metal-oxide-silicon
IC	integrated circuit
IGBT	insulated gate bipolar transistors
ISDN	integrated services digital network
Kbit	kilobit
Mbit	megabit
MCUs	microcontrollers units
MIPS	million instructions per second
MOS	metal oxide silicon process technology
MOSFET	metal oxide silicon field effect transistor
MPEG	motion picture experts group
NVRAM	nonvolatile SRAM
OEM	original equipment manufacturer
OTP	one-time programmable
PROM	programmable read-only memory
RAM	random access memory
RF	radio frequency
RISC	reduced instruction set computing
ROM	read-only memory
SAM	serviceable available market
SLIC	subscriber line interface card
SPC	statistical process control
SRAM	static random access memory
STB	set-top box
TAM	total available market
VLSI	very large scale integration

SIGNATURES

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.

STMICROELECTRONICS N.V.

Date: June 30, 1999

By: /S/ PASQUALE PISTORIO

Name: Pasquale Pistorio
Title: President and Chief Executive Officer

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

Valuation and qualifying accounts deducted from the related asset accounts	Balance as beginning of period	Translation adjustment	Charged to costs and expenses	Deductions	Balance at end of period
1998					
Inventories	68,182	-	53,955	(68,182)	53,955
Accounts Receivable	15,228	89	(3,741)	(1,082)	10,494
1997					
Inventories	45,176	-	68,182	(45,176)	68,182
Accounts Receivable	18,152	(1,902)	7	(1,029)	15,228
1996					
Inventories	36,500	-	45,176	(36,500)	45,176
Accounts Receivable	17,881	(514)	1,114	(329)	18,152

Report of Independent Accountants on Financial Statement Schedule

To the Supervisory Board of STMicroelectronics NV

Our audits of the consolidated financial statements referred to in our report dated January 25, 1999 appearing on page 58 of the 1998 Annual Report to Shareholders of STMicroelectronics NV (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 20-F) also included an audit of the financial statement schedule listed in Item 19 of this Form 20-F. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

PricewaterhouseCoopers NV

Amsterdam, The Netherlands
January 25, 1999

INDEX TO EXHIBITS

ARTICLES OF ASSOCIATION:
of:
STMicroelectronics N.V.
established in Amsterdam
dated June 16, 1999

NAME, SEAT AND DURATION.
Article 1.
1.1. The name of the company is: STMicroelectronics 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 semi-conductors 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 authorised capital of the company amounts to one billion eight hundred nine million six hundred

thousand euro (EUR 1,809,600,000.--), consisting of four hundred million (400,000,000) ordinary shares and one hundred eighty million (180,000,000) preference shares of three euro and twelve eurocents (EUR 3.12) each.
3.2. Where in these articles of association reference is made to shares and shareholders this shall include the shares of each class as well as the holders of shares of each class respectively, unless explicitly provided otherwise.
ISSUE OF SHARES.
Article 4.
4.1. 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.
4.2. If a designation as referred to in the first 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.
4.3. In the event of an issue of ordinary shares, shareholders shall have a pre-emptive right in proportion to the number of ordinary 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. In the event of an issue of preference shares none of the shareholders shall have a pre-emptive right. The supervisory board shall have the power to limit or debar the pre-emptive 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 first paragraph shall equally apply.

4.4. If a designation as referred to in the third 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 pre-emptive right accruing to shareholders.

4.5. A resolution of the general meeting of shareholders to limit or debar pre-emptive rights 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.

4.6. Without prejudice to what has been provided in section 80, paragraph 2, Civil Code:2, shares shall at no time be issued below par.

4.7. Ordinary shares shall be issued only against payment in full; preference shares may be issued against partial payment, provided that the proportion of the nominal amount that must be paid on each preference share, irrespective of when it was issued, shall be the same and that at least one quarter of the nominal amount is paid up in full when the share is taken.

4.8. 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 foreign 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.

4.9. 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.

4.10. The managing board shall determine, subject to approval by the supervisory board, when and in what amount payment is to be made in respect of partially paid preference shares. The managing board shall notify the shareholders concerned thereof in writing at least thirty days before the date on which the payment must finally be made.

4.11. 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 27.2.

REPURCHASE OF SHARES.

Article 5.

5.1. 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.

5.2. 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.

5.3. 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.

5.4. Upon the proposal of the supervisory board the general meeting of shareholders shall have the power to decide (i) to cancel shares acquired by the company from its own share capital, and (ii) to cancel all preference shares against repayment of the amount paid up on those shares, all subject however to the statutory provisions concerned.

SHARES, SHARE CERTIFICATES, SHARE REGISTER.

Article 6.

6.1. Shares shall be in registered form.

6.2. Ordinary 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.

Preference shares shall only be made available in the form of type I shares.

6.3. 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.

6.4. Type II share certificates shall be available in such denominations as the supervisory board shall determine.

6.5. 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.

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

6.7. 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.

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

Article 7.

7.1. 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.

7.2. 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.

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

Article 8.

8.1. 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.

8.2. 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.

8.3. 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.

8.4. 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.

8.5. 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 9.

9.1. Subject to the provisions of article 6, 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.

9.2. Subject to the provisions of article 6, 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.

9.3. 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 10.

10.1. 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.

10.2. 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.

10.3. 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.

10.4. 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.

10.5. The submission of requests and the lodging of documents referred to in articles 7 to 10 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.

10.6. 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 7 up to and including 10.

USUFRUCTUARIES, PLEDGEES, HOLDERS OF DEPOSITARY RECEIPTS.

Article 11.

11.1. 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.

11.2. 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 12.

12.1. 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.

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

12.3. Without prejudice to the provisions of article 28, 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.

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

12.5. The general meeting of shareholders shall decide in accordance with the provisions of article 32, paragraph 1.
Votes in respect of persons who have not been so nominated shall be invalid.

Article 13.

13.1. 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.

13.2. 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.

13.3. 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 14.

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

14.2. 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.

14.3. 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 15.

15.1. 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 22, paragraph 1.

15.2. 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 16.

16.1. 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 shareholders for decisions relating to:
- sale of all or of an important part of the company's assets or business enterprise(s);
- entering into mergers, acquisitions or joint ventures, which the supervisory board considers of material significance,

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

16.2. 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 17.

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 18.

18.1. 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.

18.2. 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 19.

19.1. 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.

19.2. The general meeting of shareholders shall decide in accordance with the provisions of article 32 paragraph 1.

19.3. Without prejudice to the provisions of article 28, 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.

19.4. The supervisory board shall appoint from their number a chairman and a vice-chairman of the supervisory board with the majority mentioned in article 22, paragraph 1.

19.5. 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 20.

20.1. 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.

20.2. 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.

20.3. 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 authorised to exercise a portion of such powers.

20.4. 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.

Article 21.

21.1. 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.

21.2. 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.

21.3. The supervisory board may establish a rotation scheme.

21.4. 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 22.

22.1. 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.

22.2. 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.

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

22.4. 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.

22.5. 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 23.

The general meeting of 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 24.

24.1. 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) judgements, 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 judgement, 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.

24.2. 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 judgement 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.

24.3. 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.

24.4. 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 22, 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.

24.5. 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.

24.6. 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.

24.7. 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.

24.8. 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 25.

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

of the financial year.

25.2. 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 37;

c. filling vacancies on the managing board in accordance with the provisions of article 12;

d. filling vacancies on the supervisory board in accordance with the provisions of article 19;

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 26.

26.1. 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.

26.2. 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 27.

27.1. 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.

27.2. 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.

27.3. 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 28.

28.1. 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.

28.2. 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.

28.3. 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 29.

29.1. 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.

29.2. 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.

29.3. 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 30.

30.1. 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.

30.2. 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.

30.3. 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.

30.4. 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 31.

31.1. 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.

31.2. 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 32.

32.1. 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 one/third 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.

32.2. 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.

32.3. 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 33.
At the general meeting of shareholders each share shall confer the right to cast one vote.
MEETINGS OF HOLDERS OF SHARES OF A PARTICULAR CLASS.
Article 34.
34.1. A meeting of holders of preference shares shall be held whenever required by virtue of the provisions of these articles of association and further whenever the managing board and/or the supervisory board shall decide, and also whenever one or more holders of preference shares so request the managing board and/or the supervisory board in writing, stating the items of business to be transacted.
If after receipt of a request as referred to in the preceding sentence neither the managing board nor the supervisory board has called a meeting in such a way that the meeting is held within four weeks of receipt, the applicant(s) shall be authorised to call the meeting themselves, with due observance of the relevant provisions of these articles of association.
34.2. The managing directors and the supervisory directors shall have the right to attend meetings of holders of preference shares; in that capacity they shall have an advisory vote. Notice of a meeting of holders of preference shares shall be given by letters sent to all holders of preference shares. The notice shall state the items of business to be transacted.
34.3. Article 27, paragraphs 1 and 3, article 28, article 29, article 30, paragraph 1, article 31, article 32 and article 33 shall apply mutatis mutandis to

meetings of holders of preference shares.

34.4. At a meeting of holders of preference shares at which the entire issued capital in shares of those class is represented, valid resolutions may be adopted, provided that they are passed by unanimous vote, even if the requirements in respect of the place of the meeting, the manner of notice, the term of notice and the stating in the notice of the items of business to be transacted, have not been observed.

34.5. All resolutions which may be adopted by the holders of preference shares at a meeting may also be adopted outside a meeting. Resolutions may be adopted outside a meeting only if all holders of preference shares and holders of a right of usufruct on preference shares entitled to vote have declared themselves in favour of the proposal by letter, by telegram, by telex communication or telecopier.
The resolution shall be recorded in the minute book of the meeting of holders of preference shares by a managing director.

34.6. A meeting of holders of ordinary shares shall be held whenever required by virtue of the provisions of these articles of association. Articles 27 up to and including 33 shall apply mutatis mutandis to meetings of holders of ordinary shares.

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

Article 35.

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

35.2. 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.

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

35.4. 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.

35.5. 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 36.

Adoption by the general meeting of shareholders of the annual accounts, referred to in article 35, 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.

PROFIT AND LOSS.

Article 37.

37.1. Distribution of profits pursuant to this article shall be made following approval of the annual accounts which show that the distribution is permitted.
The company may only make distributions to shareholders and other persons entitled to distributable profits to the extent that its equity exceeds the total amount of its issued capital and the reserves which must be maintained by law.
A deficit may only be offset against the reserves prescribed by law in so far as permitted by law.

37.2. Upon proposal of the managing board, the supervisory board shall determine what portion of the profit shall be retained by way of reserve, having regard to the legal provisions relating to obligatory reserves.

37.3. The portion of the profit that remains after application of paragraph 2, shall be at the disposal of the general meeting of shareholders, with due observance of the provisions of article 38, paragraph 2.

37.4. In case the general meeting of shareholders resolves upon distribution of profits made in the latest financial year, first, if possible, an amount equal to the percentage referred to below of the paid up part of their par value shall be paid as dividend on the preference shares. No further distributions shall be made on the preference

shares. The percentage referred to above is equal to the average of the Euro Interbank Offered Rates applying to cash loans with a term of one year - weigthed on the basis of the number of days for which these rates applied - during the financial year in respect of which the distribution takes place. If the amount to be paid on the preference shares has been reduced or, pursuant to a resolution for further payment, has been increased in the financial year in respect of which the distribution referred to above is made, the distribution on these shares shall be reduced or, as the case may be, increased if possible by an amount equal to the percentage referred to above of the amount of the reduction or, as the case may be, the increase, calculated from the time of the reduction or, as the case may be, from the time at which further payments become obligatory.

37.5. 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.

Article 38.

38.1. 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.

38.2. 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 37, article 38, paragraph 1 and article 39 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 39.

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 40.

40.1. Distributions under articles 37, 38 or 39 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.

40.2. Distributions under articles 37, 38 or 39 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.

40.3. The supervisory board may determine the method of

payment in respect of cash distributions on type I shares.

40.4. Cash distributions under articles 37, 38 or 39 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 not being the Euro, converted at the rate of exchange determined by the European 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 any governmental action or other exceptional circumstances beyond its control, to make payment at the place designated outside the Netherlands or in the relevant 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.

40.5. The person entitled to a distribution under articles 37, 38 or 39 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.

40.6. 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.

40.7. Distributions in cash under articles 37, 38 or 39 that have not been collected within five years after they have become due and payable shall revert to the Company.

40.8. In the case of a distribution under article 38, 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 6. 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.

40.9. In the case of a distribution in the form of shares in the company under article 38, 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.

40.10. 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 37, 38 or 39, 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 41.

41.1. 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.

41.2. A resolution to amend the articles of association by which the rights conferred on holders of shares of a specific class as such are changed shall require the approval of the relevant class meeting.

Article 42.

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

42.2. 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.

42.3. 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.

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

42.5. 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 43.

From what is left of the company's assets after all creditors have been satisfied, first, if possible, all holders of preference shares shall have returned to them the paid up part of the nominal amount of their preference shares.

The residue shall be divided amongst the holders of ordinary shares pro rata to their respective holdings of ordinary shares.

Article 44.

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

OPTION AGREEMENT REGARDING THE ISSUANCE AND SUBSCRIPTION OF PREFERENCE SHARES IN THE SHARE CAPITAL OF ST MICROELECTRONICS N.V.

THE UNDERSIGNED:

1. ST Microelectronics N.V., a limited liability company organised under the laws of the Netherlands, established in Amsterdam, the Netherlands, hereinafter: "STM";

and

2. ST Microelectronics Holding II B.V., a private company organised under the laws of the Netherlands, established in Amsterdam, the Netherlands, hereinafter "HSBV".

WHEREAS:

a. STM and H2BV have held discussions in respect of protecting STM from a hostile take over or similar actions in order to protect the interest of STM and of all the shareholders of STM;

b. STM and H2BV hereby wish to enter into an agreement whereby -- subject to the provisions of this agreement -- an option is granted to H2BV to acquire shares in the share capital of STM;

c. on May 31, 1999 the supervisory board of STM has been designated by the general meeting of shareholders of STM as the corporate body authorised to resolve upon issuance of any number of ordinary shares and/or preference shares as well as upon granting of rights to subscribe for any number of ordinary shares and/or preference shares;

d. the supervisory board of STM, upon consultation and in agreement with the managing board of STM, has resolved on May 31, 1999 to grant to H2BV the right to subscribe for up to 180,000,000 preference shares in the share capital of STM (which preference shares were created in the authorised share capital of STM following the resolutions of the general meeting of shareholders of STM which were adopted on May 31, 1999), copy of which resolution of the supervisory board of STM on May 31, 1999 is attached to this agreement;

e. the managing board of H2BV has resolved on May 31, 1999, after having obtained the approval of the supervisory board of ST Microelectronics Holding N.V. and the approval of the general meeting of shareholders of H2BV, to enter into this agreement;

HEREBY AGREE AS FOLLOWS:

1. STM hereby grants H2BV the right to acquire such a number of preference shares in the share capital of STM as H2BV shall desire, with the understanding that such number shall not exceed 180,000,000, being the number of preference shares that is presently comprised in the authorised share capital of STM.

