

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

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: December 31, 2000

OR

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

For the transition period from to

Commission file number: 1-13546

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STMicroelectronics N.V.

(Exact name of Registrant as specified in its charter)

Not Applicable

(Translation of Registrant's name into English)

The Netherlands

(Jurisdiction of incorporation or organization)

Route de Pre-Bois  
ICC Bloc A1215  
Geneva 15  
Switzerland

(Address of principal executive offices)

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

Title of each class:

Name of each exchange on which registered:

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Common Shares, nominal value Euro 1.04 per share  
Liquid Yield Option<sup>TM</sup> Notes due June 10, 2008  
Liquid Yield Option<sup>TM</sup> Notes due September 22, 2009

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New York Stock Exchange  
New York Stock Exchange  
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:

889,881,287 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  No

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

Item 17  Item 18

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## PRESENTATION OF FINANCIAL AND OTHER INFORMATION

In this annual report, references to "we" and "us" are to STMicroelectronics NV together with its consolidated subsidiaries, references to "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" and "U.S." are to the United States of America and references to "\$" or to "U.S. dollars" are to United States dollars.

References in this annual report to published industry data are references to data published by Pathfinder Research, Inc. ("Pathfinder ") or Dataquest-Gartner Group and references to trade association data are references to World Semiconductor Trade Statistics ("WSTS"). Except as otherwise disclosed herein, all references to our market positions in this annual report are based on 2000 revenues according to published industry data. Certain terms used in this annual report are defined in "Certain Terms."

### CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Some 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 4: Information on the Company" and "Item 5: Operating and Financial Review and Prospects," 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,

- o General business and economic conditions in the countries, the markets and the business segments in which we and our customers operate;
- o Market demand for our products and changes in customer order patterns and requirements including, but not limited to, order cancellation or rescheduling;
- o Competitive factors including the pricing of products in an increasingly competitive environment;
- o The development, qualification and availability of innovative products in a rapidly changing technological environment;
- o Our ability to implement cost reductions in a timely manner and the success of those actions;
- o Manufacturing risks;
- o Insufficient, excess or obsolete inventory;
- o Our ability to recruit and retain skilled personnel; and
- o Currency fluctuations and other risks.

Certain such forward-looking statements can be identified by the use of forward-looking terminology such as "believes", "expects", "may", "are expected to", "will", "will continue", "should", "would be", "seeks" or "anticipates" or similar expressions or the negative thereof or other variations thereof or comparable terminology, or by discussions of strategy, plans or intentions. Some of these risk factors are set forth are discussed in more detail, including under "Item 3: Key Information - Risk Factors," "Item 4: Information on the Company" and "Item 5: Operating and Financial Review and Prospects." Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this annual report as anticipated, believed or expected. We do not intend, and do not assume any obligation, to update any industry information or forward-looking statements set forth in this annual report to reflect subsequent events or circumstances.

## PART I

## Item 1: Identity of Directors, Senior Management and Advisers

Not applicable.

## Item 2: Offer Statistics and Expected Timetable

Not applicable.

## Item 3: Key Information

## Selected Financial Data

The table below sets forth our selected consolidated financial data for each of the years in the five-year period ended December 31, 2000. Such data have been derived from our consolidated financial statements. Consolidated audited financial statements for each of the years in the three-year period ended December 31, 2000, 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 "Item 5: Operating and Financial Review and Prospects" and the Consolidated Financial Statements and the related notes thereto included elsewhere in this annual report.

	Year ended December 31,				
	1996	1997	1998(1)	1999(1)	2000(1)
	-----				
	(in millions except per share and ratio data)				
Consolidated Statement of Income Data:					
Net sales .....	\$ 4,078.3	\$3,969.8	\$4,210.6	\$5,023.1	\$ 7,764.4
Other revenues.....	44.1	49.4	37.2	33.2	48.8
	----	----	----	----	----
Net revenues.....	4,122.4	4,019.2	4,247.8	5,056.3	7,813.2
Cost of sales.....	(2,414.7)	(2,457.4)	(2,623.0)	(3,054.5)	(4,216.9)
	-----	-----	-----	-----	-----
Gross profit.....	1,707.7	1,561.8	1,624.8	2,001.8	3,596.3
Operating expenses:					
Selling, general and administrative.....	(421.1)	(454.3)	(488.1)	(534.2)	(703.7)
Research and development(2) .....	(532.3)	(610.9)	(689.8)	(836.0)	(1,026.3)
Other income and expenses(2) .....	45.1	23.2	76.5	39.9	(83.6)
	----	----	----	----	----
Total operating expenses.....	(908.3)	(1,042.0)	(1,101.4)	(1,330.3)	(1,813.6)
	-----	-----	-----	-----	-----
Operating income.....	799.4	519.8	523.4	671.5	1,782.7
Net interest income (expense).....	(11.2)	(2.6)	8.7	35.6	46.7
Gain on disposal of investments.....	7.3	-	-	-	-
	----	----	----	----	----
Income before income taxes and minority interests	795.5	517.2	532.1	707.1	1,829.4
Income tax expense.....	(171.6)	(113.0)	(120.4)	(157.2)	(375.1)
	-----	-----	-----	-----	-----
Income before minority interests.....	623.9	404.2	411.7	549.9	1,454.3
Minority interests.....	1.6	2.4	(0.6)	(2.6)	(2.2)
	----	----	----	----	----
Net income.....	\$ 625.5	\$ 406.6	\$ 411.1	\$ 547.3	1,452.1
	=====	=====	=====	=====	=====
Earnings per share (basic)(3) .....	\$ 0.75	\$ 0.49	\$ 0.49	\$ 0.64	\$ 1.64
Earnings per share (diluted)(3) .....	\$ 0.75	\$ 0.48	\$ 0.48	\$ 0.62	\$ 1.58
Number of shares used in calculating					
earnings per share (basic).....	832.2	834.6	845.1	859.1	885.7
earnings per share (diluted).....	835.2	839.1	864.3	901.2	936.1
Ratio of earnings to fixed charges(4)	18.6	13.4	12.7	16.3	29.3
Dividends per share(3) .....	\$ -	\$ -	\$ -	\$ 0.027	\$ 0.03

Consolidated Balance Sheet Data (end of period):

Cash, cash equivalents and marketable securities(1)	\$ 556.4	\$ 702.2	\$1,100.7	\$1,823.1	\$ 2,330.9
Working capital(5).....	611.8	443.5	855.1	398.5	372.5
Total assets.....	5,005.5	5,445.7	6,434.0	7,930.3	11,880.5
Short-term debt (including current portion).....	428.2	424.6	191.2	123.2	141.6
Long-term debt (excluding current portion)(1) ...	194.9	356.4	755.8	1,348.5	2,700.5
Shareholders' equity(1) .....	3,260.0	3,307.4	4,083.3	4,563.9	6,124.6
Capital stock(6) .....	2,003.3	2,004.9	2,232.3	2,508.0	2,823.6

Consolidated Operating Data:

Capital expenditures(7) .....	\$ 1,125.2	\$1,035.4	\$ 947.3	\$1,347.5	\$ 3,317.6
Net cash provided by operating activities.....	980.7	983.8	1,012.5	1,469.3	2,431.8
Depreciation and amortization(7) .....	535.9	608.1	704.0	806.8	1,108.2

(1) On November 16, 2000, we issued \$1,480.0 million initial aggregate principal amount of zero-coupon unsubordinated convertible notes, due 2010, for net proceeds of \$1,457.8 million. On September 22, 1999, we completed an equity offering of 8,970,000 shares of capital stock at \$24.88 (adjusted for the 3-for-1 stock split) for net proceeds of \$216.8 million. On September 22, 1999, we also completed a debt offering of \$720.9 million initial aggregate principal amount of zero-coupon convertible Liquid Yield Option(TM) Notes, due 2009, for net proceeds of \$708.3 million. On June 10, 1998, we completed an equity offering of 18,000,000 shares of capital stock at \$12.03 (adjusted for the 2-for-1 and 3-for-1 stock splits) for net proceeds of \$208.8 million. On June 10, 1998, we also completed a debt offering of \$431.7 million initial aggregate principal amount of zero-coupon convertible Liquid Yield Option(TM) Notes, due 2008, for net proceeds of \$421.8 million. We have issued a redemption notice for these LYONs and intend to redeem them at a redemption price of \$885.22 per \$1,000 principal amount on June 11, 2001. According to the information available to us, on May 11, 2001, approximately \$45.6 million in total indebtedness was outstanding under the 1998 LYONs. Based on the amount outstanding on May 11, 2001, if all remaining holders of the 1998 LYONs chose to convert them into Common Shares before the redemption date, 2,772,291 Common Shares would be issued.

(2) Other income and expenses include, among other things, funds received through government agencies for research and development expenses, and 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 goodwill amortization. Our reported research and development expenses do not include design center, process engineering, pre-production or industrialization costs.

(3) All share information has been adjusted to reflect the 2-for-1 stock split effected in June 1999 and the 3-for-1 stock split effected in May 2000. See Note 2.19 to the Consolidated Financial Statements. Earnings per share have been restated to reflect the adoption in 1997 of Statement of Financial Accounting Standard No. 128 "Earnings per Share." See Note 2.10 and Note 12 to the Consolidated Financial Statements.

(4) 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.

(5) 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.)

(6) Capital stock consists of common stock and capital surplus.

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

Risk Factors

Risks related to the semiconductor industry

The semiconductor industry is highly cyclical, which causes our results to vary significantly

The semiconductor industry is highly cyclical and has been subject to significant economic downturns at various times. These downturns are typically characterized by production overcapacity, accelerated erosion of average selling prices and reduced revenues. When these downturns have occurred, such as in 1991 and 1996 through 1998, our results of operations have been adversely affected. In addition, the markets for semiconductors and electronic systems that use semiconductor products are characterized by rapid technological change, leading to more complex and powerful products, evolving industry standards, intense competition, and fluctuations in end-user demand. According to published industry data, since the fourth quarter 2000, the market has been experiencing a downturn which has led to a reduction in the production volume of semiconductor products being shipped since the third quarter of 2000, primarily due to excess inventory held by end-customers, particularly computer, telecom and other manufacturers.

Overall, the semiconductor market expanded significantly from 1983 through 2000. According to trade association data, annual worldwide sales of all semiconductor products, referred to as the total available market or TAM, has grown from 1983 through 2000 at an average compound annual growth rate of approximately 15.4%. During the upward industry cycle in the first half of the 1990s, the semiconductor industry experienced significantly increased demand and production capacity constraints, with the total available market growth rate reaching over 40% in 1995. During this period, semiconductor manufacturers increased capacity significantly. However, in 1996

the market experienced a significant downturn characterized by production overcapacity and severe reductions in average selling prices that resulted in an 8.6% decrease in the total available market compared to 1995.

According to trade association data, the total available market decreased by 8.4% in 1998 compared to 1997. However, the total available market for worldwide sales of semiconductor products increased by approximately 36.8% in 2000 compared to 1999. In addition, the serviceable available market, or SAM, (which consists of the TAM but excluding the market for DRAM and opto-electronic products), increased by approximately 34.8% in 2000 compared to 1999. Capital expenditures of many semiconductor manufacturers increased in 2000 and have remained at high levels in 2001. In the event of weakening demand, the addition of new capacity may give rise to over capacity and competitive pricing which will affect margins. Since the third quarter 2000, the industry has experienced a downturn. We cannot guarantee that the current downturn or any future downturn will not be severe or that it would not have a material adverse effect on our results of operations.

Changes in industry capacity could lead to overcapacity and exacerbate future industry downturns

In the 1990s, many companies invested in building or improving semiconductor-manufacturing capacity. According to published industry data and other industry sources, investment in worldwide semiconductor fabrication capacity totaled approximately \$43 billion in 1996, \$38 billion in 1997, \$28 billion in 1998, \$33 billion in 1999 and \$59 billion in 2000 or approximately 32%, 28%, 22%, 22% and 29%, respectively, of the total available market for such years. In addition to international semiconductor companies, companies specializing in operating semiconductor foundries (companies providing outsourcing capacity on a third party basis) such as UMC, TSMC and Chartered, have added significant capacity, particularly in Asia. These capacity additions contributed to an increase of supply over demand during 1997 and 1998 and to declines in average selling prices and the downturn in the industry during this period. Recent investments in 2000 could further increase overcapacity in 2001. There has also been a shift in existing industry capacity to production of products that compete with our products. We believe that future fluctuations in the rate of industry capacity additions relative to the growth rate in demand for semiconductor products or the transformation of manufacturing facilities to produce products that compete with our products could contribute to fluctuations in average selling prices and affect our results of operations.