2. H2BV's right to acquire preference shares shall be subject to the prior approval of the supervisory board of STM as further set out in article 6 of this agreement.

3. Without the prior written consent of H2BV STM shall neither issue preference shares not grant rights to subscribe for preference shares to any other party than H2BV.

4. Without the prior written consent of STM H2BV shall not sell or otherwise dispose of any preference shares and/or the voting rights attached thereon.

5. If H2BV wishes to make use of its right to acquire preference shares in any share capital of STM it shall notify the President of the supervisory board of STM thereof in writing. Such notice, of which a copy must be sent by H2BV to the managing board of STM, shall specify the number of preference shares H2BV wishes to acquire and the date as per which H2BV wishes to acquire those preference shares, such date not being a date which is earlier than twenty days after the date of the notice. Upon receipt of the notice the President of the supervisory board of STM shall procure that three days prior to the date referred to in the notice of H2BV a resolution shall be adopted by the supervisory board of STM. If the supervisory board of STM resolves not to give its consent to the exercise of the option, no preference shares shall be issued to H2BV and STM shall immediately notify H2BV thereof. If the supervisory board of STM resolves to give its consent to the exercise of the option, STM, by the mere fact of such consent, hereby issues to H2BV the number of preference shares H2BV wishes to acquire on the date referred to in the notice of H2BV, provided that STM has received as per such date the amount to be paid upon the issue of the preference shares.

6. An issue of preference shares pursuant to this agreement shall take place at a rate of 100% against payment of an amount equal to 25% of the aggregate par value of the preference shares to be issued. Such payment will be made in cash.

7. The exercise by H2BV of its right to acquire a certain number of preference shares which is less than 180,000,000 shall not prevent H2BV from exercising its right to acquire further preference shares in the share capital of STM.

8. The exercise by H2BV of its right to acquire preference shares shall not, after that the consequences thereof have been totally or partially remedied, prevent H2BV from again exercising such right.

9. If and as soon as H2BV notifies STM in writing of its request thereto, STM shall take all possible action -- including but not limited to the convening of a general meeting of shareholders in accordance with the procedures laid down by its articles of association -- in order to repurchase or to cancel with repayment the preference shares held by H2BV, in such a way that such a repurchase or cancellation is effected as soon as possible but in any event within 6 months after the date of the request. In the event of a repurchase, the purchase price shall be equal to the total amount that has been paid on the shares since their issue.

10. This agreement shall terminate as soon as H2BV shall no longer own at least 33% of the issued capital of STM. It may also be terminated by STM and H2BV through the execution of an agreement to that effect by both parties.

11. This agreement shall be governed by and construed in accordance with the laws of the Netherlands.

12. Any and all disputes arising in connection with this agreement shall be finally settled by arbitration in accordance with the rules of the Netherlands Arbitration Institute (Nederlands Arbitrage Instituut). The arbitration proceedings shall take place in the English language and the place of arbitration shall be Amsterdam. The arbitration tribunal shall consist of three arbitrators and shall decide in accordance with the rules of law.

Signed in twofold in [ ] on [ ], 1999.

_____	_____
ST Microelectronics N.V.	ST Microelectronics Holding II B.V.
By: P. Pistorio	by: ST Microelectronics Holding N.V. which company is hereby represented by its managing directors B. Loubert and L. Acciari

EXHIBIT 23

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 33-80797, No. 33-90616, No. 333-06390, No. 333-06862 and No. 333-07226) of STMicroelectronics NV of our report dated January 25, 1999 relating to the financial statements, which appears on page 58 of the Annual Report to Shareholders, which is incorporated in this Annual Report on Form 20-F. We also consent to the incorporation by reference of our report dated January 25, 1999 relating to the financial statement schedule, which appears in this Form 20-F.

PRICEWATERHOUSECOOPERS NV
Amsterdam, The Netherlands
June 25, 1999

Selected Consolidated Financial Data

The table below sets forth selected consolidated financial data for the Company for each of the years in the five-year period ended December 31, 1998. Such data have been derived from the consolidated financial statements of the Company. Consolidated audited financial statements for each of the years in the three-year period ended December 31, 1998, including the Notes thereto (collectively, the "Consolidated Financial Statements"), are included elsewhere in this annual report.

The following information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements and the related Notes thereto included elsewhere in this annual report.

Year ended December 31, (in millions except per share and ratio data)	1994(1)	1995(1)	1996	1997	1998(1)
Consolidated Statement of Income Data:					
Net sales	$ 2,602.2	$ 3,520.7	$ 4,078.3	$ 3,969.8	$ 4,210.6
Other revenues	42.7	33.7	44.1	49.4	37.2
Net revenues	2,644.9	3,554.4	4,122.4	4,019.2	4,247.8
Cost of sales (2)	(1,528.7)	(2,096.0)	(2,414.7)	(2,457.4)	(2,623.0)
Gross profit (2)	1,116.2	1,458.4	1,707.7	1,561.8	1,624.8
Operating expenses:					
Selling, general & administrative	(339.9)	(413.2)	(421.1)	(454.3)	(488.1)
Research and development (3)	(338.3)	(440.3)	(532.3)	(610.9)	(689.8)
Restructuring costs	(37.0)	(13.0)	--	--	--
Other income and expenses (3)	32.0	59.1	45.1	23.2	76.5
Total operating expenses	(683.2)	(807.4)	(908.3)	(1,042.0)	(1,101.4)
Operating income	433.0	651.0	799.4	519.8	523.4
Net interest income (expense)	(21.0)	(16.8)	(11.2)	(2.6)	8.7
Gain on disposal of investment	--	--	7.3	--	--
Income before income taxes and minority interests	412.0	634.2	795.5	517.2	532.1
Income tax expense	(49.5)	(108.3)	(171.6)	(113.0)	(120.4)
Income before minority interests	362.5	525.9	623.9	404.2	411.7
Minority interests (4)	--	0.6	1.6	2.4	(0.6)
Net income	$ 362.5	$ 526.5	$ 625.5	$ 406.6	$ 411.1
Earnings per share (basic) (5)	$ 3.04	$ 4.03	$ 4.50	$ 2.92	$ 2.92
Earnings per share (diluted) (5)	$ 3.03	$ 4.01	$ 4.49	$ 2.91	$ 2.89
Number of shares used in calculating earnings per share (basic)	119.4	130.6	138.7	139.1	140.9
Number of shares used in calculating earnings per share (diluted)	119.7	131.3	139.2	139.9	144.0
Ratio of earnings to fixed charges (6)	10.9	13.2	18.6	13.4	12.7
Consolidated Balance Sheet Data (end of period):					
Cash, cash equivalents and marketable securities	$ 461.5	$ 758.4	$ 556.4	$ 702.2	$ 1,100.7
Working capital (7)	291.1	417.4	611.8	443.5	695.4
Total assets	3,224.7	4,486.0	5,005.5	5,445.7	6,434.0
Short-term debt (including current portion of long-term debt)	322.5	492.8	428.2	424.6	191.2
Long-term debt (excluding current portion) (1)	277.2	200.7	194.9	356.4	755.8
Shareholders' equity (1)	1,680.0	2,661.7	3,260.0	3,307.4	4,083.3
Consolidated Operating Data:					
Capital expenditures (8)	$ 779.7	$ 1,001.9	$ 1,125.2	$ 1,035.4	$ 947.3
Net cash provided by operating activities	728.1	825.1	980.7	983.8	1,012.5
Depreciation and amortization (8)	288.0	392.4	535.9	608.1	704.0

(1) On June 10, 1998, the Company completed an equity offering of 3,000,000 shares of capital stock at $72.1875 per share (the "Share Offering"). The net proceeds to the Company in connection with the Share Offering were $208.8 million. On June 10, 1998, the Company also completed a debt offering of $431.7 million aggregate initial principal amount of zero-coupon convertible Liquid Yield Option TM Notes due 2008 (the "LYONs"), with yield to maturity of 1.75% per annum (the "LYONs Offering"). The net proceeds to the Company in connection with the LYONs Offering was $421.8 million. 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 the Initial Public Offering, with net proceeds to the Company of approximately $198.7 million.

(2) Cost of sales is net of certain funds received through government subsidies for industrialization costs (which include certain costs incurred to bring prototype products to the production stage) included therein. See Note 18 to the Consolidated Financial Statements. For a discussion of certain significant charges reflected in cost of sales in 1996, 1997 and 1998, see "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Results of Operations."

(3) Other income and expenses include, among other things, funds received through government subsidies for research and development expenses, and the cost of new plant start-ups, as well as foreign currency gains and losses, and the costs of certain activities relating to intellectual property. The Company's reported research and development expenses do not include design center, process engineering, pre-production or industrialization costs.

(4) 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%. Minority

interests also include other minor investments made by the Company.

(5) Earnings per share have been restated to reflect the adoption in 1997 of Statement of Financial Accounting Standards No. 128 "Earnings Per Share." See Note 2.14 and Note 12 to the Consolidated Financial Statements.

(6) For purposes of calculating the ratio of earnings to fixed charges, earnings consist of income before income taxes and minority interests, plus fixed charges. Fixed charges consist of interest expenses.

(7) Working capital is calculated as current assets (excluding cash, cash equivalents and marketable securities) less current liabilities (excluding bank overdrafts, short-term debt and current portion of long-term debt).

(8) Capital expenditures are net of certain funds received through government subsidies, the effect of which is to decrease depreciation.

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

The following discussion should be read in conjunction with the Consolidated Financial Statements and Notes thereto included elsewhere in this annual report. The following discussion contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended. The Company's actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future actual results to differ materially from the Company's recent results or those projected in the forward-looking statements include, but are not limited to, those discussed in "Cautionary Statement Regarding Forward-Looking Statements," under the caption "Risk Factors" in the Company's Prospectuses dated June 5, 1998. The Company assumes no obligation to update the forward-looking statements or such factors.

Overview

The semiconductor industry experienced a severe slowdown in 1998, after a similar decrease in 1996 and a marginal recovery in 1997. During this period the Company experienced increased competition and pricing pressure in its core product markets. According to trade association data, worldwide sales of semiconductor products (the total available market or "TAM") decreased 8.4% in 1998 over 1997, ending the year below the 1995 level. According to trade association data, the estimated 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 subsequent periods presented includes microprocessors as a result of the Company's production of x86 products) decreased approximately 5.2% in 1998 over 1997.

While the semiconductor market in 1998 registered a significant decrease, the Company's net revenues for 1998 increased 5.7% compared to net revenues for 1997, benefiting from increased volumes in virtually all product families and an improved product mix, including sales of new products.

Despite difficult market conditions in recent years, from 1994 to 1998 the Company's net revenues increased from $2,644.9 million to $4,247.8 million, representing a compound annual growth rate of 12.6%. Such revenue gains were achieved despite the Company's absence 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). According to trade association data, the TAM increased from $101.9 billion in 1994 to $125.6 billion in 1998, representing a compound annual growth rate of 5.4%, while the SAM increased from $75.2 billion in 1994 to $107.0 billion in 1998, representing a compound annual growth rate of 9.2%. During the same period, the Company's share of the TAM increased from 2.6% to 3.4%, while the Company's share of the SAM increased from 3.5% to 4.0%. The Company's revenue growth from 1994 through 1998 was particularly significant for differentiated ICs (which the Company defines as being its dedicated products, semicustom devices and microcontrollers).

As a result of this performance, the Company not only gained market share against both the TAM and SAM, but, according to leading market analysts, became the ninth largest semiconductor company in the world during 1998 moving up from tenth position in 1997. The Company's absence from the DRAM market partially contributed to the Company's outperformance of the semiconductor industry during the period presented. However, the Company believes that recent difficult market conditions have led certain of its competitors to redirect their marketing focus and manufacturing capacity toward products that compete with the Company's products. The Company believes increased competition in its core product markets is generating greater pricing pressure, increased competition for market share in the SAM, and a generally more challenging market environment for the Company.

The Company continues to focus on differentiated ICs and analog ICs. Differentiated ICs accounted for approximately 62% of the Company's net revenues in 1998, compared to approximately 57% in 1997. 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. Analog ICs (including mixed signal ICs), the majority of which are also differentiated ICs, accounted for approximately 51% of the Company's net revenues in 1998, compared to approximately 49% in 1997, while discrete devices accounted for approximately 13% of the Company's net revenues in 1998 and

approximately 14% in 1997. In recent years, these families of products, in particular analog ICs, have experienced less volatility in sales growth rates and average selling prices than the overall semi-conductor industry. However, the difficult competitive environment in the semiconductor market in more recent years has led to price pressures also in these families.

With the aim of reinforcing the Company's presence in certain strategic business segments, the Company has recently completed the acquisition of Peripherals Technology Solutions (in the area of data storage) and Vision Group (in the imaging market).

The Company's gross profit margin decreased from 42.2% in 1994 to 38.3% in 1998. Benefiting from a favorable environment in 1994, 1995 and 1996, the Company had a stable gross profit margin of above 40%. In 1997 and 1998, in an unfavorable industry environment, which generated lower margins due to the negative impact of pricing pressures, gross profit margin declined to slightly above 38%. This decline in gross profit margin coupled with a higher level of research and development expenditure, resulted in a lower operating income as a percentage of net revenues which, however, remained above a solid level of 12%.

There can be no assurance that the Company will experience revenue growth at or above the growth rate for the TAM or the SAM, or that increased competition in the Company's core product markets will not lead to further price erosion, lower revenue growth rates and lower margins for the Company.

Results of Operations

The tables below set forth information on the Company's net revenues by product group and by geographic region:

Year ended December 31, (in millions except percentages)	1994	1995	1996	1997	1998
Net Revenues by Product Group:					
Dedicated Products (1) (2)	$ 997.1	$ 1,344.4	$ 1,788.7	$ 1,696.3	$ 1,865.6
Discrete and Standard ICs	636.3	838.0	784.1	846.8	828.7
Memory Products (2)	560.7	653.3	736.8	708.6	659.6
Programmable Products (1)	372.0	550.6	689.5	642.1	783.4
New Ventures Group and Others (3)	78.8	168.1	123.3	125.4	110.5
Total	$ 2,644.9	$ 3,554.4	$ 4,122.4	$ 4,019.2	$ 4,247.8
Net Revenues by Geographic Region: (4)					
Europe	$ 1,187.5	$ 1,593.8	$ 1,788.5	$ 1,753.3	$1,768.9
North America (5)	643.9	812.5	903.0	899.1	937.3
Asia/Pacific	617.6	916.7	1,125.7	1,065.8	1,247.9
Japan	134.7	155.4	228.2	214.5	180.7
Region Five (4)	61.2	76.0	77.0	86.5	113.0
Total	$ 2,644.9	$ 3,554.4	$ 4,122.4	$ 4,019.2	$ 4,247.8
As a percentage of net revenues					
Net Revenues by Product Group					
Dedicated Products (1) (2)	37.7%	37.8%	43.4%	42.2%	43.9%
Discrete and Standard ICs	24.1	23.6	19.0	21.1	19.5
Memory Products (2)	21.2	18.4	17.9	17.6	15.5
Programmable Products (1)	14.0	15.5	16.7	16.0	18.4
New Ventures Group and Others (3)	3.0	4.7	3.0	3.1	2.7
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Net Revenues by Geographic Region: (4)					
Europe	44.9%	44.8%	43.4%	43.6%	41.6%
North America (5)	24.3	22.9	21.9	22.4	22.1
Asia/Pacific	23.4	25.8	27.3	26.5	29.4
Japan	5.1	4.4	5.5	5.3	4.3
Region Five (4)	2.3	2.1	1.9	2.2	2.6
Total	100.0%	100.0%	100.0%	100.0%	100.0%

(1) In January 1997, analog array products were moved from the Programmable Products Group to the Dedicated Products Group and image processing products from the Dedicated Products Group to the Programmable Products Group. Revenues for the Dedicated Products Group and the Programmable Products Group have been restated in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" for prior periods to reflect this change.

(2) 1996 revenues for the Dedicated Products Group include $5.6 million of revenues from certain foundry activities which were moved from the Memory Products Group in January 1996. Revenues for the Dedicated Products Group and the Memory Products Group have been restated for prior periods to reflect this change.

(3) Includes revenues from sales of subsystems and other products and from the New Ventures Group, which was created in May 1994 to act as a focal point for the Company's new business opportunities.

(4) Revenues are classified by location of customer invoiced. For example, products ordered by U.S.-based companies to be invoiced to Asia/Pacific affiliates are classified as Asia/Pacific revenues. Net revenues by geographic region have been reclassified to reflect the creation of Region Five in January 1998 which includes emerging markets such as South America, Africa, Eastern Europe, the Middle East and India. Prior years have been restated to reflect this reclassification.

(5) Substantially all of the revenues derived from North America are derived from the United States.

The following table sets forth certain financial data from the Company's consolidated statements of income since 1994, expressed in each case as a percentage of net revenues:

Year ended December 31,	1994	1995	1996	1997	1998
Net sales	98.4%	99.1%	98.9%	98.8%	99.1%
Other revenues	1.6	0.9	1.1	1.2	0.9
Net revenues	100.0	100.0	100.0	100.0	100.0
Cost of sales	(57.8)	(59.0)	(58.6)	(61.1)	(61.7)
Gross profit	42.2	41.0	41.4	38.9	38.3
Operating expenses:					
Selling, general and administrative	(12.9)	(11.6)	(10.2)	(11.3)	(11.5)
Research and development	(12.8)	(12.4)	(12.9)	(15.2)	(16.2)
Restructuring costs	(1.4)	(0.4)	--	--	--
Other income and expenses	1.3	1.7	1.1	0.5	1.7
Total operating expenses	(25.8)	(22.7)	(22.0)	(26.0)	(26.0)
Operating income	16.4	18.3	19.4	12.9	12.3
Net interest income (expense)	(0.8)	(0.5)	(0.3)	--	0.2
Gain on disposal of investment	--	--	0.2	--	--
Income before income taxes & minority interests	15.6	17.8	19.3	12.9	12.5
Income tax expense	(1.9)	(3.0)	(4.2)	(2.9)	(2.8)
Income before minority interests	13.7	14.8	15.1	10.0	9.7
Minority interests	--	--	0.1	0.1	--
Net income	13.7%	14.8%	15.2%	10.1%	9.7%

1998 vs. 1997

The Company distinguished itself during 1998 by the solid performance achieved during an unprecedented downturn in the semi-conductor industry. In 1998, the Company increased net revenues, gross profit and net income compared to 1997. In addition, the Company increased significantly its investments in research and development activities during the year, continuing the trend established during the last five years. The improved financial results reflect the Company's business strategy, including the high level of differentiated products within its product portfolio, its focus on high growth markets and its geographic balance.

Net revenues: Net sales increased 6.1%, from $3,969.8 million in 1997 to $4,210.6 million in 1998. The increase in net sales was primarily the result of higher volume and an improved product mix, including sales of new products, partly offset by declining average selling prices. The exchange rate impact on net sales in 1998 due to a stronger U.S. dollar was estimated to be marginally unfavorable. Other revenues decreased from $49.4 million in 1997 to $37.2 million in 1998 due primarily to a reduction in licensing revenues. Net revenues increased 5.7%, from $4,019.2 million in 1997 to $4,247.8 million in 1998.

The Dedicated Products Group's net revenues increased 10.0% primarily as a result of volume increases in wireless telecommunications, automotive and printer products (partly offset by lower volumes in data storage products) and a more favorable product mix in data storage, automotive and printer products. The Discrete and Standard ICs Group's net revenues decreased 2.1%, as volume increases in basically all major product families and a more favorable product mix in transistors and standard commodities were more than offset by price declines in transistors, discrete devices, standard commodities and standard logic products. Net revenues of the Memory Products Group declined by 6.9% as the volume increases in EEPROMs, flash memories and smartcard ICs were more than offset by significant price declines in basically all product families (such as EPROMs, EEPROMs, smartcard ICs and flash memories). The Programmable Products Group's net revenues increased 22.0% as a result of significantly higher volumes in digital image processing and graphics products.

Gross profit: The Company's gross profit increased 4.0%, from $1,561.8 million in 1997 to $1,624.8 million in 1998 primarily as a result of higher net revenues. As a percentage of net revenues, gross profit decreased from 38.9% in 1997 to 38.3% in 1998, being primarily impacted by the reduction in average selling prices and a higher depreciation charge.

Cost of sales increased from $2,457.4 million in 1997 to $2,623.0 million in 1998, primarily due to a significant increase in production volume and the increased depreciation associated with new capital investments.

The exchange rate impact on gross profit in 1998 compared to 1997 was estimated to be marginally favorable, as the negative impact of the appreciation of the U.S. dollar on net revenues was more than offset by the positive impact on cost of sales. See "-- Impact of Changes in Exchange Rates." Cost of sales in 1998 and 1997 was net of $3.1 million and $6.2 million, respectively, of funds received through government subsidies 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 7.4%, from $454.3 million in 1997 to $488.1 million in 1998, reflecting higher expenditure for information technology, marketing and administrative functions. As a percentage of net revenues, selling, general and administrative expenses increased slightly from 11.3% in 1997 to 11.5% in 1998.

Research and development expenses: Research and development expenses increased 12.9%, from $610.9 million in 1997 to $689.8 million in 1998. The Company continued to invest heavily in research and development and plans to continue increasing its research and development staff. The Company continues to allocate significant financial resources to expand its market leadership in key applications, reflecting its commitment to service and continuous innovation. The Company's reported research and development expenses do not include design center, process engineering, pre-production or industrialization costs. As a percentage of net revenues, research and development expenses increased from 15.2% in 1997 to 16.2% in 1998.

Other income and expenses: Other income and expenses increased from income of $23.2 million in 1997 to income of $76.5 million in 1998. Other income and expenses include primarily funds received from government agencies in connection with the Company's research and development programs, the cost of new plant start-ups, as well as foreign currency gains and losses, the costs of certain activities relating to intellectual property and miscellaneous revenues and expenses. The increase in other income and expenses resulted primarily from lower start-up costs of new production facilities and from an increase in funds received from government agencies in connection with the Company's research and development programs.

Operating income: The Company's operating income increased slightly, from $519.8 million in 1997 to $523.4 million in 1998. The exchange rate impact on operating income was estimated to be favorable, since the negative impact on net revenues was more than compensated by the favorable impact on cost of sales and operating expenses.

Net interest income (expense): Net interest income increased from an expense of $2.6 million in 1997 to an income of $8.7 million in 1998 primarily as a result of the increase in cash and cash equivalents following the Share Offering and the LYONs Offering completed on June 10, 1998.

Income tax expense: Provision for income tax was $120.4 million in 1998 compared to $113.0 million in 1997, primarily as a result of the increase in income before income taxes and minority interests and a higher effective tax rate. The accrued effective tax rate increased from 21.8% in 1997 to 22.6% in 1998. The still favorable 1998 rate was mainly due to the application of benefits in certain countries. As such benefits may not be available after 1998, the Company expects an increase in the effective tax rate in the coming years.

1997 vs. 1996

The difficult market environment during 1997 resulted in a decrease in the Company's net revenues, gross profit, operating income and net income in 1997 compared to 1996. While unit volumes increased substantially in the 1997 period, average selling prices in 1997 declined compared to 1996.

Net revenues: Net sales decreased 2.7%, from $4,078.3 million in 1996 to $3,969.8 million in 1997. This decrease originated from difficult market conditions for certain product families for which supply exceeded demand and produced strong negative pressures on the Company's selling prices, while in other product families demand itself declined because of high inventories accumulated by the Company's customers in previous periods. In general, as is normal in a situation of excess capacity, memory and commodity products experienced price declines. In particular, hard disk drives were affected by decreasing prices due to increased competition both at the system and semiconductor levels and set-top boxes experienced a slowdown in sales due to inventory corrections and lower demand. The Company's unit volumes increased substantially in 1997 compared to 1996, with commodity products (which are typically more price sensitive than other products in the Company's product portfolio) constituting a higher proportion of the overall product mix. The impact of these market conditions was particularly apparent in the Asia Pacific region and Japan. In addition, since a significant part of the Company's net revenues was billed in European and Japanese currencies, the strong appreciation of the U.S. dollar during 1997 resulted in a negative impact on total net revenues when translated from local currencies into U.S. dollars. Other revenues

increased from $44.1 million in 1996 to $49.4 million in 1997 due primarily to an increase in licensing revenues. Net revenues decreased 2.5%, from $4,122.4 million in 1996 to $4,019.2 million in 1997.

The Dedicated Products Group's net revenues fell 5.2% primarily as a result of price pressure and a less favorable product mix in certain major products including telecommunication, video and automotive products. Price and volume declines in computer (hard disk drives) products also contributed to the revenues decline. In January 1997, analog array products were moved from the Programmable Products Group to the Dedicated Products Group and image processing products from the Dedicated Products Group to the Programmable Products Group. Revenues for the Dedicated Products Group and the Programmable Products Group have been restated in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" for prior periods to reflect this change. The Discrete and Standard ICs Group's net revenues increased by 8.0%, as significant volume increases were partly offset by price declines in substantially all major products including standard commodities and discrete and power devices. Net revenues of the Memory Products Group declined by 3.8%, as the sales increases in smartcard ICs (used primarily in European telephone and bank cards) were more than offset by price declines in the major memory product families (such as EPROMs, flash memories and EEPROMs) and volume declines in EPROMs. The Programmable Products Group's net revenues decreased 6.9% as an improved product mix in digital semicustom devices and higher volumes in microcontroller products were more than offset by declines in sales of image processing products and price declines in certain major products.

Gross profit: The Company's gross profit decreased 8.5%, from $1,707.7 million in 1996 to $1,561.8 million in 1997. As a percentage of net revenues, gross profit decreased from 41.4% in 1996 to 38.9% in 1997, primarily as a result of the reduction in average selling prices and a less favorable product mix.

Cost of sales increased slightly from $2,414.7 million in 1996 to $2,457.4 million in 1997, primarily due to an increase in production volume related to higher sales volume and higher depreciation charges linked to the higher level of capital investment.

The exchange rate impact on gross profit in 1997 compared to 1996 was marginal, as the negative impact of the appreciation of the U.S. dollar on net revenues was only slightly higher than the positive impact on cost of sales. See "--Impact of Changes in Exchange Rates." Cost of sales in 1997 and 1996 was net of $6.2 million and $4.6 million, respectively, of funds received through government subsidies 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 7.9%, from $421.1 million in 1996 to $454.3 million in 1997, reflecting higher expenditure in the marketing organization and for information technology. As a percentage of net revenues, selling, general and administrative expenses increased from 10.2% in 1996 to 11.3% in 1997, due primarily to the increase in selling, general and administrative expenses and the decrease in net revenues.

Research and development expenses: Research and development expenses increased 14.8%, from $532.3 million in 1996 to $610.9 million in 1997. The Company continued to invest heavily in research and development and plans to continue increasing its research and development staff. The Company is allocating significant financial resources to expand its market leadership in key applications, reflecting the commitment to service and continuous innovation. As a percentage of net revenues, research and development expenses increased from 12.9% in 1996 to 15.2% in 1997. The Company's reported research and development expenses do not include design center, process engineering, pre-production or industrialization costs.

Other income and expenses: Other income and expenses decreased from income of $45.1 million in 1996 to income of $23.2 million in 1997. Other income and expenses include primarily funds received from government agencies in connection with the Company's research and development programs, the cost of new plant start-ups, as well as foreign currency gains and losses, the costs of certain activities relating to intellectual property and miscellaneous revenues and expenses. The decrease in other income and expenses resulted primarily from higher start-up costs of new production facilities and from a decrease in funds received from government agencies in connection with the Company's research and development programs.

Operating income: The Company's operating income decreased 35.0%, from $799.4 million in 1996 to $519.8 million in 1997, primarily as a result of the decrease in net revenues and the increase in research and development expenses, which more than offset the favorable exchange rate impact.

Net interest income (expense): Net interest expense decreased from $11.2 million in 1996 to $2.6 million in 1997 reflecting primarily improved cash flow during 1997 and a slight reduction in interest rates.