During industry downturns, our high fixed costs may adversely impact our results

In less favorable industry environments, we are driven to reduce prices in response to competitive pressures. Since the semiconductor industry is characterized by high fixed costs, we cannot guarantee our ability to reduce our total costs in line with revenue declines during industry downturns. Reduced average selling prices for our products therefore adversely affect our results of operations. Our gross profit margin declined from 41.4% in 1996 to 38.9% in 1997 and 38.3% in 1998 during difficult market conditions. Our gross profit margin was 39.6% in 1999 and 46.0% in 2000. In the difficult market conditions encountered during the first quarter of 2001, our gross margin decreased by 2.9 percentage points compared to the fourth quarter 2000 and we expect that it will further decrease by between 2.5 percentage points and 4.5 percentage points in the second quarter of 2001 compared to the first quarter 2001. We cannot guarantee that increased competition in our core product markets will not lead to further price erosion, lower revenue growth rates and lower margins for us in the future.

Competitive factors in our industry make our competitive environment intense

We compete on the basis of a variety of factors, and our success depends on our ability to compete successfully in all of the relevant areas. We compete in different product lines to various degrees on the following bases:

- o price
- o technical performance
- o product features
- o product system compatibility
- o product design
- o availability

- o quality
- o sales and technical support

Our ability to compete successfully also depends on factors partially outside of our control, including:

- o successful and timely development of new products and manufacturing processes
- o manufacturing yields
- o product availability
- o industry and general economic trends

Our results may be adversely impacted by worldwide economic downturns

Our results are increasingly linked to worldwide economic trends, especially in the United States, the European Union and Japan. The economic situation in Asia in 1998 had a negative effect on the worldwide semiconductor market and made semiconductor and end-use market requirements more difficult to predict. The current economic slow-down in the United States, linked to a declining GDP growth rate and to inventory build-ups by certain customers for semiconductor products, is also negatively impacting the semiconductor market which, following a growth of 36.8% in 2000, has declined by over 4% in the first quarter of 2001, compared to the first quarter of 2000, and by over 19% over the fourth quarter of 2000, according to industry sources. We believe that these market developments are creating additional pressures on unit demand and on semiconductor prices in general. To the extent economic uncertainties cause our customers to experience reduced demand for their products that include our products, our results of operations could be adversely affected.

Because we operate in an industry where technology changes rapidly, our products may become obsolete and we may not be able to develop new ones in a timely manner

The market for our products is characterized by rapidly changing technology. Therefore, our success is highly dependent upon our ability to develop and manufacture increasingly complex new products on a cost-effective basis, to introduce them in the marketplace on a timely basis, and to have them selected for design into future products of leading systems manufacturers. We have committed and intend to continue to commit substantial resources to the development of new products. Because new product development commitments must be made well in advance of sales, however, our new product decisions must anticipate both future demand and the technology that will be available to supply such demand. Delays in developing new products with anticipated technological advances, failure to win new design projects for customers or in commencing volume shipments of new products, may have an adverse effect on our business. In addition, there can be no assurance that new products, if introduced, will gain market acceptance or will not be adversely affected by new technological changes or new product announcements by others.

Our future success depends in part upon our ability to develop and implement new design and process technologies

Semiconductor design and process technologies are subject to rapid technological change and require large expenditures for capital investment and research and development. We are developing advanced and standardized design tools for our processes as well as libraries of macrofunctions and megafunctions for many of our products. We are also focusing on improving our concurrent engineering practices to better coordinate design activities and reduce overall time-to-market. If we experience substantial delays in developing new design or process technologies or inefficiently implement production increases or transitions, our results of operations could be adversely affected.

Loss of our key employees could hurt our competitive position

As is common in the semiconductor industry, our success depends to a significant extent upon the continued service of our key senior executives and research and development, engineering, marketing, sales, manufacturing, support and other personnel. Our success also depends upon our 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 us. Mr. Pasquale Pistorio, age 65, has been our president and chief executive officer since our formation in 1987 and he was reappointed at our 1999 annual shareholders' meeting for a three-year term expiring at our annual general meeting to be held in 2002. We do not maintain insurance with respect to the loss of any of our key personnel.

Some of our production processes and materials are environmentally sensitive, which could lead to increased costs due to environmental regulations or to damage to the environment

We are subject to a variety of governmental regulations relating to the use, storage, discharge and disposal of chemicals, gases and other hazardous substances used in our manufacturing processes. We have established proactive environmental policies with respect to the handling of chemicals, gases, emissions and waste disposals from our manufacturing operations, and we have not suffered material environmental claims in the past. We believe that our activities comply with presently applicable environmental regulations in all material respects. All of our facilities have been approved as being in compliance with the EU Eco-Management and Audit Scheme regulations, and have also obtained ISO 14001 certification. We are participating in various working groups set up by the European Commission to propose new legislation regarding the collection, recovery and disposal of electronic equipment, as well as banning the use of lead and some flame retardants in manufacturing electronic components. We intend to proactively implement such new legislation, when enacted, in line with our commitment towards environmental protection.

We cannot assure you, however, that the implementation of any such legislation could not adversely affect our manufacturing costs or product sales by requiring us to acquire costly equipment or materials, or to incur other significant expenses in adapting our manufacturing processes or waste and emission disposal processes. Furthermore, environmental claims or our failure to comply with present or future regulations could result in the assessment of damages or imposition of fines against us, suspension of production or a cessation of operations and, as with other companies engaged in similar activities, any failure by us to control the use of, or adequately restrict the discharge of hazardous substances could subject us to future liabilities.

Because we depend on a limited number of suppliers for raw materials, we may experience supply disruptions or pricing pressure

Our manufacturing operations depend upon obtaining adequate supplies of quality raw materials on a timely basis. Thus, our results of operations would be adversely affected if we were unable to obtain adequate supplies of raw materials in a timely manner or if there were significant increases in the costs of raw materials or problems with the quality of these raw materials. A number of materials are available from a limited number of suppliers, or from a limited number of suppliers in a particular region. In addition, we purchase raw materials such as silicon wafers, lead frames, mold compounds, ceramic packages and chemicals and gases from a number of suppliers on a just-in-time basis. Although supplies for the raw materials used by us are currently adequate, shortages could occur in various essential materials due to interruption of supply or increased demand in the industry. In addition, suppliers may extend lead times, limit supply to us or increase prices due to capacity constraints or other factors. Any such supply limitations or price increases could adversely affect our quarterly or annual results of operations.

#### Risk factors related to our operations

Our operating results may vary significantly from quarter to quarter and annually

Our operating results are affected by a wide variety of factors that could materially and adversely affect revenues and profitability or lead to significant variability of operating results. These factors include, among others, the cyclicity of the semiconductor and electronic systems industries, capital requirements and the availability of funding, competition, new product development and technological change, and manufacturing problems. In addition, a number of other factors could lead to fluctuations in quarterly and annual operating results, including:

- o order cancellations or reschedulings by customers
- o reduced bookings or product returns by key customers
- o changes in distribution arrangements

- o intellectual property developments
- o failure to win new design projects
- o problems with product quality
- o litigation
- o possible acquisitions
- o problems in obtaining adequate raw materials on a timely basis
- o the loss of key personnel

Unfavorable changes in the above or other factors have in the past and may in the future adversely affect our operating results. In addition, 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 constraints and we have experienced an increasing reliance on orders placed and shipped within the same month. During, industry downturns, we experience lower levels of backlog, which in turn reduces our management's ability to forecast production levels, revenues and margins.

We face intense competition in our core product lines as well as in emerging applications from both large integrated manufacturers and smaller niche companies

The semiconductor industry is intensely competitive and we face significant competition in each of our product lines. Some of our competitors are large integrated manufacturing groups that compete with us in most of our product lines. A few of these large companies have substantially greater financial and other resources than we do. As a result, these companies may be able to invest more than we can afford in research and development, in the construction of large-scale, advanced, cost effective manufacturing plants and in the marketing of products, and this may adversely affect our ability to take advantage of potentially profitable business opportunities. Such large competitors include:

- o Advanced Micro Devices
- o Agere Systems
- o Analog Devices
- o Atmel
- o Broadcom
- o Fujitsu
- o Hitachi
- o Infineon Technologies
- o Intel
- o LSI Logic
- o Matsushita
- o Mitsubishi Electric Corporation
- o Motorola
- o National Semiconductor
- o Nippon Electric Company

- o ON Semiconductor
- o Philips Semiconductors
- o Samsung
- o Texas Instruments
- o Toshiba

In addition, we are facing increased competition from smaller niche companies that specialize in certain product lines and who may decide to invest more than we do in research and development, manufacturing and marketing of such selected products. These competitors include design houses, many of which use semiconductor foundry companies that produce high volume products and may offer competitive pricing. These foundry companies have expanded significantly in recent years, particularly in Asia. Other smaller niche competitors include manufacturers of standard semiconductors, integrated circuits for specific applications and fully customized integrated circuits, including both chip and board-level products. In addition, some of our customers have developed their own integrated circuit products and foundry operations.

Certain of our competitors have increased their focus on products that compete with our products

In recent years, some of our competitors have redirected their marketing focus and manufacturing capacity toward products that compete with our products. We believe increased focus by our competitors in our core product markets is generating greater pricing pressure, increased competition for market share in the serviceable available market, and a generally more challenging market environment for us. In addition, as new products are developed we will face significant competition in each of these markets. We cannot guarantee that we will be able to maintain or establish a strong market position in all of our product markets.

Because we have our own manufacturing facilities, our capital needs are high compared to competitors who do not produce their own products, and they remain high during industry downturns

As a result of our strategic choice to maintain control of our advanced proprietary manufacturing technologies to serve our customer base and develop our strategic alliances, we require significant amounts of capital to build, expand, modernize and maintain our facilities. Some of our competitors, however, do not manufacture their own products, and therefore do not require significant capital expenditures for their facilities. Our capital expenditures totaled \$0.9 billion in 1998, \$1.3 billion in 1999 and \$3.3 billion in 2000. Due to the current market situation, we have reduced our capital expenditure forecast for 2001 from approximately \$2.5 billion to approximately \$1.9 billion. However, we expect to continue to invest significantly in the coming years as the requirements of new technologies increase the cost of production equipment, although we intend to modulate such investments in line with market requirements. We will continue to monitor our level of capital spending, taking into consideration factors such as trends in the semiconductor market and capacity utilization.

The semiconductor industry also requires heavy commitments of funds for research and development necessary to keep up with the rapid pace of technological change and to consistently develop innovative, performing and cost-effective products. We intend to continue to increase research and development expenditures in the future, although not necessarily as a percentage of net revenues.

We could need additional funding in the coming years

At December 31, 2000, we had a negative net financial position (total debt, net of cash, cash equivalents and marketable securities) of \$511.2 million. As the cost of new manufacturing facilities is increasing, due to the complexity of advanced sub-micron technology and required manufacturing equipment, we may expand or upgrade capacity based on market conditions. In that event, or if we proceed with acquisitions, we may incur additional indebtedness, which could increase our interest costs and adversely affect our results. In such circumstances, we may need to issue additional debt or equity, or both.

Our manufacturing processes are highly complex, costly and potentially vulnerable to impurities and disruptions that can significantly increase our costs and delay product shipments to our customers

Our manufacturing processes are highly complex, require advanced and increasingly 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 in the past few years we have significantly enhanced our manufacturing capability in terms of efficiency, precision and capacity, we have from time to time experienced production difficulties that have caused delivery delays and quality control problems, as is common in the semiconductor industry. We cannot guarantee that we will be able to increase the capacity, efficiency or precision of our manufacturing capabilities in the future to the same extent as in the past. We might also experience production difficulties in the future. In addition, during past periods of high revenue growth for us, our manufacturing facilities have operated at high capacity, which has led to production constraints.

As is common in the semiconductor industry, we have from time to time experienced difficulty in ramping up production at new facilities or effecting transitions to new manufacturing processes. As a result, we have suffered delays in product deliveries or reduced yields. In the future, we might face:

- o construction delays
- o delays in ramping up production at new facilities or on new lines, in upgrading or expanding existing facilities, or in changing our process technologies
- o interruptions in production
- o delivery delays
- o manufacturing problems in achieving acceptable yields
- o capacity constraints
- o contamination or fires, storms, earthquakes or other acts of nature

the impact of which is exacerbated during a period of industry constraint.

In addition, our development of fabrication facilities that include 200mm or 300mm capabilities, or which require advanced technologies has increased the potential for losses associated with production difficulties, imperfections, or other causes of defects. If production is interrupted at a manufacturing facility, we may not be able to shift production to other facilities on a timely basis or customers may decide to purchase products from another supplier. In either case the loss of revenues and impact on our relationships with our customers could be significant. Our 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.

We may not be able to increase capacity to meet additional demand, which could adversely affect our ability to take advantage of profitable business opportunities

Our ability to increase capacity in response to increasing customer demand will be an important factor in our future profitability. To increase capacity, we may need to expand or modernize our manufacturing facilities, which may require significant amounts of capital and time to accomplish. In addition, we are dependent upon suppliers of semiconductor manufacturing equipment to provide us with the necessary equipment. During periods of increased demand, these suppliers may not be able to provide such equipment on a timely basis. As a result, we may lose opportunities to provide new products or greater volumes of products to customers and the associated revenues.

In a period of market downturn, we may face overcapacity in some of our older fabrication facilities

In a period of market downturn, we may have overcapacity, particularly in our older fabrication facilities that use mature process technology. We, like other semiconductor manufacturers, could have mature fabrication facility capacity being only partially used. This may affect our cost of operations if we are unable to simultaneously and proportionately cut our manufacturing costs or make other necessary savings in due time.

If our outside wafer suppliers fail to perform, this could adversely affect our ability to exploit growth opportunities

In 2000, to meet anticipated requirements for HCMOS wafers, we used outside suppliers, or foundries, for the supply of up to 15% of our requirements for these wafers. We do not intend to increase our reliance on front-end manufacturing through external foundries beyond this level. In fact, in a period of market downturn, our reliance on such suppliers may decrease. For example, in the first quarter 2001, they represented only 9% of our wafer requirements, compared to an average of 11% in the year 2000. However, when our markets grow, we may face capacity constraints and we expect to continue to rely on third-party wafer suppliers without having the same degree of management control and supervision over their operations as we do over our own. If these suppliers experience manufacturing difficulties, delays, or reduced yields, our results of operations and ability to satisfy customer demand could suffer. In addition, purchasing rather than manufacturing these products may adversely affect our gross profit margin if the purchase costs of these products are higher than our own manufacturing costs.

Our common share price and operating results may be negatively affected by potential acquisitions

Our growth to date had primarily been organic. In 1999, however, we made three acquisitions: the Peripheral Technology Solutions group from Adaptec for a purchase price of approximately \$72 million, Vision Group plc for a purchase price of approximately \$41 million and Arithmos for a purchase price of approximately \$42 million. In 2000 we acquired from Nortel Networks its semiconductor business including a 150mm manufacturing facility located in Ottawa, Canada, under the terms of a transaction which could involve a payment of up to \$100 million. In September 2000, we acquired the assets and business of Waferscale Integration, Inc. for approximately \$78 million. In December 2000, we announced the acquisition of Portland Group Inc. (PGI), a vendor of compilers and software development tools to the high-performance parallel computing market, for approximately \$18 million. In January 2001, we announced the acquisition of Ravisent's consumer electronics business for approximately \$56 million, which transaction closed in March 2001. We may, from time to time, consider making selected additional acquisitions that we believe would complement or expand our existing business. We may pay for these acquisitions with cash, our common shares or both. These acquisitions, if they occur, may have a dilutive effect for existing shareholders and, whether they are paid for in cash or common shares, may negatively affect our common share price. In addition, acquisitions involve a number of risks and if not successful they could adversely affect our operating results. Announcements concerning potential acquisitions could be made at any time.

Our business can be adversely affected by changes in the value of the U.S. dollar

A material variation in the value of the U.S. dollar against the principal European and Asian currencies which have a material impact on us could result in a favorable impact on our net income in the case of an appreciation of the U.S. dollar, or a negative impact on our net income if the U.S. dollar depreciates relative to these currencies. For example, the appreciation registered by the U.S. dollar in 2000 against the principal European and Asian currencies (excluding the Japanese yen, which appreciated compared to the U.S. dollar) resulted in a favorable impact on results of operations for 2000, because of the favorable impact on cost of sales and operating expenses. In addition, the balance sheet impact of translation adjustments has been, and may be expected to continue to be, material from period to period. Our policy is to monitor and cover a portion of our exchange rate exposure, and we manage our operations to mitigate, but not eliminate, the positive or negative impact of exchange rate fluctuations.

Our controlling shareholders' interests may conflict with your interests

STMicroelectronics Holding II B.V. ("ST Holding II"), a wholly owned subsidiary of ST Holding N.V. ("ST Holding"), owns in excess of 40% of our outstanding common shares and is effectively in a position to control actions that require shareholder approval, including corporate actions and the election of the Supervisory Board and the Managing Board. As permitted by our articles of association, the Supervisory Board has specified further selected actions by our Managing Board that require the approval of the Supervisory Board.

ST Holding is 50% owned by a French shareholder that is indirectly controlled by the French government and 50% owned by an Italian shareholder in whom the Italian government holds approximately 37% of the share capital and retains special powers to approve or determine certain corporate actions. These French and Italian shareholder groups of ST Holding have entered into a shareholders agreement which enables each of them to designate three members of our Supervisory Board and includes provisions requiring the approval of the supervisory

board of ST Holding for actions by ST Holding, us and our subsidiaries. Such shareholders agreement also contemplates that equilibrium will be maintained in the levels of research and development and related expenditures between France and Italy.

The shareholders of FT1CI (the holding company for the two indirect French shareholders of ST Holding) also have entered into a separate shareholders agreement that in effect requires the approval of the board of directors of each such company before members of our Supervisory Board appointed by the group of French shareholders may approve specified actions to be taken by ST Holding, ST Holding II, us or our subsidiaries. In addition, as is the case with other companies controlled by the French government, certain Ministries of The Republic of France may veto any decision taken by the board of directors of FT1CI. These requirements for the prior approval of various actions to be taken by us and our subsidiaries may give rise to a conflict of interest between our interests and your interests, on the one hand, and the interests of the individual shareholders approving such actions, on the other, and may result in a delay in the ability of our Managing 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 supervising our management.

In addition, our indirect shareholders, their affiliates and we may have contractual and other business relationships and may engage in significant transactions from time to time. Although it is anticipated that any such transactions and agreements will be on terms no less favorable to us than we could obtain in comparable contracts with unaffiliated third parties, conflicts of interest may arise between us and our indirect shareholders and their affiliates in a number of circumstances.

Our shareholder structure and our preference shares may deter a change of control

On May 31, 1999, our shareholders at the annual general meeting approved the creation of up to 180,000,000 preference shares. Pursuant to the 3-for-1 stock split effected in May 2000, the number of such preference shares has increased to 540,000,000. 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, 1999, we agreed, in order to protect ourselves from a hostile takeover or other similar action, to enter into an option agreement with ST Holding II, which provides that up to 540,000,000 preference shares shall be issued to ST Holding II upon its request and subject to the adoption of a resolution of our Supervisory Board 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 our issued share capital. The preference shares, if issued, would have priority with respect to dividends and distributions upon liquidation over the common shares. The effect of the preference shares may be to deter potential acquirors from effecting an unsolicited acquisition resulting in a change of control. In addition, any issuance of additional capital within the limits of our authorized share capital, as approved by our shareholders, is subject to the approval of our Supervisory Board and of the Supervisory Board of ST Holding (the entity which controls the entire share capital of ST Holding II).

Substantial sales of our common shares into the market could cause the market price of our common shares to drop significantly

As of December 31, 2000, 889,881,287 of our common shares were outstanding, not including (i) common shares issuable under our various employee stock option plans or employee share purchase plans, or (ii) common shares issuable upon conversion of our outstanding convertible debt securities. Substantial sales of existing shares of our common shares by existing shareholders, or newly issued shares or convertible debt securities by us, could cause the market price of our common shares to drop significantly. The timing and size of any future primary or secondary offerings will depend upon a variety of factors, including, in particular, market conditions.

The shareholders of ST Holding entered into an agreement on August 31, 1999 pursuant to which they agreed to maintain their interest at least 40% of our share capital and voting rights until at least December 31, 2000. ST Holding has informed us that its shareholders have not extended such agreement. Therefore, we cannot exclude the possibility that the percentage of our common stock and of our voting rights held by ST Holding may change at any time. Any such transaction, or publicity concerning such a potential transaction, could affect the market price of our common shares and cause the market price of our common shares to drop significantly. See "Item 7: Major Shareholders and Related Party Transactions - Major Shareholders."

Disruptions in our relationships with any one of our key customers could adversely affect our results of operations

We have several large customers, some of whom have entered into strategic alliances with us. In 2000, our largest customer was Nokia and it accounted for approximately 13% of net revenues, and our top ten customers accounted for approximately 47% of net revenues. We cannot guarantee that our largest customers will continue to book the same level of sales with us that they have in the past. Many of our key customers operate in cyclical businesses that are also highly competitive, and their own demands and market positions may vary considerably. Our customers have in the past, and may in the future, vary order levels significantly from period to period. In addition, approximately 18% of our net revenues were made through distributors in each of 1998, 1999 and 2000. We cannot guarantee that such customers or distributors, or any other customers, will continue to place orders with us in the future at the same levels as in prior periods. If we were to lose one or more of our customers or distributors, or if any key customer or distributor were to reduce its bookings, increase its product returns or fail to meet its payment obligations, our operating results could be adversely affected. If orders are canceled, we may not be able to resell products previously made or require the customers who have ordered these products to pay for them.

We depend on patents to protect our rights to our technology

We depend in part on patents and other intellectual property rights covering our products and their design and manufacturing processes. We intend to continue to seek patents on our inventions and manufacturing processes. The process of seeking patent protection can be long and expensive, however, and we cannot guarantee that we will receive patents from currently pending or future applications. Even if patents are issued, they may not be of sufficient scope or strength to provide meaningful protection or any commercial advantage. In addition, effective patent, copyright and trade secret protection may be unavailable or limited in some countries. Competitors may also develop technologies that are protected by patents and other intellectual property and therefore either be unavailable to us or be made available to us subject to adverse terms and conditions. We may not be able to obtain licenses or other rights to necessary intellectual property on acceptable terms.

Because patent and other intellectual property litigation is costly and unpredictable, our attempts to protect our rights or to defend ourselves against claims made by others could impose high costs and risks on our business

Litigation that could demand financial and management resources may be necessary to enforce our patents or other intellectual property rights. Also, we may become involved in costly litigation brought against us regarding patents, mask works, copyrights, trademarks or trade secrets. If we cannot obtain licenses or other intellectual property rights, or if we have litigation expenses or judgments that are contrary to us, our results of operations or financial condition could be hurt. We have from time to time received, and may in the future receive, communications alleging possible infringement of patents and other intellectual property rights of others. Regardless of the validity or the successful assertion of such claims, we could incur significant costs with respect to the defense thereof which could have a material adverse effect on our results of operations or financial condition.

We have benefitted from state funding in France and Italy which might become unavailable, and as a result our costs could increase

Like many other semiconductor manufacturers operating in Europe, we have had the benefit of governmental funding for research and development expenses, industrialization costs (which include some of the costs incurred to bring prototype products to the production stage) and capital investment as well as low-interest financing. As a result of our history, our research and development facilities and manufacturing activities are concentrated mainly in France and Italy, and the substantial majority of our state funding has been derived from national and European Union programs in these countries. We have entered into funding agreements with France and Italy, which set forth the parameters for state support to us under selected national programs. These funding agreements require compliance with European Union ("EU") regulations and approval by EU authorities and annual and project-by-project reviews and approvals. Recently, the EU confirmed our right to receive Euro143 million under programs funded by the Italian government in accordance with the Italian law for the development of the south of Italy.

The EU adopted guidelines in 1995 seeking to limit state aid for research and development activities routinely performed in the normal course of business. We cannot guarantee that we will continue to benefit from state aid for research and development, that such aid will not be revoked or discontinued, or that material aid granted by a government for research and development will not be reviewed or challenged by the EU.