Income tax expense: Provision for income tax was $113.0 million in 1997 compared to $171.6 million in 1996, primarily as a result of the substantial decrease in income before income taxes and minority interests. The accrued effective tax rate increased slightly from 21.6% in 1996 to 21.8% in 1997. The still favorable 1997 rate was mainly due to the application of favorable tax regimes in certain countries.

Quarterly Results of Operations

The following table sets forth certain financial information for the years 1997 and 1998. Such information is derived from unaudited consolidated financial statements, prepared on a basis consistent with the audited consolidated 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, the increasingly competitive nature of the markets in which the Company operates, the changes in product mix and the currency effects of 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.

Quarter ended (unaudited)
(in millions, except percentages and per share data)

	Mar 29, 1997	June 28, 1997	Sept 27 1997	Dec 31, 1997	Apr 4, 1998	Jul 4, 1998	Oct 3, 1998	Dec 31, 1998
Consolidated Statement of Income Data								
Net revenues	$ 944.9	$ 969.7	$1,000.1	$1,104.4	$1,005.4	$1,070.3	$1,039.4	$1,132.7
Cost of sales	(583.8)	(595.9)	(608.2)	(669.5)	(620.4)	(660.3)	(643.7)	(698.6)
Gross profit	361.1	373.8	391.9	434.9	385.0	410.0	395.7	434.1
Operating expenses:								
Selling, general & administrative	(103.0)	(113.3)	(111.2)	(126.7)	(119.9)	(126.2)	(120.1)	(121.9)
Research and development	(142.2)	(151.5)	(151.5)	(165.7)	(166.4)	(176.2)	(168.0)	(179.2)
Other income and expenses	(2.4)	6.9	(5.5)	24.3	16.2	17.2	21.4	21.8
Total operating expenses	(247.6)	(257.9)	(268.2)	(268.1)	(270.1)	(285.2)	(266.7)	(279.3)
Operating income	113.5	115.9	123.7	166.8	114.9	124.8	129.0	154.8
Net interest income (expense)	(0.7)	(0.7)	(0.5)	(0.8)	(1.1)	--	5.2	4.6
Income before income taxes & minority interests	112.8	115.2	123.2	166.0	113.8	124.8	134.2	159.4
Income tax expense	(23.5)	(23.4)	(26.5)	(39.7)	(23.6)	(26.7)	(32.5)	(37.6)
Income before minority interests	89.3	91.8	96.7	126.3	90.2	98.1	101.7	121.8
Minority interests	1.2	0.3	0.9	--	--	(0.6)	(0.1)	--
Net income	$ 90.5	$ 92.1	$ 97.6	$ 126.3	$ 90.2	$ 97.5	$ 101.6	$ 121.8
Earnings per share (basic)	$ 0.65	$ 0.66	$ 0.70	$ 0.91	$ 0.65	$ 0.70	$ 0.71	$ 0.86
Earnings per share (diluted)	$ 0.65	$ 0.66	$ 0.70	$ 0.90	$ 0.65	$ 0.69	$ 0.70	$ 0.84
Number of shares used in calculating earnings per share (basic)	139.0	139.1	139.1	139.1	139.1	139.9	142.2	142.2
Number of shares used in calculating earnings per share (diluted)	139.8	139.8	140.0	139.8	139.8	141.9	147.3	147.4
As a Percentage of Net Revenues								
Net revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of sales	(61.8)	(61.5)	(60.8)	(60.6)	(61.7)	(61.7)	(61.9)	(61.7)
Gross profit	38.2	38.5	39.2	39.4	38.3	38.3	38.1	38.3
Operating expenses:								
Selling, general & administrative	(10.9)	(11.7)	(11.1)	(11.5)	(11.9)	(11.8)	(11.6)	(10.8)
Research and development	(15.0)	(15.6)	(15.1)	(15.0)	(16.6)	(16.5)	(16.2)	(15.8)
Other income and expenses	(0.3)	0.8	(0.6)	2.2	1.6	1.7	2.1	2.0
Total operating expenses	(26.2)	(26.5)	(26.8)	(24.3)	(26.9)	(26.6)	(25.7)	(24.6)
Operating income	12.0	12.0	12.4	15.1	11.4	11.7	12.4	13.7
Net interest income (expense)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	--	0.5	0.4
Income before income taxes & minority interests	11.9	11.9	12.3	15.0	11.3	11.7	12.9	14.1
Income tax expense	(2.4)	(2.4)	(2.6)	(3.6)	(2.3)	(2.5)	(3.1)	(3.3)
Income before minority interests	9.5	9.5	9.7	11.4	9.0	9.2	9.8	10.8
Minority interests	0.1	--	0.1	--	--	(0.1)	--	--
Net income	9.6%	9.5%	9.8%	11.4%	9.0%	9.1%	9.8%	10.8%

In 1998, approximately 42% of the Company's net revenues originated in Europe, compared to approximately 44% in 1997. The Company's third quarter revenues in Europe have averaged slightly less than average revenues during other quarters due to production slowdowns by its European customers in July and August. However, during the third quarter of 1997, the negative impact of third quarter seasonality in Europe was offset by increased sales in other regions. Quarterly results have also been and may be expected to continue to be substantially affected by the cyclical nature 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.

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.

First quarter 1998 net revenues declined 9.0% compared to the fourth quarter of 1997 due to difficult market conditions, lower demand for certain product families and an adverse currency effect, and were 6.4% above first quarter 1997 net revenues. Second quarter 1998 net revenues increased 6.5% compared to the first quarter, and were 10.4% above second quarter 1997 net revenues. Third quarter 1998 revenues showed a 2.9% sequential decline over the second quarter of 1998 due to seasonal factors that generally reduce sales during the summer months and were 3.9% above 1997 third quarter net revenues. Fourth quarter 1998 net revenues recorded a 9.0% sequential improvement over the third quarter of 1998 and a 2.6% increase over the fourth quarter of 1997. The Company experienced strong sequential sales gains across all product groups in the fourth quarter of 1998. The Dedicated Products Group recorded an increase in net revenues of nearly 12%, reflecting the strength in sales of ICs for hard disk drives, digital cellular phones and automotive applications. The Memory Products Group also experienced double-digit growth, with net revenues increasing 11%, attributable to a strong rebound in flash memories. The Programmable Products Group had a solid quarter with an increase of 5.8% in net revenues. The Discrete and Standards ICs Products Group also experienced improvements with net revenues increasing just under 2%.

Gross profit as a percentage of net revenues in the fourth quarter of 1998 remained virtually unchanged compared to the previous quarters in 1998. The fourth quarter 1998 gross profit margin declined slightly compared to the fourth quarter of 1997, which, net of licensing revenues, would have been 38.7%.

Looking ahead the Company is entering 1999 in a strong competitive position with a product portfolio that is both balanced and focused. The market for standard products remains very competitive and visibility is still quite limited. The differentiated products, however, have been enhanced by significant research and development spending and should benefit from the recent acquisitions of Peripherals Technology Solutions and Vision Group. Additionally, the Company has already made investments in buildings and facilities that will enable it to have the capacity to respond to a market recovery. Within this context, the Company expects to have the capacity to continue to outperform the served market in 1999.

Impact of Inflation

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 euro (with respect to prior periods, the Italian lira, the French franc, the German mark), the Japanese yen and other Asian currencies.

Revenues for certain products (primarily dedicated products sold in Europe and Japan) 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 invoicing and 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 manufacturing labor costs and depreciation charges, 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 euro, compared to the U.S. dollar can affect the Company's costs and therefore its profitability.

The appreciation in the U.S. dollar in 1998 compared to 1997 against the principal European and Asian currencies that have a material impact on the Company resulted in a favorable impact on results of operations for the period because the negative impact on net revenues was more than offset by the positive impact on cost of sales and operating expenses, resulting in a net favorable impact on operating income. Net revenues in 1997 were materially adversely affected by the depreciation of European currencies and the Japanese yen against the U.S. dollar due to the significance of the Company's sales in these currencies and the impact of translating such

local currency revenues into U.S. dollars. However, the net impact on operating income was favorable as the negative impact on net revenues was more than offset by the positive impact on cost of sales and operating expenses. In 1996, the U.S. dollar on average appreciated slightly against the principal European (except Italian) and Asian currencies which have a material impact on the Company. The exchange rate impact on results of operations in 1996 was not significant.

The Company's principal strategies to reduce the risks associated with exchange rate fluctuations have been (i) to increase the proportion of sales to customers denominated in U.S. dollars, (ii) to purchase raw materials and services in transactions denominated in U.S. 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 (iii) 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. From time to time, the Company purchases or sells currencies forward to cover currency risk in obligations or receivables. The Company has not experienced significant gains or losses as a result of exchange coverage 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. Furthermore, the introduction of the euro as of January 1, 1999, has served to reduce the number of currencies whose exchange rate fluctuations versus the U.S. dollar may impact the Company's results, thus making the Company's exposure to exchange rate fluctuations more concentrated.

Assets and liabilities of subsidiaries are, for consolidation purposes, translated into U.S. dollars at the period-end exchange rate. See Note 2.4 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 "accumulated other comprehensive income (loss)" in the consolidated statements of changes in shareholders' equity. The balance sheet impact of such translation adjustments has been, and may be expected to be, significant from period to period.

At December 31, 1998, the Company's outstanding indebtedness was denominated principally in U.S. dollars, Italian lire, and French francs. See Note 14 to the Consolidated Financial Statements.

Liquidity and Capital Resources

The Company's net cash generated from operations totaled $1,012.5 million in 1998 compared to $983.8 million in 1997 and $980.7 million in 1996. Significant amounts of net cash generated from operations in 1996, 1997 and 1998 coupled with capital increases undertaken by the Company in June 1998, which resulted in net proceeds to the Company of $208.8 million and in October 1995, which resulted in net proceeds to the Company of $371.6 million, enabled the Company to finance capital expenditures and strengthen its balance sheet over the last five years. The Company had a positive net financial position (cash, cash equivalents and marketable securities net of total debt) of $153.7 million at December 31, 1998 compared to a negative net financial position of $78.8 million at December 31, 1997. At December 31, 1998 cash and cash equivalents was $1,100.7 million, compared to $702.2 million at December 31, 1997 and $551.9 million at December 31, 1996. At December 31, 1998, the aggregate amount of the Company's long-term credit facilities was approximately $801 million, all of which was outstanding, and additionally the aggregate amount of the Company's short-term facilities was approximately $971 million, under which approximately $146 million of indebtedness was outstanding. At December 31, 1998, the Company had approximately $45 million of long-term indebtedness that will become due within one year and expects to fund such debt repayments from available cash.

In 1998, the Company's capital expenditure payments totaled $947.3 million, compared to $1,035.4 million in 1997 and $1,125.2 million in 1996. Capital expenditures for 1998 were devoted principally (i) to the expansion of the 8-inch front-end wafer fabrication plant in Crolles, France, (ii) to equip and upgrade both the new 8-inch and existing 6-inch front-end facilities at the Catania, Italy plant, (iii) to the extension and conversion of an existing facility in Agrate, Italy, (iv) to the expansion of the 6-inch facility in Carrollton, Texas, (v) to the ramp-up of production at the Phoenix, Arizona 8-inch front-end facility, (vi) to the expansion of the back-end facilities in Muar, Malaysia and (vii) to the expansion of the back-end facilities in Morocco, Malta and Shenzhen, China. Capital expenditures for 1997 were devoted principally (i) to equip and upgrade both the new 8-inch and existing 6-inch front-end facilities at the Catania, Italy plant, (ii) to the expansion of the 8-inch front-end wafer fabrication plant in Crolles, France, (iii) to the extension and conversion of an existing facility in Agrate, Italy, (iv) to the upgrading of the front-end facility and the construction of a new 8-inch wafer fabrication plant in Rousset, France, (v) to the ramp-up of production at the Phoenix, Arizona 8-inch front-end manufacturing facility, (vi) to the expansion of the back-end facility in Muar, Malaysia, (vii) to the expansion of the 6-inch facility in Carrollton, Texas, (viii) to the expansion of the back-end facilities in Singapore, Shenzhen (China), Malta and Morocco and (ix) to the upgrade of the wafer fabrication facility in Rancho Bernardo.

The Company currently expects that capital spending for 1999 will continue to be at levels at least as high as in 1997 and 1998, and possibly higher. The most significant of the Company's 1999 capital expenditure projects are expected to be the conversion from 6-inch to 8- inch and expansion at one of its front-end wafer fabrication plants in Agrate, Italy, the increase of capacity of the 8-inch facilities in Catania, Italy, the completion of construction of its new 8-inch front-end wafer fabrication facility in Rousset, France, the conversion of its facilities in Crolles, France to 0.25 micron and

0.18 micron processes, the increase of capacity of the 8-inch facilities in Phoenix, Arizona and the expansion of the back-end facilities in Muar and Morocco. The Company has also identified an additional 8-inch wafer fabrication facility to be built in Italy that is planned to be operational by the year 2001. The Company has decided to build a new 300 millimeter, 12-inch wafer

research fabrication and pilot line at Crolles (France) using 0.18 micron and below process technology. The pilot line will be operated in partnership with Leti and CNET, which are already working with the Company in Crolles. The Company has also announced plans for a new center for advanced research and development and industrialization in the field of nonvolatile memories in Agrate (Italy) to target 0.13 micron CMOS technology generation by 2003. The Company will continue to monitor its level of capital spending, however, taking into consideration factors such as trends in the semiconductor market, capacity utilization and announced additions.

In 1998, the Company's receivables from government agencies totaled $261.2 million compared to $154.9 million in 1997 and $217.3 million in 1996. The increase in 1998 was due primarily to the recognition of certain government contracts for which cash will be received in future periods. See Note 7 to the Consolidated Financial Statements. In 1998, the Company's advances from government agencies totaled $14.1 million compared to $10.1 million in 1997 and $10.7 million in 1996. See Note 15 to the Consolidated Financial Statements. The timing of receipt of funds under government contracts has been delayed from time to time in the past, and while generally the Company has received the amounts recorded in such receivables, there have been instances in which such funds ultimately have not been paid.

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, available support from third parties, and additional borrowings will be sufficient to meet its anticipated needs for liquidity through at least 1999.