We rely on receiving funds allocated by state governments on a timely basis. However, funding of programs in France and Italy is subject to annual appropriation. If these governments were unable to provide anticipated funding on a timely basis or if existing government-funded programs were curtailed or discontinued, this could have a material adverse effect on our business, operating results and financial condition. From time to time we have experienced delays in the receipt of funding under these programs. As the availability and timing of such funding are substantially outside our control, we cannot guarantee that we will continue to benefit from such government support, that funding will not be delayed from time to time, that sufficient alternative funding would be available if necessary or that any such alternative funding would be provided on terms as favorable to us as those previously provided. In addition, there can be no assurance that the funding granted to us may not be revoked or challenged or discontinued in whole or in part by any competent state or European authority, or competent administrative or judicial body, until the legal time period for challenging or revoking such funding has elapsed.

Because we are a Dutch company subject to the corporate law of The Netherlands, you might have difficulty protecting your interests in a court of law or otherwise

The corporate affairs of STMicroelectronics NV are governed by our articles of association and by the laws governing corporations incorporated in The Netherlands. The corporate affairs of each of the consolidated subsidiaries of STMicroelectronics NV are governed by the articles of association and by the laws governing corporations incorporated in the jurisdiction in which such consolidated subsidiary is incorporated. Your rights and the responsibilities of members of our Supervisory Board under Dutch law are not as clearly established as under the rules of some U.S. jurisdictions. Therefore, you may have more difficulty in protecting your interests in the face of actions by our management, members of our Supervisory Board or our controlling shareholders than you would have if we were incorporated in the United States. Under our articles of association, when our annual accounts are adopted by the general meeting of shareholders, the members of our Managing Board and Supervisory Board are discharged from liability for their actions during the financial year concerned, unless a reservation is made by the general meeting of shareholders. This is without prejudice to the provisions of Dutch law, including provisions relating to liability of members of supervisory boards and managing boards upon bankruptcy of a company pursuant to articles 2:138 and 2:149 of the Dutch Civil Code.

Our executive offices and a substantial portion of our assets are located outside the United States. In addition, ST Holding II and most members of our Managing and Supervisory Boards are residents of France, Italy, Switzerland and jurisdictions other than the United States and Canada. As a result, it may be difficult for you to effect service within the United States or Canada upon us, ST Holding II, members of our Managing or our Supervisory Boards. It may also be difficult for you to enforce outside the United States or Canada judgments obtained against such persons in U.S. or Canadian courts, or to enforce in U.S. or Canadian courts judgments obtained against such persons in courts in jurisdictions outside the United States or Canada. This could be true in any legal action, including actions predicated upon the civil liability provisions of the U.S. securities laws. In addition, it may be difficult for you to enforce, in original actions brought in courts in jurisdictions located outside the United States, liabilities predicated upon the U.S. securities laws.

Removal of our common shares from the CAC 40 could adversely affect the price of our common shares

Our common shares have been included in the CAC 40 index on Euronext Paris since November 12, 1997. However, our common shares could be removed from the CAC 40, which could adversely affect the market price of our common shares.

#### Item 4. Information on the Company

##### History and Development of the Company

STMicroelectronics N.V. (formerly known as SGS-Thomson Microelectronics N.V.) 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 the former Thomson-CSF, now Thales, a French corporation) whereby each company contributed their



respective semiconductor businesses in exchange for a 50% interest in STMicroelectronics. We were incorporated in 1987, and our length of life is indefinite. We have our corporate legal seat and are domiciled in Amsterdam, and are organized under the laws of The Netherlands. We have our headquarters and executive offices located in the vicinity of Geneva Airport at Route de Pre-Bois 20, ICC Bloc A, 1215 Geneva 15, Switzerland. Our main telephone number is (41-22) 929-2929. We also maintain an administrative center at Technoparc du Pays de Gex - B.P. 112, 165, rue Edouard Branly, 01637 Saint-Genis Pouilly, France; telephone number (33-4) 5040-2640. STMicroelectronics N.V. is our parent company and we also conduct our operations through our consolidated subsidiaries.

For information on our principal capital expenditures and divestitures, see "Item 5: Operating and Financial Review and Prospects."

#### Business Overview

We are 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 Dataquest-Gartner Group, we were the sixth largest semiconductor company worldwide in 2000 based on sales. According to the latest industry sources released in 2001, STMicroelectronics in 2000 was the world's leading supplier of telecom ICs and EPROM memories, and the second leading supplier of total analog and mixed signal ICs, EEPROM memories, NVRAM memories, power diodes and thyristors. According to published industry data, we are the leader for differentiated and mixed signal ASSP ICs, digital decoder ICs, disk drive ICs, special automotive ICs and the second leading producer for ADSL kits. We currently offer more than 3,000 main types of products to approximately 800 direct customers. Major customers include Alcatel, Bosch, DaimlerChrysler, Delco, Echostar, Ericsson, Gemplus, Hewlett-Packard, Marelli, Matsushita, Nokia, Nortel Networks, Pace, Philips, Pioneer, Samsung, Schlumberger, Scientific Atlanta, Seagate Technology, Siemens, Sony, Thomson Multimedia and Western Digital. We also sell our products through distributors.

We offer a diversified product portfolio and develop products for a wide range of market applications to reduce our dependence on any single product, industry or application market. Within our diversified portfolio, we have focused on developing products that exploit our technological strengths in creating customized, system-level solutions with substantial analog and mixed-signal content. Products include differentiated ICs (which we define as being our 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, we have 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 63% of our net revenues in each of 2000 and 1999. We also target applications that require substantial analog and mixed-signal content and can exploit our system level expertise. All analog ICs accounted for approximately 49% of our 2000 net revenues compared to approximately 51% in 1999, while discrete devices accounted for approximately 10% of our net revenues in 2000 compared to approximately 12% in 1999.

Our products are manufactured and designed using a broad range of manufacturing processes and proprietary design methods. We use all of the prevalent function-oriented process technologies, including CMOS, bipolar and nonvolatile memory technologies. In addition, by combining basic processes, we have developed advanced systems-oriented technologies that enable us 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 our strategy for many years, enables us to meet the increasing demand for "system-on-a-chip" solutions. To complement this depth and diversity of process and design technology, we also possess a broad intellectual property portfolio that we use to enter into cross-licensing agreements with many major semiconductor manufacturers.

Our products are organized into the following principal groups:

- o Telecommunications, Peripherals and Automotive

- o Consumer and Microcontroller
- o Memory Products
- o Discrete and Standard ICs

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

The tables below set forth information on our net revenues by product group and by geographic region:

	Year ended December 31,				
	1996	1997	1998	1999	2000
	(in millions except percentages)				
<b>Net Revenues by Product Group:(1)</b>					
Telecommunications, Peripherals and Automotive(1)	\$1,614.0	\$1,606.9	\$1,855.2	\$2,305.5	\$3,481.7
Discrete and Standard ICs(1).....	778.1	839.5	816.7	927.9	1,213.1
Memory Products.....	736.8	708.6	659.6	835.9	1,552.9
Consumer and Microcontrollers(1).....	870.2	738.8	805.8	881.7	1,438.9
New Ventures Group and Others(2).....	123.3	125.4	110.5	105.3	126.6
<b>Total.....</b>	<b>\$4,122.4</b>	<b>\$4,019.2</b>	<b>\$4,247.8</b>	<b>\$5,056.3</b>	<b>\$7,813.2</b>
<b>Net Revenues by Geographic Region: (3)</b>					
Europe.....	\$1,788.5	\$1,753.3	\$1,768.9	\$1,833.6	\$2,629.2
North America.....	903.0	899.1	937.3	1,156.1	1,843.0
Asia Pacific.....	1,125.7	1,065.8	1,247.9	1,658.2	2,614.7
Japan.....	228.2	214.5	180.7	239.7	402.4
Emerging Markets(3).....	77.0	86.5	113.0	168.7	323.9
<b>Total.....</b>	<b>\$4,122.4</b>	<b>\$4,019.2</b>	<b>\$4,247.8</b>	<b>\$5,056.3</b>	<b>\$7,813.2</b>
	(as a percentage of net revenues)				
<b>Net Revenues by Product Group:(1)</b>					
Telecommunications, Peripherals and Automotive(1)	39.1%	40.0%	43.6%	45.6%	44.6%
Discrete and Standard ICs(1).....	18.9	20.9	19.2	18.4	15.5
Memory Products.....	17.9	17.6	15.5	16.5	19.9
Consumer and Microcontrollers(1).....	21.1	18.4	19.0	17.4	18.4
New Ventures Group and Others(2).....	3.0	3.1	2.7	2.1	1.6
<b>Total.....</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Net Revenues by Geographic Region: (3)</b>					
Europe.....	43.4%	43.6%	41.6%	36.3%	33.6%
North America.....	21.9	22.4	22.1	22.9	23.6
Asia Pacific.....	27.3	26.5	29.4	32.8	33.5
Japan.....	5.5	5.3	4.3	4.7	5.2
Emerging Markets(3).....	1.9	2.2	2.6	3.3	4.1
<b>Total.....</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

- (1) In January 1999, we implemented organizational changes to better orient our product groups to end-use applications. As a result, net revenues have been restated for prior periods to reflect these changes. In addition, the former Dedicated Products Group has become the Telecommunications, Peripherals and Automotive Groups, while the former Programmable Products Group has become the Consumer and Microcontrollers Groups.
- (2) 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 center for our new business opportunities.
- (3) 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. In the fourth quarter of 2000, Region Five changed its name to become the Emerging Markets region.

We have received many awards. We were the only semiconductor company to receive a AAA rating in eco-efficiency from Innovest Strategic Value Advisors and were recipients of both the EPA Climate Protection Award in 1999 and the Akira Inoue Award for Outstanding Achievement in Environmental, Health and Safety in the Semiconductor Industry in December 2000. In recent years, our regional subsidiaries have also received several prestigious awards: the prestigious Malcolm Baldrige National Quality Award in the U.S., the Singapore Quality Award, the Moroccan National Quality Award, the EPA Climate Protection Award (U.S.), the Malaysian Prime Minister Quality Award and the Malta Quality Award. In 1997, we received the European Quality Award for Business Excellence in the category of large businesses awarded by the European Foundation for Quality Management. These awards illustrate the success of our unified Total Quality and Environmental Management philosophy on four continents. Total Quality and Environmental Management or "TQEM" 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 "--Strategy" and "--Description of Property--Manufacturing."

## Strategy

The key elements of our strategy are set forth below.

**Broad Product Portfolio.** We offer a diversified product portfolio and develop products for a wide range of market applications to reduce our dependence on any single product, industry or application market. Within our diversified portfolio, we have focused on developing products that exploit our technological strengths in creating customized, system-level solutions with substantial analog and mixed-signal content. Products include differentiated ICs (which we define as being our 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, we have 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 63% of our net revenues in each of 2000 and 1999 and 62% in 1998. We also target applications that require substantial analog and mixed-signal content and can exploit our system level expertise. Analog ICs accounted for approximately 49% of our 2000 net revenues compared to approximately 51% in 1999 and 50% in 1998, while discrete devices accounted for approximately 10% of our net revenues in 2000 compared to approximately 12% in 1999 and 13% in 1998. In general, 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, we can also benefit from selling standard products. Consistent with this view, we have 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, Smartcard ICs and all standard logical and linear ICs) represented approximately 37% of our sales in 2000 and, in management's view, increased sales of these products represent an opportunity to improve cash flow because the manufacture of standard products requires moderate capital investment and to saturate existing mature fabrication facilities.

**Broad Range of Process and Design Technologies.** We intend to continue to exploit our expertise and experience with a wide range of process and design technologies to develop our capabilities. We are 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 our logic products and semicustom devices. We continually work with key suppliers to develop advanced and standardized design methodologies for our CMOS, mixed signals and nonvolatile memories processes as well as libraries of macrofunctions and megafunctions for many of our products, and are focusing on improving our concurrent engineering practices to better coordinate design activities and reduce overall time-to-market. We are also working closely with many of our 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.

Leading Global Customer Base with Focus on Strategic Alliances. We work with our key customers to identify evolving needs and new applications and to develop innovative products and product features. We also seek to use our access to key customers as a supplier of application-specific products to establish ourselves as a supplier across a broad range of products. Alliances with customers allow us and our customers to share some of the risks of product development and the customers to gain access to our process technologies and manufacturing infrastructure. We have targeted alliances with customers in each of our key application markets of telecommunications, automotive, consumer and computer. We have established alliances with Alcatel, Bosch, Hewlett-Packard, Marelli, Nokia, Nortel Networks, Pioneer, Seagate Technology, Thomson Multimedia and Western Digital, among others. In establishing these alliances, we have also aimed to cover our key geographical markets.

Integrated Presence in Key Regional Markets. We have 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 we are well positioned to anticipate and meet our customers' business requirements in local markets. Therefore, we have established front-end manufacturing facilities in the United States (in Phoenix, Arizona; Carrollton, Texas; and Rancho Bernardo, California), in Europe (Agrate, Castelletto and Catania, Italy; and Crolles, Rennes, Rousset and Tours, France) and in Asia (Singapore); the more labor-intensive back-end facilities have been located in Malaysia, Malta, Morocco, Singapore and China, enabling us 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, we believe we can maintain strong relationships with our customers. We intend to continue to build our integrated local presence in each region where we compete in our efforts to better serve our customers and to develop an early presence in potential high growth markets such as China, where we have both a back-end facility and a design center, and India, where we have a design center.

Balanced Sales by Application and Region in High Growth Market Segments. We have developed a strong product portfolio across major application markets including computer peripherals, wireless communications, digital consumer electronics, Smartcards, automotive and power management. While we are consolidating our position in our established high volume businesses, including switching, engine management, car safety, traditional analog TV, VCR, computer peripherals, power and industrial and consumer appliances, we have 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, digital cameras and MP3 digital music players), wireless communications (digital cellular phones), data transport (fiber optic ICs and voice over IP, known as VoIP), Internet (xDSL), new automotive products (car multimedia) and new generations of mass storage devices. We also maintain a geographically diverse customer base across a broad range of market applications.

Pervasive TQEM Culture. We are fostering a corporate-wide TQEM 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. TQEM in our company is based on five key principles: management commitment, employee empowerment, continuous improvement, management by fact and customer focus. TQEM has become an integral part of our 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, we have continually improved average AIQ (electrical) status levels. Most of our manufacturing facilities have been certified to conform to ISO international quality standards and Eco Management and Audit Scheme ("EAMS"). Several major customers, including Hewlett-Packard, Nokia, Sharp, DaimlerChrysler and Sanyo have recognized our commitment to quality and have honored us with quality awards in the recent past. Also in recent years, several prestigious awards have been accorded to our regional subsidiaries, underscoring our long-standing commitment to business excellence: the prestigious Malcolm Baldrige National Quality Award in the U.S., the Singapore Quality Award, the Moroccan National Quality Award, the EPA Climate Protection Award (U.S.), the Malaysian Prime Minister Quality Award, and the Malta Quality Award. In 1997 the European Quality Award for Business Excellence in the category of large businesses was awarded to us by the European Foundation for Quality Management. These awards illustrate the success of our unified Total Quality and Environmental Management philosophy on four continents.

Pioneer in System-on-chip. Since our inception, we have leveraged our know-how of a broad range of industries to integrate different system functions on a single chip, pioneering the trend towards system evolutions on silicon and superintegration. A modular approach is being utilized to develop options to the main manufacturing processes and blocks of intellectual property; strategic partnerships are the main lever for acquisitions of the system know-how to be embedded on the chip. We currently supply highly integrated products in all our main applications, and particularly in high volume domains such as hard disk drives (disk controllers), set-top boxes and Digital video drives.

To date, our growth has been attributable primarily to internal growth. However, we have recently proceeded with the acquisition of specific assets and intellectual property, enhancing our expertise in specific business or markets. In 1999, we acquired Peripheral Technology Solutions Group, a company specialized in the design of products for the hard disk drive market, of Vision Group, a leading designer and supplier of CMOS sensors and Arithmos, a company which designs controller ICs for flat panel displays and LCD monitors. In 2000, we acquired WSI, a manufacturer of programmable system memory devices, (in September) and PGI, a vendor of computers and software development tools to the high performance parallel computer market (in December). In June 2000, we also acquired from Nortel Networks its semiconductor business, including its design and manufacturing activity in Ottawa. Furthermore, in March 2001, we completed the acquisition of Ravisent's consumer electronics business. We may, from time to time, consider making selected acquisitions of or targeted equity investments in companies that we believe would complement or expand our existing business. Announcements concerning potential acquisitions could be made at any time.

Acquisitions involve a number of risks that could adversely affect our 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 our standards; (v) the risk that the businesses acquired will not maintain the quality of products and services that we have historically provided; (vi) the inability to attract and retain qualified management for the acquired business; and (vii) our inability to retain customers of the acquired entity. There can be no assurance that (a) we 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 us, if at all, or (c) any operations acquired will be successfully integrated or that such operations will ultimately have a positive impact on our business. See "Item 5: Operating and Financial Review and Prospects -- Liquidity and Capital Resources."

#### Products and Technology

We design, develop, manufacture and market 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. Our products include standard commodity components, full custom devices, semicustom devices and ASSPs for analog, digital and mixed-signal applications. Historically, we have not produced DRAMS or x86 microprocessors.

In 2000, we had four principal products groups, Telecommunications Peripherals and Automotive, Consumer and Microcontroller, Memory Products and Discrete and Standard ICs. As part of our activities outside the principal product groups, we also have a New Ventures Group, which identifies and develops new business opportunities to complement our existing businesses, and a Subsystem Product Group, which produces subsystems for industrial and other applications. For a breakdown of net revenues by product group and geographic region each of the five years ended December 31, 2000, see " - Business Overview."

#### Telecommunications, Peripherals and Automotive Groups

The Telecommunications Group has two application divisions, and the Automotive and Peripherals Group has four divisions. 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 Automotive 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-controller cores.

The Telecommunications, Peripherals and Automotive Groups work closely with customers to develop application-specific products using our technologies and manufacturing capabilities. The breadth of our customer and application base provides us with a source of stability in the cyclical semiconductor market. 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. Our wireline telecommunications products are used in telephone sets, modems, subscriber line interface cards (SLICs) for digital central office switching equipment and high-speed electronic and optical communications networks. In the field of broadband networking, the success of our established strategic partnership with Nortel Networks was reinforced by the new agreements that included a commitment for \$2 billion in sales to Nortel over three years, and a development agreement covering processes, packages and fundamental IP for high speed optical interfaces, essential components for high-speed optical-fiber network equipment. We also announced our entry into the emerging market for optical switches, by signing a letter of intent with Agilent Technologies for the development and manufacture of innovative optical switch chips.

In the area of broadband access, we shipped more than four million ADSL chipsets in 2000. Along with our strategic partner Alcatel, we announced the joint development and promotion of the DMT (Discrete Multi-Tone) modulation technique as a worldwide standard for VDSL at the international regulatory level. We also signed an agreement with Telia AB for the transfer to us of all patent rights in the Zipper-DMT VDSL technology jointly developed by us with Telia.

In addition, we announced plans to develop an Enhanced G.Lite ADSL (Asymmetrical Digital Subscriber Line) chipset for the mass market through a joint project with Nortel Networks.

- (ii) Wireless Telecommunications Products. In wireless telecommunications, we focus our product offerings on cellular phones, pagers and wireless local loop applications, serving the major OEMs in each of these areas with differentiated ICs. Regarding the cellular phone segment, new design wins for radio frequency were achieved in Silicon-Germanium (SiGe) technologies for next generation cellular phones (2.5G and 3G). Two leading manufacturers of mobile phones awarded us with development contracts. One was for a multimedia processor chip for next-generation mobile phones, while another leading cellphone maker chose us to supply a radio frequency solution for dual-mode terminals, using 0.35-micron SiGe technology. In addition, we announced an agreement with TTPCom for the development of GSM and GPRS (2.5G) baseband platform chips for the next generation of mobile handsets and mobile Internet devices based on our ST100 DSP core.

In addition, in the telecommunications area, Alcatel Microelectronics has agreed to use our innovative ST100 as the preferred DSP core for a variety of system-on-chip solutions for GSM, xDSL, Voice-over-Internet Protocol (VoIP) and other leading-edge technologies.

The Peripherals and Automotive Group has four divisions:

- (i) Data Storage. We produce ICs for several data storage applications, specializing in disk drives with advanced solutions for read and write digital channels, controllers, host interfaces, digital power processing and micromachinery. We are working actively on super-integrating these macro-functions into system-on-chip solutions. In September 2000, we announced two important additions to our Hard Disk Drive IC portfolio. Aimed at 'dual servo' disk drives where micro-positioning will be used to increase drive density, the L6670 Rotational Accelerometer System is a device containing both a micromachined Micro-Electro-Mechanical System (MEMS) sensor plus an interface chip, while the L6660 is a Piezoelectric actuator driver built in 90V BCD technology. We have also been awarded a design win from Seagate for the most advanced

system-on-chip solution for high-volume, low-cost hard disk drives. The chip will be the first to integrate the hard disk controller, the new Super10 micro/DSP core and the read/write channel. In addition to delivering first samples of a hard disk controller with embedded DRAM built in 0.18-micron technology and gaining important new design wins for hard disk drive preamplifiers and dedicated power devices for high-end and mobile disk drives, we were chosen by Quantum Technologies to supply a SoC solution for a new hard disk drive. Based on our new Super10 DSP enhanced microcontroller core, the new device will also incorporate a hard disk controller, 4Mbit of embedded dynamic RAM memory and interface functions. We will supply the complete system solution, including firmware. In February 2001, we introduced the world's first single-chip solution for 16x DVD- and 48x CD- ROM drives. Called "Verdi" (STA1000), the new solution integrates an ST10 16-bit microprocessor core, a proprietary digital signal processor core, memories, interfaces and application-specific digital and mixed analog/digital functions.

(ii) Printers. We are focusing on inkjet printer components and are an important supplier of pen chips, motor drivers, head drivers, high performance photo quality applications and digital color copiers. We are an important partner of Hewlett-Packard for technology development and manufacturing and are currently developing printer system on chip platforms. Other notable successes in the printer field included contracts with two other leading printer manufacturers to develop system-on-chip solutions with embedded DRAM memory for the 'digital printer engines' used in inkjet printers. With these new contracts, we are now the chosen supplier at three out of the four leading manufacturers. In the first quarter of 2001, we won further design wins for both inkjet and laser printer engines and also ramped up production of 0.18-micron printer engines for a very high volume order.

(iii) Audio and Automotive Products. Our audio products include audio power amplifiers, audio processors and graphic equalizer ICs. Our 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, instrumentation systems and car multimedia. We believe we are the leader in the manufacturing of car radio components, on the basis of sales. We are currently developing solutions for global positioning systems (GPS) and multimedia in the car. In 1999, we signed a strategic alliance for car entertainment systems with Pioneer Electronics of Japan. Due to our super-integration know-how, we have successfully expanded our presence beyond Europe to the United States and Japan, further accessing key customers such as Mitsubishi and Denso.

In 2000, we announced the world's first automotive grade microcontroller with embedded Flash memory. Optimized for automotive applications, the ST10F168 integrates the ST10 16-bit MCU core, 256kbytes of internal Flash memory plus peripherals and RAM. We were awarded a contract to develop a complex system-on-chip with both a powerful DSP - the ST120, based on the ST100 core - and a 32-bit micro core for a new traffic information system being developed by Cue Corporation in the United States. In addition, we began a joint development program with Marelli and Cadence for smart valves for motor control in model year 2005. This program is based on the ST120 DSP/MCU core. We signed an important agreement with Italy's Autostrade for the development of a chipset that will support the European standard for new generation tolling.

In 2001, our leading position in the automotive arena was reinforced by the introduction of a new 16-bit automotive-grade microcontroller chip with embedded Flash memory whose performance is guaranteed over the entire automotive temperature range, making it ideal for fast-growing applications such as engine control. In addition, our microcontroller built using 0.18 -micron embedded Flash technology was selected by Siemens for a next generation airbag system.

In the audio field, we achieved a major technical milestone with XM Satellite Radio, the satellite radio broadcaster. Following the successful fabrication and testing of XM's custom chips, the devices are now being delivered to XM radio partners for integration into XM satellite-capable radios. In the first quarter 2001, we received an order for one million kits for the WorldSpace satellite radio receivers, following the successful launch of the second satellite.

- (iv) Industrial and Power Supplies. We design and manufacture products for industrial automation systems, lighting applications (lamp ballast), battery chargers and switch mode power supplies (SMPS). Our 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. We are currently developing superintegrated solutions using our broad range of technologies (CMOS, BiCMOS, BCD) and our expertise in microcontrollers/DSP cores, dedicated IC megacells and embedded memory capability.