Year 2000

STMicroelectronics has had a top priority program (the "Year 2000 Project") underway since the second quarter of 1997 for dealing with the year 2000 issue, and is currently evaluating its information technology infrastructure for year 2000 compliance and working with key customers and suppliers to ensure that their systems are year 2000 compliant. As part of the Year 2000 Project, a Company-wide task force has been assembled to identify, test, and correct or replace the Company's systems to ensure that they do not malfunction as a result of the year 2000. This task force reports directly to a corporate vice-president who produces a monthly report which is circulated to senior management and to the President and Chief Executive Officer. The main objectives of the Year 2000 Project are to minimize the negative impact of Year 2000-related date problems on the Company's operations and financial results as well as to instill in business partners and other stakeholders confidence in the Company's products and systems.

Year 2000 risks relate to the issues associated with the limitations of the programming code in many existing computer systems, whereby computer systems may not properly recognize date sensitive information at or after the turn of the year to 2000. Computer systems include, but are not limited to, computer systems embedded in production equipment, products containing computer systems, business data processing systems, production management and planning systems and personal computers. Systems that do not properly recognize such information on or after January 1, 2000 could generate erroneous data or fail. Associated problems include the use of certain codes such as "99" for certain functions. The Company has established its Year 2000 compliance definition to mean that the functions, calculations, and other computing processes of each of the products and systems (collectively, "Processes") perform in a consistent manner regardless of the date and time the Processes are actually performed, whether before, on, or after January 1, 2000 and regardless of whether the dates are affected by leap years, and further that each product will function without interruptions caused by the date and time on which the Processes are actually performed, whether before, on or after January 1, 2000 ("Year 2000 Compliance").

The Five-Phase Year 2000 Project

The Company's Year 2000 Project has five overlapping phases: (i) preparation (identification of the issues, creation of general awareness and the assignment of responsibility), (ii) sizing (completion of an inventory, determination of the costs and resources needed and assessment of risks), (iii) planning (allocation of work, preparation of budgets, and planning for contingencies), (iv) remediation and testing (ensuring that all products, items and systems are Year 2000 ready and testing that remediation is adequate), and (v) tuning (end-to-end testing and implementation of contingency plans).

The Company's Year 2000 Project focuses on addressing seven major areas of concern: (1) the Company's products, (2) manufacturing equipment, software and tools including embedded controllers, (3) facilities equipment with embedded controllers and software, (4) business application equipment and software, (5) suppliers, including materials, logistics, financial services and utilities suppliers, (6) design equipment and software, and (7) electronic data interchange (EDI) links with customers and distributors.

Readiness

As of December 31, 1998, all of the Company's groups had fully completed Phase 1 and substantially completed Phase 2. Phases 3 and 4 are well under way and Phase 5 is planned to be substantially completed during the second quarter of 1999. Inventories have been completed in all areas of the Company, status is known for approximately 98% of the items involved, and approximately 42% of items have a status of tested and certified compliant. For

the 58% not yet tested and certified compliant, approximately 60% of the preparatory work has been completed. Globally, the Company is near 75% completion relative to the total work load, and is on schedule relative to the Year 2000 Project plan. The Company has determined the magnitude of the remaining tasks (completion of Phases 3, 4, and 5), and has fixed schedules and assigned resources accordingly. As at the end of 1998, compliant systems for all business functions with a one year time horizon, i.e. order processing and certain planning functions had been put in place. The Company anticipates being fully compliant in all essential manufacturing and business systems by the end of June 1999. The Company believes that the remaining tasks will be limited, and contingency plans will be developed for matters not resolved that may have a material adverse impact on the Company. The Company intends to define any such contingency plans by the end of June 1999 with a view towards implementing them prior to the end of 1999. In view of the possibility of less than 100% compliance, the Company anticipates that the year 2000 task force will remain active at least until the end of the first quarter of 2000.

Products: All of the Company's products have been determined to be Year 2000 Compliant (as such compliance is defined above). For the majority of the Company's products, compliance is due to the fact that these products do not contain any date or date functions, and do not accept any time or date inputs. The exception is the "Timekeeper" product series, which is a battery- backed RAM product that records time and date information. All "Timekeeper" products are Year 2000 Compliant. However, the system software used in "Timekeeper" products, which is not written by the Company but by its customers, must take into account that certain of these products store only the last two digits of the year, and such software code needs to be checked by the customer. However, when the Company's products are used in systems with software loaded by users or others, the software programs could have potential year 2000 problems. The Company has advised customers to check such systems, and has also begun a communication campaign to educate customers about potential year 2000 issues and the Company's products in particular. New product developments, if date-sensitive, will be designed with four digit years. Certain products are by their nature likely to be used in third-party products which process dates. It is possible for these third-party products to have non-compliant software. The Company is in the process of contacting all known customers of these products to invite them to review their designs.

The results of the Company's evaluation of its portfolio of existing products which has not identified any past or current semi-conductor products which mis-process dates is being made available to the public through the Company's web site at www.st.com. Also, the Company, to date, has not been notified by third parties of any problems.

Manufacturing equipment with embedded controllers and software: Some of the tools and equipment (hardware and software) used to develop and manufacture the Company's products are date-sensitive. The Company has compiled an inventory of all manufacturing and facilities equipment, and has identified all non-Year 2000 Compliant items. As part of its Year 2000 Project, the Company has implemented a plan of remediation, in cooperation with its principal suppliers. At the end of December 1998, 36% of front-end equipment and 76% of back-end equipment had been tested or certified compliant. The Company's target is to have 100% tested compliance by the end of June 1999, but there remains the possibility of some delays due to the late delivery of solutions by certain suppliers. Testing is being coordinated with equipment manufacturers and Sematech (a forum for cooperation set up by the major semiconductor manufacturers) to minimize production disruption.

Facilities equipment with embedded controllers and software: Embedded systems used to control lifts, lighting, heating, air-conditioning, fire protection, safety systems and entry control (among others) have been identified in each site (with help from the corporate manufacturing organization) and are being tested with the help of suppliers. Several sites use the same facility management system, which the Company expects will speed progress. At the end of 1998, 62% of facilities equipment was tested or certified compliant.

Computing and telecommunications infrastructure: The Company has received assurances from its telecom network service provider, that its private corporate wide-area network infrastructure is already Year 2000 Compliant for data and network administration services and will be compliant for voice in the first half of 1999. All Company equipment used to connect to that network is being made compliant. The Company has made available compliant firmware for all standard components of the local-area networks (routers, hubs, etc.) and upgrades and testing will be completed by June 1999. The links between Company sites and the service provider network are provided by national carriers from whom we have received no statement of compliance, so the Company has asked the service provider to test each of these links for compliance. The Company is also working with its information technology providers to obtain Year 2000 Compliant versions of all operating systems and basic software for computing data processing platforms and these should be implemented throughout the Company in the second quarter of 1999. As part of its normal operations, the Company is continuously upgrading its business software systems including its financial accounting, sales order management and human resources systems, and as part of those upgrades is securing year 2000 compliance. For applications which are not otherwise being upgraded, specific year 2000 compliance is being worked on internally. The Company expects to complete most such upgrades between the end of 1998 and mid-1999.

Suppliers: The Company has contacted its significant corporate suppliers of equipment and materials, and is in the process of contacting its significant local suppliers. As at December 31, 1998, 26 out of 73 corporate materials

suppliers and 50 out of 77 corporate equipment suppliers have indicated that they are currently Year 2000 Compliant. Substantially all other significant suppliers are on schedule to achieve Year 2000 Compliance in due time before January 1, 2000. The Company has identified a small number of critical suppliers which require further investigation. The Company intends to continue to work closely with all of its suppliers with a

view of ensuring full Year 2000 Compliance, or, in the event compliance cannot be achieved and such failure would result in a business interruption for the Company, to allow it to develop and implement the necessary contingency plans.

The Company has contacted its distributors and key customers to ensure that each such business partner is dealing with the year 2000 issue, and in order to identify and test interfaces for orders, delivery and payment. The Company's existing logistical applications have been made compliant. Each site has contacted its local/national utilities suppliers (electricity, gas, water supply, sewage and telephone network) to ensure they are aware of the year 2000 problem and to establish their year 2000 readiness. The suppliers of major concern are utilities suppliers, primarily electricity suppliers.

Design equipment and software: Remediation and testing have been completed.

EDI: EDI transactions are inherently date sensitive. All EDI partners worldwide have been contacted to invite them to change to compliant standard message formats (ANSI 4010 or EDIFACT 92.1) or to implement windowing and all have confirmed that they will do so. Any partner who is not ready in time will be dropped from EDI and will revert temporarily to manual processing.

Costs

The Company has estimated the total capital costs related to its year 2000 activities to be in the range of approximately $50 million, of which the majority remains to be spent. The Company expects to finance all of the year 2000 costs from available cash resources. These costs do not include costs for potential litigation, write-offs of equipment, external support, and miscellaneous expenses. Substantially all of the year 2000 remediation work is carried out by the Company's current employees. Furthermore, the Company estimates that in total more than 400 man years will be spent on dealing with the internal year 2000 issues, mainly during 1998 and the first half of 1999. While the Company has not hired additional workers to deal with the year 2000 issues, it has had to postpone other work because of the time spent on year 2000 matters. In addition to the above-mentioned costs, the need to shut down tools and equipment for remediation and testing is expected to cause the Company to suffer some loss of manufacturing capacity. The Company believes, however, that due to its current levels of utilization of capacity, the maximum impact on potential billings resulting from any such manufacturing loss will be less than 4%, which amount is less than normal planning and forecasting error.

The Company does not believe that the incremental costs of addressing year 2000 issues will have a material adverse effect on its consolidated results of operations, liquidity or capital resources. The Company regularly reviews and updates data for costs incurred and forecasted. Business groups within the Company do not specifically account for internal costs (salaries, travel, etc.) in becoming Year 2000 Compliant. As the Company continues to assess the last phases of the Year 2000 Project, estimated costs may change. While the cost of the project and the expected date for completion are based on the best information available to management, such estimates have been made based on a number of variable factors and hypotheses about future events, including the continuing availability of certain resources, modifications of third-party systems and other factors. No assurance can be given that such estimates or costs will not differ significantly from those described above. The factors which could adversely affect management's estimations include the availability and cost of qualified personnel, the availability and/or cost of compliant upgrades from suppliers, the ability to find and correct all programming codes implicated by the year 2000 and similar uncertainties.

Major Risks of Year 2000 Issues

While the Company believes that its Year 2000 Project will enable it to identify and remedy major issues relating to the year 2000, there can be no assurance that the Company's operations and financial results will not be adversely materially affected by the known and unknown threats posed by the year 2000 issues. Due to its nature and the presence of computer technology in virtually all levels of the commercial chain, year 2000 failures can occur at several stages, either internally or externally. It is therefore practically impossible for the Company to ensure that its operations will be immune to any such failure, wherever it may occur along the line. Were any of the measures taken by the Company to fail to provide the expected safeguards, or were any of the critical suppliers of the Company to encounter major difficulties due to a year 2000 related problem, such occurrences could have a material adverse effect on the Company's results of operations.

The Company has identified potential failures in the supply of raw materials and in the logistical transportation chain which can cause material interruptions to the Company's normal operations. Suppliers of major concern are the utilities companies, primarily electricity suppliers, who to date have been unwilling to provide assurances that they will be year 2000 ready. Tests conducted to date in century rollover simulations involving such suppliers have resulted in failures. While the Company has started dialogues with such suppliers at the highest levels, a failure in the supply of electricity could shut down one or more of the Company's manufacturing sites. Shifting production in the short time involved is not feasible and such interruptions would cause loss of production as well as significant unrecoverable loss of valuable work-in-process. Failures in the transportation chain, due to such developments as air transportation delays, could have an adverse impact on the Company's purchase and sales flow. Given that the Company purchases raw materials such as silicon wafers, lead frames, mold compound, ceramic packages and chemicals and gases from a number of suppliers on a just-in-time basis, any significant disruption in international/national commercial flows could materially impact

the Company's operations.

Contingency Plan

The Company's Year 2000 Project includes a review and prioritization of the possible problems and a series of possible responses to each of the major risks. Of such risks and contingency plans, the following are the most important ones: (1) in the case of a supplier

with serious year 2000 compliance problems, the Company's contingency plan requires it to identify alternative sources of supply. Alternative sources have already been qualified for all corporate materials; (2) in the case of delivery delays, the Company's contingency plan requires it to review stock levels of critical supplies to avoid interruptions in production; (3) in the case of applications which cannot be rolled out to all sites before January 1, 2000, the Company's contingency plan requires it to change business processes to shorten the time horizon or supplement the computer application with human intervention; (4) in the case of loss of key personnel during the Year 2000 Project, the Company's contingency plan requires it to promote teamwork and cross-training to ensure that adequate backup personnel are available; (5) in the case of incorrect results due to date errors, before or after January 1, 2000, the Company's contingency plans require it to train users to be alert for unexpected results and to develop a support team to deal quickly and effectively with such developments; and (6) in the event previously undetected date processing errors halts production on January 1, 2000, the Company's contingency plan requires key maintenance personnel to be on standby in all of the Company's sites as well as at the critical suppliers. The Company also intends to schedule a light processing load over the New Year in the year 2000.

As the Company continues to review and complete the last phases of the Year 2000 Project it expects to establish additional contingency measures as appropriate. There can be no guarantee, however, that the Company will be able to successfully prevent major disruptions by means of such contingency measures.

This disclosure is a Year 2000 Readiness Disclosure within the meaning of the US Year 2000 Information and Readiness Disclosure Act of 1998 to the extent that the disclosure relates to Year 2000 processing of the Company or products or services offered by the Company.

It should be noted that certain statements herein which are not historical facts, including, without limitation those regarding 1) the projected extent and timing of Year 2000 Compliance for the Company's products, systems, and facilities as well as those of third parties; 2) the estimated costs of Year 2000 Compliance activities, including actions currently contemplated and actions, including contingency plans, decided upon in the future; 3) the estimated impact on the Company's business, results and financial condition of failures by it or third parties to adequately address year 2000 issues; and 4) certain statements preceded by "believes", "expects", "aims", "intends", "estimates", "anticipates", or similar expressions, are forward looking statements. Because such statements involve risks and uncertainties, actual events may differ materially from those currently expected by the Company. Factors that could cause such differences include, but are not limited to 1) additional information the Company may discover concerning the status of Year 2000 Compliance of the products, systems and facilities or those of third parties as part of the Company's Year 2000 Project; 2) failures of others, including public utilities, financial institutions, communications companies, transportation providers, customers, computer manufacturers and software providers, as well as other providers of resources on which the Company relies, to identify, disclose and address year 2000 issues accurately and on a timely basis; 3) the inability of year 2000 consultants, experts and advisers to adequately identify and address year 2000 issues as planned; 4) changes in technologies or methodologies used in identifying and addressing year 2000 issues in products, systems and facilities; 5) the effectiveness and costs of contingency plans the Company may develop as it learns more about the status of its own and others' Year 2000 Compliance and readiness; and 6) factors that could affect the Company's business, results and financial condition generally, including the risk factors specified in the Company's Prospectus dated June 5, 1998.