Other important technology deals concluded during the year included the acquisition of Portland Group Inc. (PGI). PGI is a developer of compilers and software development tools for the high-performance parallel computing market and the acquisition of full ownership of PGI's operations substantially reinforces our strength in embedded DSP system-on-chip solutions for applications including wireless, wireline, data storage, multimedia and automotive.

#### Consumer and Microcontroller Groups

The Consumer and Microcontroller Groups (CMG) are responsible for the design, development and manufacture of microcontrollers, graphic accelerators and Application Specific Standard Products (ASSP) targeted at high growth digital consumer applications, including digital set-top boxes, Digital Versatile Disk (DVD) players, digital cameras and digital TV.

Through year-end 2000, CMG was organized by system partitionings, with front-end ICs (reception and demodulation of the video signal), back-end ICs (decompression and control of the video signal) and micro cores. In the first quarter 2001, CMG was reorganized by application and regrouped the front-end, the back-end and the micro cores activities of each application. Two new divisions have been created: the set-top-box division and the DVD division. The TV, the Imaging and Display, the Graphics Products and the Microcontroller divisions are unchanged.

The Consumer and Microcontroller Groups are divided into the Consumer Group and the Microcontrollers Group. The Consumer Group is further divided into five divisions: set-top boxes, DVD, TV, Imaging and Display division and the Graphics Products division.

Consumer Group. We consolidated our leadership in digital consumer applications on the basis of shipments in 2000, particularly for set-top boxes, DVDs and digital TV, and we shipped more than 30 million MPEG2 decoder ICs embedding our ST20 32-bit RISC core in 2000.

- (i) Set-top box. We have expanded our product and customer base introducing solutions for set-top boxes with web-browsing and video recording and time-shifting functionality. We were the only semiconductor company at the USA National Association of Broadcasters show (NAB2000) in Las Vegas to demonstrate advanced Personal Video Recording (PVR) and Hard Disk Drive capability, on our STi5512 product family, in conjunction with NDS Group. We reinforced the market leadership of our STi5500 (OMEGA) family of set-top box back-end decoders with the introduction of the STi5518, which retains all of the features of the STi5500 but adds support for Dolby Digital and MP3 audio decoding as well as additional logic to ease the connection of hard disk drives, making the device ideal for emerging 'convergence' products that offer features such as pausing and time-shifting of live TV. In addition, we shipped production quantities of our STi5508 OMEGA set-top box chip to customers such as Echostar and major design wins were achieved in the U.S. and Europe for the STV0399, the world's first device to integrate a Zero IF tuner, a multi-standard demodulator (QPSK and 8-PSK) and a Forward Error Correction (FEC) block in a single CMOS chip.

We entered into new agreements for expanding our leadership position in digital consumer applications on the basis of sales. Following the 1999 agreement with Scientific Atlanta (SA) on DOCSIS (Data Over Cable System Interface Specification), we strengthened our cooperation with SA to supply key components for the Explorer 2000 and 6000 digital cable set-top boxes. In May



2000, we announced a license agreement with France Telecom that gives us worldwide rights to exploit France Telecom's patented Turbo Code Forward Error Correction technology. This allows the information carrying capacity of a communications system to be substantially increased and could dramatically affect the Digital Satellite TV market by significantly increasing the number of TV channels broadcast by existing satellites. In September 2000, we disclosed details of plans with Norwegian company Nera to develop chipsets and related software for providing turnkey interactive broadband solutions for set-top boxes.

- (ii) DVD. In the field of DVD players, after RCA and Philips, we won designs for DVD and Combo boxes (set-top box plus DVD) in the U.S. and China. Further strengthening our positioning, we introduced in the second quarter 2000 a new DVD decoder/host processor chip, the STi5508, that offers all the functions of the popular STi5505 along with enhanced audio and video features, including a powerful Karaoke processor and MP3 decoder. The STi5508 has been designed into DVD drives of major Asian manufacturers. In 2001, following several years of successful cooperation combining Ravisent's DVD software and ST's OMEGA family of DVD decoder processors, we expanded our ability to provide complete DVD system solutions by acquiring the Consumer Electronics business of Ravisent Technologies.
- (iii) TV. This division addresses both the analog and digital television markets with a wide range of highly integrated ASSPs and application-specific microcontrollers.
- (iv) Imaging and Display Division. Our Imaging and Display Division focuses on video camera recorders, monitors and flat panel displays and image capturing and transmission. In 1999, we finalized the acquisition of Vision Group plc, a U.K. company based in Edinburgh, Scotland, which developed a technology for production of CMOS sensors. CMOS sensors significantly reduce the cost of digital cameras; 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. We are actively pursuing opportunities in webcam, digital still camera and cellular phone applications. In 2000, we unveiled a highly integrated digital color camera module optimized for use in the next generation of cellular phones, personal digital assistants and other portable communications devices. The Digital Camera Module meets two key requirements for portable applications - small size and low power consumption.
- (v) Graphics Products. In early 1999, we entered into a partnership agreement with Imagination Technologies, (formerly Videologic) of the United Kingdom for developing the next generation 3D accelerator aimed at the PC and digital consumer market. In June 2000, we introduced our KYRO 3D graphics and video accelerator, which was the first full-featured PC graphics and video accelerator based on Imagination Technologies' PowerVR Series 3 technology. We gained several design wins from PC-based graphics card manufacturers in Taiwan and China. In March 2001, we announced our second-generation 3D Graphics and Video Accelerator derived from our partnership with Imagination Technologies. At the same time, we announced a commercial partnership and technical cooperation with Hercules to develop further leading-edge PC Graphics add-in card solutions exploiting KYRO II's clear performance leadership for PC games and similar applications requiring high performance, cost-effective graphics.

Microcontroller Division. This division provides competitive, high-volume 8- and 16- bit microcontrollers for all major application segments. 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.

Expanding on our cooperation with Hitachi on advanced SuperH RISC cores, we have announced the formation of a jointly controlled independent company, SuperH, Inc. In addition to licensing SuperH cores on the open market, SuperH will complete the final development of the 64-bit SH-5 core and take over development of the SH-6 and SH-7 cores. SuperH is expected to commence operations in the third quarter of 2001 subject to receipt of all required regulatory clearances.

## Memory Products Group

The Memory Products Group designs, develops and manufactures a broad range of semiconductor memory products but does not produce DRAMs.

Our Memory Products Group is organized into the following divisions:

(i) Flash memories; (ii) smartcard products; (iii) EPROMs; (iv) EEPROMs; and (v) other memories and application-specific memories. This last division was set up following the acquisition of WSI.

- (i) Flash Memories. In 2000, the market for Flash memories more than doubled, according to published industry data, driven by cellular phones and digital consumer applications growth. Our Flash sales have more than tripled in the same period due to advanced process technologies, new products development and state-of-the-art manufacturing facilities. Flash memories must have many capabilities because they are used in a wide variety of applications, and thus are more comparable to dedicated products than pure standard products. We offer a broad variety of Flash memories, which we sell to customers in different fields, such as wireless telephony, digital consumer, automotive and computer products. For example, we currently supply single voltage (down to 1.8 volt) NOR cell structure Flash memory products up to 32 Mbit to the mobile phone market, and we are now successfully processing wafers for the first 64Mbit Flash memories using multi-bit/cell technology. In addition, in the 2001 first quarter, we began ramping up production of our dedicated Flash memories for Firmware Hub BIOS applications, which are now qualified at most PC desktop and notebook manufacturers. Targeted at high-performance PCs employing Intel's Accelerated Hub Architecture, the device is a 4Mbit Flash memory that performs the Firmware Hub function and is built using our advanced 0.18-micron Flash technology.
- (ii) 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 and bank cards (primarily in Europe), as well as pay television systems (primarily in the United States, United Kingdom and France). Other applications include medical record applications, card-access security systems, toll-payment secure transactions over the Internet and ID cards applications. In 2000, our innovative SmartJ 32-bit RISC and Java processing platform was awarded the prestigious 'Best New Chip' award at the Smartcard 2000 show held in London. At the same event, we demonstrated the world's fastest RF-powered contactless microcontroller-based smartcard chip. Our achievement in obtaining the world's first security certification to the new international ISO 15408 standard for our ST19 platform was followed by a similar certification jointly achieved with Gemplus for a Smartcard solution that combines Gemplus' embedded software and our ST19 hardware platform. The ST19 platform and embedded Gemplus secure software will be used in Smartcards for telecommunications and banking applications. In 2001, we introduced a chipset that simplifies the design of contactless Smartcard readers, stimulating growth of new contactless Smartcard applications such as access control, ticketing systems, E-purse and ID cards. Finally, we are currently developing biometric solutions based on fingerprint recognition.
- (iii) EPROMs. We produce a broad range of EPROMs, from 16 Kbit to 32 Mbit. The EPROM market is relatively mature. We have succeeded in maintaining our market leadership because of our EPROM technology, which has allowed us 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 us an advantageous cost position. Efficient manufacturing in our Singapore assembly plant, together with our sales and distribution channels, has contributed to the exploitation of our technological advantage.
- (iv) EEPROMs. We offer serial EEPROMs up to 512 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. We intend to work closely with our key customers and strategic allies to identify and develop added-value application-specific memories.

- (v) Other memories and application-specific memories. We focus on producing nonvolatile RAMs (battery back-up) used in computers and telecommunications equipment. Our strategy of developing innovative differentiated and value-added products was reflected by the acquisition of Waferscale Integration (WSI). The acquisition of WSI allows us to offer configurable memory systems, integrating multiple memory types and control logic, which represent the ultimate step in term of value-added memories.

#### 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 radio frequency products.

This Group's discrete and standard products are manufactured using mature technological processes. Although such products are less capital intensive than our other principal products, we are 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.

- (i) Discrete Power Devices. We manufacture and sell a variety of discrete power devices, including rectifiers, protection devices and thyristors (SCRs and triacs). Our devices are used in various applications, including 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. We offer a highly successful range of standard products built with our 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. We have recently started development of electronic devices integrating both passive and active components on the same chip (IPAD: Integrated Passive and Active Devices).

- (ii) Power Transistors. We design, manufacture and sell power transistors, which (like our discrete power devices) operate at high current and voltage levels in a variety of switching and pulse mode systems. We have three power transistor divisions: bipolar transistors, power MOSFETs (metal-oxide-silicon field effect transistors) and new power transistors such as IGBTs.

Our 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.

We also offer 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.

- (iii) Standard Logic and Linear ICs. We produce 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. We also offer standard linear ICs covering a variety of applications, including amplifiers, comparators, decoders, detectors, filters, modulators, multipliers and voltage regulators.
- (iv) Radio Frequency Products. We supply components for RF transmission systems used in television broadcasting equipment, radar systems, telecommunications systems and avionic equipment. We are targeting new applications for our RF products, including two-way wireless communications

systems (in particular, cellular telephone systems) and commercial radio communication networks for business and government applications.

#### Strategic Alliances

We believe that strategic alliances are critical to success in the semiconductor industry, and we have entered into strategic alliances with customers, other semiconductor manufacturers and major suppliers of design software. We have entered into several strategic customer alliances, including alliances with Alcatel, Bosch, Hewlett-Packard, Marelli, Nokia, Nortel Networks, Pioneer, Seagate Technology, Thomson Multimedia and Western Digital, among others. In June 2000, in conjunction with our acquisition of the 150mm facility in Ottawa, Canada, we entered into an agreement with Nortel Networks for the development of processes, packages and fundamental IP for high-speed optical interfaces. Customer alliances provide us with valuable systems and application know-how and access to markets for key products, while allowing our customers to share some of the risks of product development with us and gain access to our 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, as well as the building and operations of a 300mm wafer pilot line fab in Crolles, France, the agreement with Mitsubishi for CMOS Flash memory processes using 0.20 through 0.18-micron lithography 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.

We have established joint development programs with leading suppliers such as Air Liquide, Applied Materials, ASM Lithography, Canon, Hewlett-Packard, KLA-Tencor, LAM Research, MEMC, Schlumberger, Teradyne and Wacker and with CAD tool producers including Cadence, Co Ware and Synopsys. We are a participant in Sematech I 300I for the development of 300 millimeter wafer manufacturing processes. We are active in joint European research efforts such as the MEDEA program, and also cooperate with major research institutions and universities.

In 2000, we pursued development of 0.15-micron drawn (0.13-micron effective gate length) CMOS process technology, at Crolles, France. At the same time we started production of our 0.15-micron effective gate length (0.18-micron drawn) CMOS technology, known as HCMOS-8. This process is aimed at producing "system-on-chip" products incorporating up to tens of millions of transistors combined with embedded memory for telecom, digital consumer and computer applications. In 2000, we started work on new generation 0.13 microFlash technology in our R2 technology center in Agrate, Italy.

#### Customers and Applications

We design, develop, manufacture and market over 3,000 main types of products that we sell to approximately 800 direct customers. We also sell our products through distributors. Major customers include Alcatel, Bosch, DaimlerChrysler, Ericsson, Gemplus, Hewlett-Packard, Marelli, IBM, Matsushita, Maxtor, Motorola, Nokia, Nortel Networks, Philips, Pioneer, Samsung, Schlumberger, Scientific Atlanta, Seagate Technology, Siemens, Sony, Thomson Multimedia and Western Digital. To many of our key customers we provide a wide range of products, including dedicated products, discrete devices, memory products and programmable products. Our position as a strategic supplier of application-specific products to certain customers fosters close relationships that provide us 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 our significant customers and certain applications for our products:

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**Telecommunications**

Customers:	Alcatel Ericsson Italtel	Lucent Technologies Marconi Matsushita	Motorola Nokia Nortel Networks	Philips Sagem Siemens
Applications:	Central office switching systems Digital cellular telephones Wireless networking (Bluetooth)		Telephone terminals (wireline and wireless) Internet access (xDSL) Data transport (routing, switching for electronic and optical networks)	

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**Computer Systems**

Customers:	ACER Agilent Creative Technology	Delta Hewlett-Packard IBM	Logitech Maxtor Samsung	Seagate Sun Microsystems Western Digital
Applications:	Data storage Monitors and displays Graphics		Webcams Printers Imaging Power management	

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**Automotive**

Customers:	Bosch DaimlerChrysler Delphi	Denso Lear Marelli	Motorola Pioneer Siemens	Valeo VDO Visteon
Applications:	Airbags  Antiskid braking systems Car radio Body and chassis electronics		Engine management systems (ignition and Injection) Multiplex wiring kits Global positioning systems Car multimedia	

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**Consumer Products**

Customers:	Agilent Technologies Bose Corporation EchoStar Grundig	Hughes Kenwood Matsushita Pace	Philips Pioneer Samsung	Scientific Atlanta Sony Thomson Multimedia
Applications:	Audio processing (CD, DVD, Hi-Fi) Digital cameras Digital music players Digital TVs		DVDs Set-top boxes Analog TVs VCRs	

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**Industrial and Other Applications**

Customers:	Astec Autostrade Bull Delta	Gemplus Giesecke & Devrient IPM Litton	Nagra Oberthur Orga Philips	Schlumberger Siemens
Applications:	Battery chargers Smartcards ICs Industrial automation and control systems Intelligent power switches		Lighting systems (lamp ballasts) Motor controllers Power supplies Switch mode power supplies	

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In 2000, our largest customer, Nokia, represented approximately 13% of our net revenues. No other single customer accounted for more than 10% of our net revenues. Sales to our top ten customers accounted for approximately 47% of our net revenues in 2000 (45% in 1999). We have several large customers, certain of whom have entered into strategic alliances with us. Many of our 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 our net revenues in 2000 were made through distributors. There can be no assurance that such customers or distributors, or any other customers, will continue to place orders with us in the future at the same levels as in prior periods. The loss of one or more of our customers or distributors, reduced bookings or product returns by our key

customers or distributors, could adversely affect our operating results. In addition, in a declining market like the present, we have been in the past and may in the future be driven to lower prices in response to competitive pressures and may expect a higher number of order cancellations, particularly by distributors and for commodity products.

#### Sales, Marketing and Distribution

We operate regional sales organizations in Europe, North America, the Asia Pacific region, Japan and, since January 1, 1998, in Emerging Markets which includes South America, Africa, Eastern Europe, the Middle East and India. For a breakdown of net revenues by product group and geographic region for each of the five years ended December 31, 2000, for " - Business Overview." In 2000, our largest customer, Nokia, represented approximately 13% of our net revenues. No other single customer accounted for more than 10% of our net revenues. Sales to our top ten customers were approximately 47% and 45% of our net revenues in 2000 and 1999, respectively, which was an increase from 43% in 1998.

The European region is divided into five businesses units: automotive, commodities, consumer and computers, industrial and smartcards, six geographically configured units to cover mid-sized OEM customers (France and the Benelux, Central Europe, Northern Europe, Southern Europe, Scandinavia and Finland), and six regions (United Kingdom, France, Central Europe, Southern Europe, Scandinavia and Finland) addressed through distributors.

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 us 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 our 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 our regional sales headquarters in Singapore. We have 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 our sales are made through distributors, as is typical for foreign suppliers to the Japanese market. However, our sales and marketing engineers in Japan work directly with customers as well as with the distributors to meet customers' needs. We provide marketing and technical support services to customers through sales offices in Tokyo and Osaka. In addition, we have 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 our products in specific applications.

The Emerging Markets region (designated as "Region Five" until January 1, 2001) was created as of January 1, 1998 and includes 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. Emerging Markets also includes the design and software development center in India, which employs approximately 700 people in a wide range of activities. We intend to increase our focus on this region to enhance our presence in these new markets.

The sales and marketing activities carried out by our regional sales organizations are supported by the product marketing that is carried out by each product division, which also include product development functions. This matrix system reinforces our sales and marketing activities and our broader strategic objectives.

We are pursuing 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.

Each of the five regional sales organizations operates dedicated distribution organizations. To support the distribution network, we operate logistic centers in Saint Genis, France; Phoenix, Arizona; and Singapore, and have made considerable investments in warehouse computerization and logistics support.

We also use distributors and representatives to distribute our products around the world. Typically, distributors handle a wide variety of products, including products that compete with our products, and fill orders for many customers. Most of our sales to distributors are made under agreements allowing for price protection and/or the right of return on unsold merchandise. We recognize revenues upon transfer of ownership of the goods at shipment. Sales representatives generally do not offer products that compete directly with our 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 us and are referred to distributors for smaller orders.

#### Research and Development

We believe that research and development is critical to our success and we are committed to increasing research and development expenditures in the future. In periods of industry downturn, such as in 1997 and 1998, simultaneously as we made significant cost reductions in our overall expenses, we continued increasing our research and development expenses, year-over-year. In 2000, we spent \$1,026 million on research and development, increased from \$836 million in 1999. The table below sets forth information with respect to our research and development spending since 1996 (not including design center, process engineering, pre-production or industrialization costs):

	Year ended December 31,				
	1996	1997	1998	1999	2000
	(in millions, except percentages)				
Expenditures.....	\$532.3	\$610.9	\$689.8	\$836.0	\$1,026.3
As a percentage of net revenues....	12.9%	15.2%	16.2%	16.5%	13.1%

As a result of our history, approximately 81% of our research and development expenses in 2000 were incurred in Europe, primarily in France and Italy. See "--Public Funding." As of December 31, 2000, approximately 6,800 employees were employed in research and development activities.

Our policy in the field of research and development is market driven, focused on leading edge products and technologies and carried out by over 6,800 employees worldwide in close collaboration with strategic alliance partners, leading universities and research institutes, key customers and blue chip equipment manufacturers working at the cutting edge of their own markets. We invest in a variety of research and development projects ranging from long term advanced research for the acceleration, in line with industry requirements and roadmaps, of our broad range of process technologies including BICMOS, BCD, High Performance Logic, stand alone and embedded Flash and other nonvolatile memories, to the continued expansion of our system level design expertise and IP creation for advanced architecture for system-on-chip integration, as well as new products for many key applications in the field of digital consumer wireless communications and networking, computer peripherals, Smartcards and car multimedia amongst others.

Our research and development activities focus on the VLSI technology platform, new system architectures, new product developments and emerging technologies in microsystems and photonics. The development of the technology platform (VLSI technologies and design tools) is conducted by Central Research and Development (CRD) while new systems architectures are studied in the Advanced System Technology (AST) units. New product research and development is conducted within each product group in conjunction with customers. The highest concentration of our CRD activities is located in the two main VLSI facilities of Crolles, France and Agrate, Italy. Other CRD activities are located in Catania, Italy, Rousset, France, Carrollton, Texas, Berkeley, California, Ottawa, Canada and Noida, India.

The central research and development units participate in several strategic partnerships. Our 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") named "Centre Commun de Microelectronique de Crolles", whose members are us, France Telecom R&D and Laboratoire d'Electronique de Technologie d'Instrumentation ("LETI"), a research laboratory of CEA-Industrie. The tripartite cooperation is intended to last until the end of 2002. We also cooperate with Philips Semiconductors to jointly develop sub-micron CMOS logic processes in Crolles, France and have extended this cooperation to cover the building of an advanced 300mm wafer pilot line in Crolles, France, which will be funded and operated jointly with Philips Semiconductors. Since April 2001, the piles have been completed and the shell building has commenced.

The CRD activities performed in the new 200mm facility of Agrate, Italy, are focused on the development of new generation sub 0.18 micron Flash memories from which other nonvolatile memory products are derived, such as embedded memories, EEPROM and OTP. Current Flash developments, which are one of our technology drivers, are targeting 0.13 micron very high density multilevel memories and the introduction of innovative materials for nonvolatile applications.

A technical center in Noida, India, develops design software and CAD libraries and tools. At the Agrate, Italy site, we are developing nonvolatile memory technologies and programmable logic processes using a pilot line, which is being upgraded to 200mm with a capability of 0.25 -micron and below. See "--Property, Plants and Equipment." We have 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.

We are a member of International Sematech, a non profit technology development consortium of 13 semiconductor manufacturers, funded by dues from the member companies. International Sematech works with members, equipment and materials suppliers, international labs and institutes, academia, and other consortia to accelerate the development of advanced precompetitive semiconductor manufacturing processes, materials and equipment for their member companies.

In addition to central research and development, each operating division also conducts independent research and development activities on specific processes and products focusing on developing an advanced range of the key technological building blocks required by targeted applications. These building blocks include (i) MPEG2 decoder ICs, (ii) a family of 16 bit (ST10, super 10), 32 bit (ST20) and 64 bit (ST50) microcontrollers, (iii) a family of general purpose DSP cores for embedded applications based on the current D950 solution and the ST100 (currently being sampled to customers) as well as several dedicated DSP cores (MMDSP, SAFIRE, EMERALDA) for specific applications, and (iv) embedded volatile (DRAM and SRAM) and nonvolatile (EPROM, EEPROM and Flash) memories. Applying our broad range of technologies and our expertise in diverse application domains, we are currently embedding dedicated, semicustom circuits and these advanced building blocks on the same chip, in addition to the many dedicated and semicustom ICs developed using power analog, digital and mixed signal technologies.

#### Intellectual Property

Intellectual property rights that apply to our various products include patents, copyrights, trade secrets, trademarks and maskwork rights. We own more than 19,000 patents or pending patent applications corresponding to more than 11,000 original inventions, most of which have been registered in several countries around the world. In 2000, we filed 685 new patent applications around the world. Management believes that our intellectual property represents valuable property and intends to protect our investment in technology by enforcing all of our intellectual property rights. We have entered into several patent cross-licenses with several major semiconductor companies.

Our success depends in part on our ability to obtain patents, licenses and other intellectual property rights covering our products and their design and manufacturing processes. To that end, we have acquired certain patents and patent licenses and intend to continue to seek patents on our 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 us. 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 us or available to us subject to adverse terms and conditions. Litigation, which could demand financial and management resources, may be necessary to enforce our patents or other intellectual property rights.

Also, there can be no assurance that litigation will not be commenced in the future against us 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 our results of operations or financial condition. We have from time to time received, and we 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, we could incur significant costs with respect to the defense thereof, which could have a material adverse effect on our results of operations or financial condition.

#### Backlog

Our 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 economic slowdown and/or industry overcapacity and/or declining selling prices, customer orders are not generally made far in advance of the scheduled shipment date. Such reduced lead time can reduce management's ability to forecast production levels and revenues. During periods of industry undercapacity, the backlog can exceed our manufacturing capacity.

Our backlog increased steadily in the first half of 2000 while registering a decline in the latter part of the year reflecting the industry downturn. Backlog decline increased during the first quarter of 2001. In industry downturns, customers tend to order products for immediate delivery, which leads us to build up inventory of key products and lowers our backlog.