Compensation

The aggregate cash compensation payable for 1998 to the members of the Supervisory Board by the Company was approximately $240,000. The amount of cash compensation for 1998 paid to the executive officers of the Company and members of the Management Board as a group by the Company and its subsidiaries was approximately $7.5 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 the Management Board were also covered in 1998 under certain group life and medical insurance programs provided by the Company. The aggregate additional amount set aside by the Company in 1998 to provide pension, retirement or similar benefits for executive officers and the Management Board of the Company as a group is estimated to have been approximately $3.3 million. The Stock Option Plans are described in Note 11 to the Consolidated Financial Statements.

Euro Conversion

On January 1, 1999, eleven of the fifteen member countries of the European Union established fixed conversion rates between their existing national currencies and the euro. The participating countries have agreed to adopt the euro as their common legal currency on that date. Until January 1, 2002, either the euro or a participating country's present currency (a "national currency") will be accepted as legal currency. On January 1, 2002, euro-denominated bills and coins will be issued and national currencies will be withdrawn from circulation. The Company does not expect that introduction and use of the euro will materially affect its foreign exchange activities, or its use of derivatives and other financial instruments, or will result in any material increase in costs to the Company. The Company will continue to assess the impact of the introduction of the euro currency over the transition period as well as the period subsequent to the transition, as applicable.

Consolidated Statement of Income

Year ended December 31, (in thousands of US dollars except per share amounts)	1996	1997	1998
Net sales	4,078,246	3,969,773	4,210,618
Other revenues	44,114	49,372	37,134
Net revenues	4,122,360	4,019,145	4,247,752
Cost of sales	(2,414,706)	(2,457,386)	(2,622,943)
Gross profit	1,707,654	1,561,759	1,624,809
Selling, general and administrative	(421,012)	(454,311)	(488,072)
Research and development	(532,294)	(610,847)	(689,785)
Other income and expenses	45,074	23,218	76,458
Operating income	799,422	519,819	523,410
Net interest income (expense)	(11,169)	(2,646)	8,691
Gain on disposal of investment	7,263	0	0
Income before income taxes & minority interests	795,516	517,173	532,101
Income tax expense	(171,638)	(113,017)	(120,351)
Income before minority interests	623,878	404,156	411,750
Minority interests	1,666	2,398	(629)
Net income	625,544	406,554	411,121
Earnings per share (Basic)	4.50	2.92	2.92
Earnings per share (Diluted)	4.49	2.91	2.89

The accompanying notes are an integral part of these financial statements

Consolidated Balance Sheet

As at December 31, (in thousands of US dollars)	1997	1998
Assets		
Current assets		
Cash and cash equivalents	702,157	1,100,752
Trade accounts and notes receivable	644,017	779,489
Inventories	593,520	644,279
Other receivables and assets	413,914	509,129
Total current assets	2,353,608	3,033,649
Intangible assets, net	26,423	33,571
Property, plant and equipment, net	3,046,813	3,333,005
Investments and other non-current assets	18,895	33,804
	3,092,131	3,400,380
Total assets	5,445,739	6,434,029
Liabilities and shareholders' equity		
Current liabilities		
Bank overdrafts	365,944	146,040
Short-term debt and current portion of long-term debt	58,614	45,245
Trade accounts and notes payable	592,315	564,457
Other payables and accrued liabilities	320,427	327,681
Accrued and deferred income tax	295,207	345,253
Total current liabilities	1,632,507	1,428,676
Long- term debt	356,407	755,864
Reserves for pension and termination indemnities	94,938	111,803
Other non-current liabilities	38,636	32,364
	489,981	900,031
Total liabilities	2,122,488	2,328,707
Minority interests	15,805	22,012
Capital stock	1,073,990	1,096,743
Capital surplus	930,945	1,135,526
Accumulated result	1,616,292	2,027,413
Accumulated other comprehensive income (loss)	(313,781)	(176,372)
Shareholders' equity	3,307,446	4,083,310
Total liabilities and shareholders' equity	5,445,739	6,434,029

Other commitments and contingencies: Note 24
The accompanying notes are an integral part of these financial statements

Consolidated Statement of Cash Flows

As at December 31, (in thousands of US dollars)	1996	1997	1998
Cash flows from operating activities:			
Net income	625,544	406,554	411,121
Add (deduct) non-cash items:			
Depreciation and amortization	535,908	608,123	704,004
Gain on disposal of investment	(7,263)	0	0
Other non-cash items	7,298	19,015	13,016
Minority interest in net income of subsidiaries	(1,666)	(2,398)	629
Deferred income tax	58,515	(3,157)	34,333
Changes in assets and liabilities:			
Trade receivables	(71,774)	(74,721)	(115,879)
Inventories	(80,517)	(149,642)	(18,807)
Trade payables	(38,019)	73,790	45,982
Other assets and liabilities, net	(47,359)	106,227	(61,852)
Net cash from operating activities	980,667	983,791	1,012,547
Cash flows from investing activities:			
Payment for purchases of tangible assets	(1,125,205)	(1,035,434)	(947,253)
Proceeds from sale of investment	8,420	0	0
Other investing activities	(5,493)	(11,576)	(18,997)
Net cash used in investing activities	(1,122,278)	(1,047,010)	(966,250)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt	84,623	250,759	424,955
Repayment of long-term debt	(54,085)	(80,238)	(72,396)
Increase (decrease) in short-term facilities	(106,239)	68,869	(233,261)
Capital increase	16,671	9,669	233,334
Net cash from (used in) financing activities	(59,030)	249,059	352,632
Effect of changes in exchange rates	(1,509)	(35,579)	(334)
Net cash increase (decrease)	(202,150)	150,261	398,595
Cash and cash equivalents at beginning of the year	754,046	551,896	702,157
Cash and cash equivalents at end of the year	551,896	702,157	1,100,752

The accompanying notes are an integral part of these financial statements

Consolidated Statement of Changes in Shareholders' Equity

(in thousands of US dollars)	Capital Stock	Capital Surplus	Accumulated Result	Accumulated Other Comprehensive Income (loss)	Shareholders' Equity
Balance as of December 31, 1995	1,066,528	922,065	584,039	89,083	2,661,715
Capital increase	6,405	8,847			15,252
Deferred compensation		(582)	155		(427)
Comprehensive income					
Net Income			625,544		625,544
Other comprehensive income, net of tax				(42,064)	(42,064)
Comprehensive income					583,480
Balance as of December 31, 1996	1,072,933	930,330	1,209,738	47,019	3,260,020
Capital increase	1,057	615			1,672
Comprehensive income					
Net Income			406,554		406,554
Other comprehensive income, net of tax				(360,800)	(360,800)
Comprehensive income					45,754
Balance as of December 31, 1997	1,073,990	930,945	1,616,292	(313,781)	3,307,446
Capital increase	22,753	204,581			227,334
Comprehensive income					
Net Income			411,121		411,121
Other comprehensive income, net of tax				137,409	137,409
Comprehensive income					548,530
Balance as of December 31, 1998	1,096,743	1,135,526	2,027,413	(176,372)	4,083,310

The accompanying notes are an integral part of these financial statements

Notes to Consolidated Financial Statements
(Currency--Thousands of U.S. dollars)

One -- The Company

STMicroelectronics N.V. (formerly known as 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.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, 1998, the Company was 56.05% (December 31, 1997: 68.90%) owned by STMicroelectronics II B.V., and 43.95% by the public (December 31, 1997: 31.10%)

At December 31, 1997 and at December 31, 1998, STMicroelectronics II B.V. was 100% owned by STMicroelectronics Holding N.V.

At December 31, 1997, and at December 31, 1998 STMicroelectronics Holding N.V. was owned as follows:

- 50% by FT1CI, a French holding company, whose shareholders are CEA-Industrie (51%) and France Telecom (49%)

- 50% 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%).

Two -- Summary of accounting policies

2.1 Principles of consolidation

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

The Company's consolidated financial statements include the assets, liabilities and results of operations of its majority-owned subsidiaries. The ownership of the other interest holders is reflected as minority interests. All intercompany accounts and transactions have been eliminated in consolidation.

The initial combination of the SGS Microelettronica and Thomson Semiconducteurs civilian semiconductor 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.

2.2 Use of estimates

The preparation of the Company's financial statements in accordance with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes to the financial statements.

Actual results could differ from those estimates and may affect amounts reported in future periods. Management believes that the estimates are reasonable.

2.3 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 in the semiconductor industry whereby the distributors are allowed to return merchandise under certain circumstances and may receive future price reductions. Provision is made at the time of sale for estimated product returns and price protection which may occur under programs the Company has with these customers.

Subsidies: Government subsidies are recognized as the 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 (certain costs incurred to bring prototype products to the production stage) are offset against related expenses in "cost of sales." Government subsidies for capital expenditures are deducted from the cost of the related fixed assets.

2.4 Foreign currency

The United States dollar is the reporting currency for the Company because the dollar is the currency of reference in terms of market pricing in the world-wide semiconductor industry. Furthermore, there is no currency in which the majority of transactions are denominated, and revenues from external sales in US dollars exceed revenues in any other currency.

The functional currency used by each subsidiary throughout the group is generally the local currency. For consolidation purposes, assets and liabilities

of these subsidiaries are translated at current rates of exchange at the balance sheet date. Income and expense items are translated at the average exchange rate for the period. The effects of translating the financial position and results of operations of local functional currency are included in "other comprehensive income."

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.

The Company covers certain portions of its foreign currency exposure primarily through the use of forward contracts and option contracts. Generally, gains and losses associated with currency rate changes on forward contracts are recorded currently in "other income and expenses," while the interest element is recognized over the life of each contract and is included in operations. The Company utilizes foreign exchange forward contracts and foreign currency options to protect the Company from the effect of currency fluctuations on its probable anticipated transactions.

2.5 Intangible assets

Intangible assets include the cost of technologies and licenses purchased from third parties, amortized over a period ranging from five to eighteen years, and goodwill acquired in business combinations amortized over its estimated useful life, generally five to fifteen years.

The carrying value of long-lived assets, including intangibles, is evaluated whenever changes in circumstances indicate the carrying amount of such assets may not be recoverable. In performing such review for recoverability, the Company compares the expected future cash flow to the carrying value of long-lived assets and identifiable intangibles. If the anticipated undiscounted future cash flows are less than the carrying amount of such assets, the Company recognizes an impairment loss for the difference between the carrying amount of the assets and their estimated fair value.

2.6 Property, plant and equipment

Property, plant and equipment are stated at cost, net of government subsidies. Major renewals and improvements are capitalized; minor replacements, maintenance and repairs are charged to current operations. Depreciation is computed using the straight-line method over the following estimated useful lives:

Buildings	33 years
Leasehold improvements	10 years
Machinery and equipment	6 years
Computer 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 over the shorter of the estimated useful life or the lease term.

2.7 Investments

The equity accounting method is used when the Company has both a 20% to 50% equity interest and the ability to exercise significant influence over the investee. Marketable debt and equity securities and other equity investments are classified as "available for sale" securities and stated at fair value.

2.8 Inventories

Inventories are stated at the lower of cost or market. Cost is computed on a currently adjusted standard basis which approximates actual cost on a current average basis.

2.9 Research and development

Research and development costs are charged to expense as incurred. Research and development costs include costs incurred by the Company as well as the Company's share of costs incurred by two French research and development interest groups. 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".

2.10 Start-up costs

Start-up costs incurred to expand the Company's manufacturing facilities are included in "other income and expenses" in the accompanying consolidated statement of income.

2.11 Pension and termination indemnities

The Company sponsors various retirement plans for its employees; such plans include both defined benefit and defined contribution plans. 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.

2.12 Income taxes

The provision for current taxes represents the income taxes expected to be payable for the current year. 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 where necessary to reduce deferred tax assets to the amount expected to be "more likely than not" realized in the future. Tax rate changes are reflected in income in the period such changes are enacted.

2.13 Advertising costs

Advertising costs are expensed as incurred. Advertising expenses for 1996, 1997 and 1998 were $12,686, $14,523 and $16,012 respectively.

2.14 Earnings per share

Basic earnings per share are computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share are computed by dividing net income (less interest expense, net of tax

effects, related to convertible debt) by the weighted average number of common shares and common share equivalents outstanding during the period. The weighted average shares used to compute diluted earnings per share include the incremental shares of Common Stock relating to outstanding options and convertible debt to the extent such incremental shares are dilutive.

2.15 Comprehensive income

In 1998, the Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income", (FAS 130). FAS 130 established standards for reporting comprehensive income and its components and accumulated balances. Comprehensive income is defined as the change in equity of a business during a period from transactions and circumstances related to non-owner sources, and includes all changes in equity except those resulting from investment by owners and distributions to owners. In the Company's case, "other comprehensive income" consists of foreign currency translation adjustments.

2.16 Reclassifications

Certain prior year amounts have been reclassified to conform with the current year presentation.

2.17 Recently issued accounting standards

In March 1998, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" effective for financial statements beginning after December 15, 1998. This statement provides guidance on accounting for the costs of computer software developed or obtained for internal use. The Company will adopt the standards required by this statement in 1999.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities", (FAS 133) effective for fiscal years beginning after June 15, 1999. This statement establishes accounting and reporting standards for derivative instruments and requires recognition of all derivatives as assets or liabilities in the balance sheet, and the measurement of those instruments at fair value. The Company will adopt the standards required by this statement in the first quarter of fiscal year 2000.

Management has not fully evaluated the impact, if any, that these new standards may have on future financial statement disclosure.

Three -- Consolidated entities

The consolidated financial statements include the accounts of STMicroelectronics N.V. and the following entities as of December 31, 1998:

Legal Seat		Name	Common Stock (Thousands)	Percentage Ownership (Direct or Indirect)
United Kingdom	London	STMicroelectronics LTD	1,000 GBP	100
	London	Thomson Components LTD	1,150 GBP	100
	Bristol	STMicroelectronics E.E.I.G.	0 GBP	100
Sweden	Stockholm	STMicroelectronics A.B.	16,000 SEK	100
Germany	Munich	STMicroelectronics GmbH	12,901 DEM	100
Switzerland	Geneva	STMicroelectronics S.A.	500 CHF	100
Malta	Malta	STMicroelectronics LTD	21,590 MTP	100
Spain	Madrid	STMicroelectronics S.A.	55,000 ESP	100
France	Paris	STMicroelectronics S.A.	3,463,319 FRF	100
	Paris	STMicroelectronics S.A.S.	250 FRF	100
Italy	Milano	STMicroelectronics S.R.L.	852,000,000 ITL	100
	Catania	CORIMME	3,000,000 ITL	100
Singapore	Singapore	STMicroelectronics PTE LTD	179,997 SGD	100
	Singapore	STMicroelectronics ASIA PACIFIC PTE LTD	13,982 SGD	100
Malaysia	Muar	STMicroelectronics SDN BHD	196,805 MYR	100
	Muar	STMicroelectronics (Malaysia) SDN BHD	0.002 MYR	100
Japan	Tokyo	STMicroelectronics KK	68,000 JPY	100
Hong Kong	Hong Kong	STMicroelectronics LTD	780 HKD	100
Australia	Sydney	STMicroelectronics PTY LTD	185 AUD	100
United States	Dallas	STMicroelectronics Inc.	22,000 USD	100
	Rancho Bernardo	STMicroelectronics (RB), Inc.	1 USD	100
	Dallas	STMicroelectronics Leasing Co Inc.	1 USD	100
	La Jolla	Metaflow Technologies Inc.	87 USD	85
Brazil	Sao Paulo	STMicroelectronics Ltda	0 R$	100
Morocco	Casablanca	STMicroelectronics S.A.	66,000 MAD	100
	Casablanca	Electronic Holding S.A.	3,110 MAD	100
China	Shenzhen	Shenzhen STS Microelectronics Co LTD	65,000 USD	60
	Shenzhen	STMicroelectronics (Shenzhen) Co LTD	250 USD	100
India	New Delhi	STMicroelectronics PTE LTD	62,000 INR	100
Finland	Helsinki	STMicroelectronics OY	2,000 FIM	100

Four -- Cash and cash equivalents

Cash and cash equivalents consist of the following:

December 31,	1997	1998
Cash	653,898	1,078,098
Marketable securities (with maturity under 3 months)	48,259	22,654
Total	702,157	1,100,752

Marketable securities (all of which mature within three months) consist mainly of short term cash investments. There was no significant difference between the book value of traded marketable securities and their fair market value as of December 31, 1997 and 1998.

Five -- Trade accounts and notes receivable

Trade accounts and notes receivable consist of the following:

December 31,	1997	1998
Trade accounts and notes receivable	659,245	789,983
Less valuation allowance	(15,228)	(10,494)
Total	644,017	779,489

During 1996, 1997 and 1998 no customer individually represented over ten percent of consolidated net revenues.

Six -- Inventories

Inventories consist of the following:

December 31,	1997	1998
Raw materials	114,712	107,546
Work-in-process	341,537	392,666
Finished products	137,271	144,067
Total	593,520	644,279

Seven -- Other receivables and assets

December 31,	1997	1998
Receivables from government agencies*	154,916	261,194
Taxes and other government receivables	60,474	64,573
Down payment to suppliers	814	6,274
Loans to employees	3,197	3,580
Prepaid expenses	14,062	18,222
Sundry debtors	55,475	23,989
Deferred tax	96,139	92,795
Other	28,837	38,502
Total	413,914	509,129

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

Eight -- Intangible assets

Intangible assets consist of the following:

December 31,	1997	1998
Technologies and licenses, gross	72,189	86,368
Less accumulated amortization	(45,766)	(52,797)
Total	26,423	33,571

Nine -- Property, plant and equipment

Property, plant and equipment consist of the following:

December 31, 1997	Gross	Depreciation	Net
Land and buildings	490,707	(102,409)	388,298
Machinery and equipment	4,391,066	(2,138,115)	2,252,951
Other tangible fixed assets	307,844	(209,088)	98,756
Construction in progress	306,808	--	306,808
Total	5,496,425	(2,449,612)	3,046,813

December 31, 1998	Gross	Depreciation	Net
Land and buildings	506,140	(118,415)	387,725
Machinery and equipment	5,357,281	(2,866,957)	2,490,324
Other tangible fixed assets	360,123	(253,956)	106,167
Construction in progress	348,789	--	348,789
Total	6,572,333	(3,239,328)	3,333,005

Included in the above categories are assets recorded under capitalized leases with original costs totaling $7,805 in 1997 and $8,355 in 1998.

Ten -- Investments and other non-current assets

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

December 31,	1997	1998
Investments carried at fair value	10,334	11,403
Long-term deposits and receivables	8,561	13,053
Discount on LYONs	0	9,348
Total	18,895	33,804

Long-term deposits and receivables consist primarily of indemnities receivable from third parties on the sale of businesses, which bear interest or are discounted to reflect their present value.

Eleven -- Shareholders' equity

Public offerings of shares: In December 1994, the Company increased its capital stock through an initial public offering of 9,606,240 new shares of capital stock, which resulted in an increase in capital stock and capital surplus of $75,049 and $123,772, respectively. In connection with a secondary offering of capital stock in October 1995, the Company issued 8,960,000 new shares of capital stock, which resulted in an increase in capital stock and capital surplus of $79,356 and $292,075, respectively. In connection with a secondary offering of capital stock in June 1998, the Company issued 3,000,000 new shares of capital stock, which resulted in an increase in capital stock and capital surplus of $20,378 and $188,320, respectively.

Outstanding shares: The authorized share capital of the Company is NLG 2,750,000,000, consisting of 200,000,000 shares, each with a nominal value of NLG 13.75. As of December 31, 1996, 1997 and 1998, the number of shares of capital stock outstanding at a par value of NLG 13.75 were 138,985,580 shares, 139,132,397 shares and 142,478,106 shares, respectively.

Stock option plans: In 1989, the Shareholders voted to adopt the 1989 Stock Option Plan (the "1989 Plan") and approved the issuance of 1,634,400 options to 136 employees to purchase capital stock. Under the 1989 Plan, the options vested over four years and are exercisable for ten years at an exercise price of NLG 17.50.

In 1995, the Shareholders voted to adopt the 1995 Stock Option Plan (the "1995 Plan") whereby options for up to 5,500,000 shares may be granted in installments over a five year period. Under the 1995 Plan, the options may be granted to purchase shares of capital stock at a price not lower than the market price of the shares on the date of grant, and generally vest over four years and are exercisable over a period of eight years. In March 1996, the Company granted 1,200,000 options to employees at an exercise price of $36.25 per share. In September 1997, the Company granted 645,500 options to employees at an exercise price of $85.375 per share. In July 1998, the Company granted 650,000 options to employees at an exercise price of $72.1875 per share.

In 1996, the Shareholders voted to adopt the Supervisory Board Option Plan whereby members of the Supervisory Board may receive, during the three year period 1996-1998, 3,000 options for 1996 and 1,500 options for both 1997 and 1998, to purchase shares of capital stock at the closing market price of the shares on the date of the grant. In the same three-year period, professionals of the Supervisory Board may receive 1,500 options for 1996 and 750 options for both 1997 and 1998. Under the Plan, the options vest over one year and are exercisable for a period expiring eight years from the date of grant. In October 1996, options to purchase 33,000 shares were granted at an exercise price of $54.00 per share. In September 1997, options to purchase 15,000 shares were granted at an exercise price of $85.375 per share. In July 1998, options to purchase 15,000 shares were granted at an exercise price of $72.1875 per share.

A summary of stock option transactions for the plans follows:

	Number of Shares	Price Per Share Range	Price Per Share Average
December 31, 1995	810,200	17.5-25 NLG	0.0 NLG
Options granted			
1995 Plan	1,200,000	$36.25	$36.25
Supervisory Board Plan	33,000	$54.00	$54.00
Options cancelled	(16,500)	$36.25	$36.25
Options exercised	(531,790)	17.5-25 NLG	20.1 NLG
December 31, 1996	1,494,910	17.5-25 NLG	20.1 NLG
		$36.25-$54.00	$36.73
Options granted			
1995 Plan	645,500	$85.38	$85.38
Supervisory Board Plan	15,000	$85.38	$85.38
Options cancelled	(18,000)	$36.25-$85.375	$44.98
Options exercised	(137,380)	$8.67-$36.25	$10.36
December 31, 1997	2,000,030	17.5-25 NLG	20.8 NLG
		$36.25-$85.375	$53.19
Options granted			
1995 Plan	650,000	$72.19	$72.19
Supervisory Board Plan	15,000	$72.19	$72.19

Options cancelled	(9,565)	$36.25-$85.375	$47.98
Options exercised	(57,410)	$8.67-$54.00	$12.82
December 31, 1998	2,598,055	17.5-25 NLG $36.25-$85.375	23.5 NLG $58.83

Employee offering plan: In December 1995, the Company offered to certain of its employees world-wide the right to acquire up to 1,000 shares of capital stock per employee, at a price of $33.725 per share, representing a discount of five percent from the market price. A total of 243,710 shares were sold to participating employees world-wide as a result of the offering. Participating employees who purchased shares in the offering and who held such

shares for at least one year were entitled to purchase, for a price of 13.75 NLG, one share for each ten shares purchased in the offering.

In June 1998, the Company offered to certain of its employees world-wide the right to acquire up to 400 shares of capital stock per employee, at a price of $63.525 (377.15 French francs, 110,800 Italian lira) per share, representing a discount of twelve percent from the market price. A total of 288,299 shares were issued to participating employees world-wide as a result of the offering.

Fair value of stock-based compensation: The Company applies the intrinsic-value-based method prescribed by Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" (APB 25), and related Interpretations, in accounting for stock-based awards to employees. Under APB 25, the Company generally recognizes no compensation expense with respect to such awards.

Pro forma information regarding net income and earnings per share is required by Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation" (FAS 123) as if the Company had accounted for its stock-based awards to employees under the fair value method prescribed by FAS 123. The fair value of the Company's stock based awards to employees was estimated using a Black-Scholes option pricing model. The fair value was estimated assuming no expected dividends and the following weighted-average assumptions:

	1996	1997	1998
Expected life (years)	5	5	5
Expected stock price volatility	55%	40%	38%
Risk-free interest rate	5%	6%	5%

For pro forma purposes, the estimated fair value of the Company's stock-based awards to employees is amortized over the options' vesting period. The Company's pro forma information is as follows:

Year ended December 31,	1996	1997	1998
Net income			
As reported	625,544	406,554	411,121
Pro forma	621,449	399,509	393,949
Earnings per share			
As reported	4.50	2.92	2.92
Pro forma	4.48	2.87	2.80

These pro forma amounts include amortized fair values attributable to options granted after December 31, 1995 only, and are therefore not representative of future pro forma amounts.

Retained earnings: At December 31, 1998, the amount of retained earnings available to pay dividends under Dutch law was approximately $2,987,000 (1997: 2,233,000). Retained earnings for purposes of this calculation are based upon generally accepted accounting principles in The Netherlands. The Company's subsidiaries are subject to the laws of the countries in which they are domiciled. These laws may restrict the ability of the subsidiaries to transfer funds to the Company. Such restrictions are not considered to be significant as of December 31, 1998.

Twelve -- Earnings per share

For the years ended December 31, 1996, 1997 and 1998 earnings per share (EPS) was calculated as follows:

Year ended December 31,	1996	1997	1998
Basic EPS			
Net income	625,544	406,554	411,121
Weighted average shares outstanding	138,695,540	139,092,900	140,852,008
EPS	4.50	2.92	2.92
Diluted EPS			
Net income	625,544	406,554	411,121
LYONs interest, net of tax	0	0	4,566
Net income adjusted	625,544	406,554	415,687
Weighted average shares outstanding	138,695,540	139,092,900	140,852,008
Dilutive effect of stock options	505,586	757,696	632,563
Dilutive effect of LYONs	0	0	2,570,959
Number of shares used in calculating EPS	139,201,126	139,850,596	144,055,530
EPS	4.49	2.91	2.89

Thirteen -- Retirement plans

The Company and its subsidiaries have a number of defined benefit pension plans covering employees in various countries. The plans provide for pension benefits, the amounts of which are calculated based on factors such as years of service and employee compensation levels. Eligibility is generally determined in accordance with local statutory requirements. The Company also has a defined benefit termination plan in Italy whereby an indemnity is paid to personnel upon termination of employment.

December 31,	1997	1998
Change in benefit obligation:		
Benefit obligation at beginning of year	167,515	169,455
Service cost	17,501	17,045
Interest cost	8,155	7,551
Benefits paid	(8,594)	(8,293)
Actuarial losses	190	4,034
Foreign currency translation adjustments	(14,561)	7,258
Other	(751)	(1,935)
Benefit obligation at end of year	169,455	195,115
Change in plan assets:		
Plan assets at fair value at beginning of year	66,908	77,455
Actual return on plan assets	8,017	8,228
Employer contributions	5,575	5,223
Benefits paid	(8,594)	(8,293)
Foreign currency translation adjustments	(1,868)	1,062
Other	7,417	(437)
Plan assets at fair value at end of year	77,455	83,238
Funded status	(92,000)	(111,877)
Unrecognized prior service cost	7,381	7,848
Unrecognized transition obligation	(3,649)	(3,281)
Unrecognized net actuarial gain	2,517	820
Accrued benefit cost	(85,751)	(106,490)
Net amount recognized in the balance sheet consists of the following:		
Prepaid benefit cost	9,187	5,313
Accrued benefit liability	(94,938)	(111,803)
Net amount recognized	(85,751)	(106,490)

Each year, the liability for the Italian indemnity plan is adjusted to reflect current year compensation as well as a revaluation of prior years' accruals based on an index. The plan is unfunded, and all participants are fully vested.

The components of the net periodic benefit cost includes the following:

December 31,	1996	1997	1998
Service cost	19,922	17,501	17,045
Interest cost	6,879	8,155	7,551
Expected return on plan assets	(4,147)	(4,478)	(6,147)
Amortization of unrecognized transition obligation	(1,612)	(282)	(366)
Recognized gains and losses	17	56	56
Recognition of prior service cost	490	553	762
Net periodic benefit cost	21,549	21,505	18,901

The weighted average assumptions used in the determination of the net pension cost for the pension plans were as follows:

Assumptions	1996	1997	1998
Discount rate	5.56%	5.98%	5.97%
Salary increase rate	4.21%	4.21%	4.18%
Expected rate of return on funds	8.33%	8.53%	8.43%

Fourteen -- Long-term debt

Long-term debt consists of the following:

December 31,	1997	1998
Unsecured	369,915	801,109
Secured (mainly mortgages on land, buildings and liens on equipment)	45,106	0
Total	415,021	801,109

Repayment schedule

December 31,	1998
1999	45,245
2000	109,936
2001	102,460
2002	77,741
2003	9,200
Thereafter	456,527
Total	801,109

Interest rates

December 31,	1997	1998
Non interest bearing	4,092	3,308
From 1 to 3%	63,719	485,290
From 3 to 6%	275,163	287,339
From 6 to 10%	68,721	21,521
From 10 to 17%	3,326	3,651
Total	415,021	801,109

Currencies

December 31,	1997	1998
U.S. dollar	20,000	455,885
Italian lira	242,754	231,752
French franc	94,403	98,628
Other	57,864	14,844
Total	415,021	801,109

Long-term debt includes:

	1997	1998
STMicroelectronics SA (France)		
- - 4.97% Bank Loan due 2002	33,361	35,712
- - 4.95% Bank Loan due 2002	33,361	35,712
- - 4.36% Other Bank Loans	27,681	27,204
STMicroelectronics LTD (Malta)		
- - 6.19% Bank Loan due 1998	20,033	0
- - 3.00% Other Bank Loans	25,075	1,322
STMicroelectronics s.r.l. (Italy)		
- - 5.68% Bank Loan due 2002	56,844	60,492
- - 2.15% Government Loan due 2000	53,219	40,276
- - 5.50% Other Bank Loans	132,691	130,984
STMicroelectronics N.V.		
- - 1.75% Liquid Yield Option Notes (LYONs)	0	435,885
STMicroelectronics (other countries)		
- - 6.99% Other Bank Loans	32,756	33,522
Total long-term debt	415,021	801,109
Total long-term debt, current portion	58,614	45,245
Total long-term debt, less current portion	356,407	755,864

In June 1998, the Company issued $513,852 face value of zero-coupon subordinated convertible notes, due 2008, for net proceeds of $421,837. The notes are convertible at any time by the holders at the rate of 8.952 shares of the Company's common stock for each one thousand dollar face value of the notes. The notes may be redeemed by the holders on June 10, 2003 or by the Company on or after that date at the book value, payable in cash. The notes are subordinated to all the other existing and future indebtedness of the Company.

Fifteen -- Other payables and accrued liabilities

December 31,	1997	1998
Taxes other than income taxes	38,910	29,825
Salaries and wages	85,809	78,493
Social charges	52,893	74,064
Advances received on fundings	10,124	14,050
Commercial rebates	31,585	37,577
Royalties payable	20,769	12,778
Other	80,337	80,894
Total	320,427	327,681

Sixteen -- Other revenues

Other revenues consist of the following:

December 31,	1996	1997	1998
Royalties and indemnities received	582	956	0
Licensing revenues	16,693	27,598	1,765
Miscellaneous sales	18,675	17,250	27,833
Other	8,164	3,568	7,536
Total	44,114	49,372	37,134

Seventeen -- Personnel

Labor costs consist of the following:

December 31,	1996	1997	1998
Salaries and wages	745,329	753,275	825,961
Social security contribution	210,611	214,023	219,942
Other	53,838	57,929	60,871
Total	1,009,778	1,025,227	1,106,774

Labor costs are allocated to cost of sales, selling, general and administrative expenses and research and development costs. At December 31, 1998 the Company employed 29,182 persons (1997: 28,728).

Eighteen -- Other income and expenses

Other income and expenses consist of the following:

December 31,	1996	1997	1998
Research and development funding*	63,792	55,269	63,531
Patents income (expense), net	(2,639)	(660)	(2,396)
Exchange gain (loss), net	11,822	15,158	19,019
Start-up costs	(38,987)	(47,867)	(12,609)
Other	11,086	1,318	8,913
Total	45,074	23,218	76,458

*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 ($4,613 for 1996, $6,192 for 1997 and $3,081 for 1998).

Nineteen -- Net interest income (expense)

Net interest income (expense) consist of the following:

December 31,	1996	1997	1998
Income	34,139	39,009	54,294
Expenses	(45,308)	(41,655)	(45,603)
Total	(11,169)	(2,646)	8,691

Cash paid for interest was $40,064 for 1996, $43,305 for 1997 and $48,569 for 1998.

Twenty -- Income tax

Income before income tax expense is comprised of the following components:

December 31, 1996 1997 1998			
Income from domestic operations	31,284	(8,437)	(18,730)
Income from foreign operations	765,898	528,008	550,202
Income before income tax expense	797,182	519,571	531,472

STMicroelectronics N.V. and its subsidiaries are individually liable for income tax. Tax losses can only offset profits generated by the taxable entity incurring such loss.

December 31,	1996	1997	1998
Domestic--current	(4,857)	(8,377)	(3,886)
Foreign--current	(108,266)	(107,797)	(82,132)
Current taxes	(113,123)	(116,174)	(86,018)
Deferred taxes	(58,515)	3,157	(34,333)
Income tax expense	(171,638)	(113,017)	(120,351)

The principal items accounting for the differences in income taxes computed at The Netherlands statutory rate (35%) and the effective income tax rate comprise the following:

Income tax expense computed at statutory rate	(279,013)	(181,850)	(186,015)
Benefit (deductions) for financial reporting for which no current tax benefit is available	14,894	(1,217)	7,644
Variation in valuation allowance	23,935	(294)	397
Other tax and credits	7,855	(627)	2,995
Effect of tax rate differences	60,691	70,971	54,628
Income tax expense	(171,638)	(113,017)	(120,351)

Permanent differences reflect mainly the effects of the capital allowances programs existing in certain Southeast Asian and Mediterranean countries, of the special post-pioneer regimes existing in Asia Pacific regions and of non-deductible items.

Deferred tax assets and liabilities consist of the following:

	1997	1998
Tax loss carryforwards and capital allowances	71,967	41,375
Other assets	142,362	142,212
Total assets, gross	214,329	183,587
Valuation allowance	(4,450)	(4,053)
Deferred tax assets, net	209,879	179,534
Fixed assets depreciation	213,399	240,116
Other liabilities	50,857	34,472
Deferred tax liabilities	264,256	274,588

As a result of offsetting deferred tax assets against deferred tax liabilities in each tax jurisdiction, the Company recorded a net deferred tax asset of $96,139 in 1997 and $92,795 in 1998, and a net deferred tax liability of $150,516 in 1997 and $187,849 in 1998. The Company increased its valuation allowance by $294 and decreased it by $397 in 1997 and 1998, respectively.

As of December 31, 1998, the Company and its subsidiaries had net operating loss carryforwards and capital allowances expiring in the following years:

Year	
1999	23,927
2000	11,297
2001	11,984
2002	7,424
2003 and thereafter	146,982
Total	201,614

The Company paid $109,277 cash for income taxes in 1996, $37,207 cash for income taxes in 1997 and $75,886 cash for income taxes in 1998.

Twenty-One -- Credit facilities

As of December 31, 1998, the aggregate amount of the Company's long-term credit facilities was $801,109 (note 14) under which $801,109 of indebtedness was outstanding, and additionally the aggregate amount of the Company's short-term facilities was approximately $971,000 under which $146,000 indebtedness was outstanding.

Twenty-Two -- Lease commitments

The Company leases land, building, plant and equipment under non-cancellable lease agreements. As of December 31, 1998 the future minimum lease payments to which the Company was committed under operating leases were as follows:

Year	
1999	14,971
2000	11,484
2001	9,414
2002	7,893
2003	7,269
Thereafter	23,985
Total	75,016

Twenty-Three -- Financial instruments and risk management

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

Forward exchange contracts and currency options: The Company enters into forward contracts and foreign currency options to protect against potentially adverse changes in foreign currency exchange rates and to cover a portion of both its probable anticipated, but not firmly committed, transactions and transactions with firm foreign currency commitments. These transactions include international sales by various subsidiaries in foreign currencies, foreign currency denominated purchases, intercompany sales and other intercompany transactions. Such contracts outstanding as of December 31, 1998 have remaining terms of one to 25 months, maturing mainly during first quarter 1999, and amount to $342,470 forward sale of US$, $20,142 forward purchase of US$, $200,424 forward sale of other foreign currencies, and $71,833 forward purchase of other foreign currencies. There were no foreign currency options outstanding as of December 31, 1997 or 1998. The principal currencies covered are the German mark, the British pound, the Japanese yen, the French franc, the Swiss franc and the Italian lira.

The risk of loss associated with purchased options is limited to premium amounts paid for the option contracts. The risk of loss associated with forward contracts is equal to the exchange rate differential from the time the contract is entered into until the time it is settled.

Realized and unrealized gains and losses on forward contracts are included in "other income and expenses". The discount or premium on forward contracts have been amortized over the life of the forward contract and included in net interest expenses.

Concentration of credit risk: Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, financial instruments with off-balance sheet risks (primarily forward contracts), and trade receivables. The Company places its cash and cash equivalents with high credit quality financial institutions. The Company controls the credit risks associated with 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 the event of a failure to honor one of the forward contracts by one of the banks with which the Company has contracted, management believes any loss would be limited to the exchange rate differential from the time the contract was made.

Concentrations of credit risk with respect to trade receivables are limited because 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.

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:

December 31,	1997	1998
Forward exchange contracts:		
- --sales	213,468	542,894
- --purchases	(91,751)	(91,975)

Fair value of financial instruments: The estimates of fair value were obtained using prevailing financial market information resulting from various valuation techniques as of December 31, 1998. The estimated fair values may not be representative of actual values of the financial instruments that could have been realized as of year end or that will be realized in the future. The methodologies used to estimate fair value are as follow:

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 based on quoted market prices, and 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.

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, 1997 and 1998 based upon quoted market prices for the same or similar instruments and the creditworthiness of the counterparties.

	1997		1998	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Balance sheet				
- -- Marketable securities (included in cash equivalents)	48,259	48,259	22,654	22,654
- -- Bank loans (including current portion)	415,021	405,445	365,224	355,514
- -- Liquid Yield Option Notes (LYONs)	--	--	435,885	447,051
Off-balance sheet				
- -- Forward exchange contracts	(13,833)	(121,717)	(7,900)	(455,098)

Twenty-Four -- Other commitments and contingencies
The Company is involved in various lawsuits, claims, investigations and proceedings incidental to the normal conduct of its operations. These matters mainly include the risks associated with external patents utilization, various investigations, claims from customers and tax disputes. Management believes that these contingencies will not have a material effect on the business, financial condition or results of operations of the Company. However, the Company believes that provisions carried as at December 31, 1998 are adequate.

Twenty-Five -- Related party transactions

Transactions with significant shareholders and their affiliates were as follows:

December 31,	1996	1997	1998
Sales	232,057	148,172	5,608
Research and development expenses	(13,262)	(12,794)	(16,215)
Other purchases and expenses	(48,155)	(29,757)	(12,406)
Accounts receivable	31,580	17,244	1,872
Accounts payable	10,519	9,745	10,509

As at December 31, 1996 and 1997, the transactions with the shareholders included transactions with Thomson SA and Thomson CSF, who were shareholders during those years.

Twenty-Six -- Segment information

In June 1997, the United States Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 131, "Disclosure about Segments of an Enterprise and Related Information" (FAS 131), which the Company adopted effective December 31, 1998. FAS 131 requires that enterprises report certain information about operating segments. It also requires that enterprises report certain information about their products and services, the geographic areas in which they operate, and their major customers.

The Company concluded that it has two principal businesses and operates in two segments: the Semiconductor segment and the Subsystems segment.

In the Semiconductor segment, the Company designs, develops, manufactures and markets a broad range of products, including discrete, memories and standard commodity components, ASICSs (full custom devices and semicustom devices) and ASSPs for analog, digital, and mixed-signal applications.

In the Subsystems segment, the Company designs, develops, manufactures

and markets subsystems and modules for the Telecom, Automotive and Industrial markets including mobile phone accessories, battery chargers, ISDN power supplies and in-vehicle equipment for electronic toll payment. The Subsystems segment does not meet the requirements for a reportable segment as defined in FAS 131.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

The following is a summary of operations by entities located within the indicated geographic areas for 1996, 1997 and 1998. Long-lived assets consist of net property and equipment and other intangible assets.

Net revenues

December 31,	1996	1997	1998
France	486,551	455,663	474,580
Italy	196,816	189,222	171,143
Germany	505,759	427,211	444,362
Other European countries	631,592	728,128	737,112
USA	934,224	935,010	978,662
Singapore	809,930	1,031,020	1,261,165
Other countries	557,488	252,891	180,728
Total	4,122,360	4,019,145	4,247,752

Long-lived assets

December 31,	1996	1997	1998
France	895,979	980,250	1,169,273
Italy	777,698	837,307	899,689
Germany	921	869	1,134
Other European countries	7,384	7,402	19,922
USA	497,348	605,666	587,734
Singapore	245,731	227,888	216,817
Other countries	432,221	413,854	472,007
Total	2,857,282	3,073,236	3,366,576

Twenty-Seven -- Subsequent events (unaudited)

In April 1999, the Supervisory Board approved the submission of several resolutions to shareholder approval. The resolutions include payment of a cash dividend of $0.16 per share on June 15, 1999 to shareholders of record on June 1, 1999, a two for one stock split, which would become effective on June 16, 1999 immediately after the payment of the cash dividend, and the authorisation for the Company to issue up to 180 million Preference Shares to its main Shareholder STMicroelectronics Holding II B.V. After the stock split and the authorisation to create Preference Shares, the authorised share capital of the Company would be 400 million ordinary shares and 180 million Preference Shares. The Preference Shares which are intended to protect the Company from a hostile takeover would be issued in accordance with the terms of an option contract to be agreed between the Company and STMicroelectronics Holding II B.V., at 25% of their par value, and would entitle STMicroelectronics II B.V. to full voting rights. The issuance of Preference Shares is contingent upon STMicroelectronics Holding II B.V. retaining at least 33% of the issued share capital of the Company.

Report of Independent Accountants

To the Supervisory Board and Shareholders of
STMicroelectronics NV

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of cash flows and of changes in shareholders' equity present fairly, in all material respects, the financial position of STMicroelectronics NV and its subsidiaries at December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with accounting principles generally accepted in the United States of America. 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 of these statements in accordance with generally accepted auditing standards in the United States of America which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

/s/ PricewaterhouseCoopers NV.
PricewaterhouseCoopers NV
Amsterdam, January 25, 1999