We also sell certain products to key customers pursuant to frame contracts. Frame contracts are annual contracts with customers setting forth quantities and prices on specific products that may be ordered in the future. These contracts allow us 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 our products are intensely competitive. While only a few companies compete with us in all of our product lines, we face significant competition in each of our product lines. We compete with major international semiconductor companies, some of which have substantially greater financial and other resources than us 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 our competitors are also our customers.

According to published industry data in March 2001, we grew 55.4% annually making us the sixth leading semiconductor manufacturer worldwide. The primary international semiconductor companies, which compete with us include Advanced Micro Devices, Agere Systems, Broadcom, Hitachi, Intel Corporation, Mitsubishi Electric Corporation, Motorola, National Semiconductor Corporation, Nippon Electric Company, Philips Semiconductors, Samsung, Infineon Technology, Texas Instruments and Toshiba.

According to published industry data and other industry sources, investment in worldwide semiconductor fabrication capacity totaled approximately \$28 billion in 1998, \$33 billion in 1999 and \$59 billion in 2000, or approximately 22 %, 22% and 29%, respectively, of the TAM for such years. Such capacity investment is made not only by international semiconductor companies, but also companies specializing in operating semiconductor foundries, particularly in Asia such as UMC, TSMC and Chartered Semiconductors.

We compete 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. Our ability to compete successfully depends on elements both within and outside of our 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.

#### Organizational Structure

We are a multinational group of companies that 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. We are 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. STMicroelectronics N.V., owns directly or indirectly, 100% of all of our significant operating subsidiaries which have their own corporate organization and management bodies, and are operated independently in compliance with the laws of their country of incorporation. For a list of our subsidiaries, see note 3 to our consolidated financial statements.

#### Property, Plants and Equipment

We currently operate 19 main manufacturing sites around the world. In June 2000, we acquired a 150mm microconductor manufacturing facility owned by Nortel Networks in Ottawa, Canada. The table below sets forth certain information with respect to our current manufacturing facilities, products and technologies. Front-end manufacturing facilities are wafer fabrication plants (known as "fabs") and back-end facilities are assembly, packaging and final testing plants.

Location -----	Products -----	Technologies -----	Gross floor area size (including clean room, facilities and production offices) ----- (in square meters)
Front-end facilities			
Crolles, France	Semicustom devices, microcontrollers and dedicated products	Fab: 200mm 0.35/0.18 -micron CMOS and 0.7/0.25 -micron BiCMOS; R&D on VLSI sub-micron technologies in conjunction with France Telecom R&D and Philips Semiconductors	51,600
Phoenix, Arizona	Dedicated products	Fab: 200mm 0.5/0.35 -micron CMOS, 0.5/0.35 -micron BiCMOS	46,400
Agrate, Italy	Nonvolatile memories, microcontrollers and dedicated products	Fab 1: 150mm 2.0/0.5 -micron BCD, nonvolatile memories	47,500
		Fab 2: 200mm 0.35/0.18 -micron Flash, embedded Flash, R&D on nonvolatile memories	32,800
Rousset, France	Microcontrollers, nonvolatile memories and smartcard ICs and dedicated products	Fab 1: 150mm 0.8/0.5 -micron CMOS, Smartcard	32,000
		Fab 2: 200mm 0.35/0.18 -micron CMOS, Flash, Smartcard	66,500

Location -----	Products -----	Technologies -----	Gross floor area size (including clean room, facilities and production offices) ----- (in square meters)
Catania, Italy	Power transistors, smart power ICs and nonvolatile memories	Fab 1: 150mm 4/1 -micron MOS power, BCD	22,500
		Fab 2: 150mm 4/1 -micron pilot line RF	10,000
		Fab 3: 200mm 0.35/0.18-micron, Flash, Smartcard	43,000
Rennes, France	Dedicated and power products	Fab: 150mm 2 -micron BiCMOS, BCD and bipolar	17,500
Castelletto, Italy	Smart power BCD	Fab: 150mm 4.0/0.8 -micron BCD pilot line	12,500
Tours, France	Protection thyristors, diodes and application-specific discretes-power transistors	Fab: 100mm and 150mm discrete	36,500
Ang Mo Kio, Singapore	Dedicated products, microcontrollers, power transistors, commodity products; nonvolatile memories and dedicated products	Fab 1: 100mm 1.5-micron, power MOS, bipolar transistor, bipolar ICs, standard linear CMOS	75,000
		Fab 2: 150mm 1-2-micron bipolar, power MOS and BCD	15,000
		Fab 3: 200mm 0.50/0.18-micron BiCMOS, Flash (should enter volume production in 2001)	58,500
Carrollton, Texas	Memories, microcontrollers, dedicated products; and semicustom devices	Fab: 150mm 1.5/0.7-micron BiCMOS, BCD and CMOS	47,000
Rancho Bernardo, California	Dedicated products	Fab: 150mm 2.0-micron BCD	18,500
Ottawa, Canada	Dedicated products	Fab: 150mm, 0.8-micron bipolar	11,000
Back-end Facilities: Muar, Malaysia	Dedicated and standard products, microcontrollers		63,050
Kirkop, Malta	Dedicated products, microcontrollers, semicustom devices		27,200
Tuas, Singapore	Dedicated products and nonvolatile memories		12,400
Toa Payoh, Singapore	Nonvolatile memories and power ICs		17,150

Location	Products	Technologies	Gross floor area size (including clean room, facilities and production offices) (in square meters)
Ain Sebaa, Morocco	Discrete and standard products		30,000
Bouskoura, Morocco	Nonvolatile memories, discrete and standard products, micromodules, RF and subsystems		60,000
Shenzhen, China(1)	Nonvolatile memories, discrete and standard products		40,000

(1) Jointly operated with Shenzhen Electronics Group.

In the last quarter of 2000, our front-end facilities had total capacity of approximately 140,000 150mm equivalent wafer starts per week. The number of wafer starts per week varies from facility to facility and from period to period as a result of changes in product mix. We have five 200mm wafer production facilities currently in operation. Of these, three (at Crolles, France, Catania, Italy and Phoenix, Arizona) were operating at full capacity at December 31, 2000 and the other two (in Rousset, France and Agrate, Italy) are now in volume production and continue to be expanded. Construction of a new 200mm sub-micron facility is underway in Singapore. We have started construction of our 200mm sub-micron fabrication plant in Catania, Italy which will be upgradeable to 300mm capacity and is planned to be operational by the year 2002.

We acquired a new facility in Singapore that entered volume production of 150mm wafers in 2000, and we expanded our production of 150mm wafers in Carrollton, Texas and Rancho Bernardo, California. In June 2000, we acquired from Nortel Networks a 150mm manufacturing facility in Ottawa, Canada. In line with our expansion of front-end facilities in 2000, we expanded all our back-end plants at our existing facilities in Morocco, Malta, Malaysia, Singapore, and China. We also equipped a newly acquired back-end plant in Tuas (Singapore) and built a new back-end plant in Bouskoura (Morocco) in which the first assembly lines were operational by the end of 2000.

We have also started the construction of a shell building for an advanced 300mm wafer pilot-line fabrication facility in Crolles (France) that will be operated jointly with Philips Semiconductors. The pilot line will initially be designed to produce up to 1,000 wafers per week, with potential to ramp up to 2,000 wafers per week as needed. The first 300mm wafers are expected to be processed in 2002.

We have historically subcontracted approximately 15% of total volumes for back-end operations to external suppliers. Since 1999, to cope with a sudden surge in demand, and in particular, to meet anticipated requirements for HCMOS wafers, we decided to significantly increase our use of external foundries for front-end manufacturing as well, and they supplied up to approximately 15% of our total wafers. We intend to maintain the percentage of front-end manufacturing through external foundries at approximately this level in a period of high demand, reducing it as required to meet market conditions. In the first quarter 2001, the total wafer demand supplied by foundries represented approximately 9%, compared to an average of 11% in year 2000.

We have expanded our diversified manufacturing infrastructure while improving the cost, quality and flexibility of our operations. In 2000, we invested in our manufacturing facilities to bring to full capacity and expand the 200mm front-end manufacturing facility in Crolles, France and Catania, Italy, to continue the ramp up of a 200mm front-end manufacturing facilities in Phoenix, Arizona and Catania, Italy, and to build and equip the new 200mm front-end facilities in Rousset, France and Agrate, Italy, which are today in production, to expand 150mm front-end facilities in Carrollton, Texas and Rancho Bernardo, California, to purchase and equip a new 150mm facility in Singapore, to convert from 5-to 150mm the front-end facilities in Tours and Rennes, France and Catania, Italy and to expand our back-end facilities in Morocco, Malta, Malaysia, Singapore and China.

According to present visibility, as of the end of March 2001, we currently expect that capital spending for 2001 will be in the range of \$1.9 billion, significantly below the 2000 level and the initially announced \$2.5 billion. This investment will primarily be used for the expansion of the 200mm front-end facilities in France and Italy, the

start-up of the 200mm facility in Singapore, the expansion of the new back-end facilities in Morocco and the conversion of the facilities in Crolles (France) from 0.18 micron to 0.15 micron processes. As of December 31, 2000, we had commitments of approximately \$1.7 billion for equipment purchases. We will continue to monitor our level of capital spending, taking into consideration factors such as trends in the semiconductors market, capacity utilization and announced additions.

Although each fabrication plant is dedicated to specific processes, our strategy is to develop local presences, better serve customers and mitigate manufacturing risks by having key processes operated in different manufacturing plants. In certain countries, we have been granted tax incentives by local authorities in line with local regulations, being recognized as an important contributor to the economies where our plants are located. In 2000 we sought to take advantage of industry capacity limitations by purchasing from subcontractors both wafer foundry and back-end services and thereby minimizing our capital expenditure needs.

Our 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 our increased manufacturing efficiency has been an important factor in our improved results of operations, we have 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 we will be able to increase manufacturing efficiency in the future to the same extent as in the past or that we will not experience production difficulties in the future.

We are fostering a corporate-wide TQEM 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. TQEM in our company is based on five key principles: management commitment, employee empowerment, continuous improvement, management by fact and customer focus. TQEM has become an integral part of our 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, we have improved average AIQ (electrical) status levels. Most of our manufacturing facilities have been certified to conform to ISO international quality standards and EMAS. Several major customers, including Hewlett-Packard, Nokia, Sharp, DaimlerChrysler and Sanyo, have recognized our commitment to quality and have honored us with quality awards in the recent past. We have also adopted an environmental charter in order to reinforce our commitment to environmental protections.

As is common in the semiconductor industry, we have from time to time experienced difficulty in ramping up production at new facilities or effecting transitions to new manufacturing processes and, consequently, have suffered delays in product deliveries or reduced yields. There can be no assurance that we 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 our 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 require state-of-the-art sub-micron 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, we 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 our relationship with our customers could be significant. Our 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. Finally, in periods of high demand, we increase our reliance on external contractors for foundry and back-end service. Any failure to perform by such subcontractors could impact our relationship with our customers and could materially affect our results of operations.

#### Public Funding

We participate in certain programs established by the European Commission and individual countries in Europe (France and Italy), which provide public funding for research and development and capital investment in compliance with local laws. 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 main European programs for research and development in which we are involved include: (i) the Micro-Electronics Development for European Application ("MEDEA+") cooperative research and development program, (ii) European Union research and development projects with FWP5 for Information Technology; and (iii) national programs for research and development and industrialization in the electronics industries. We also participate in investment incentive programs for the economic development of certain regions.

The MEDEA+ cooperative research and development program was launched in June 2000 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 2000-2008. The MEDEA+ program replaced the joint European research program called MEDEA, which was a European cooperative project in microelectronics among several countries that covered the period 1996 through 2000 and involved more than 80 companies. In Italy, the Programma Nazionale per la Bioelettronica has more than 10 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.

We have also 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 EU authorities and annual and project-by-project reviews and approvals.

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 our business, operating results and financial condition. From time to time, we have experienced delays in the receipt of funding under these programs. As the availability and timing of such funding are substantially outside our control, there can be no assurance that we 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 us as those previously provided.

Public authority funding for research and development is reported in "Other Income and Expenses" in our consolidated statements of income. See Note 17 to the Consolidated Financial Statements. Such funding has totaled \$63.5 million, \$60.4 million and \$42.1 million in the years 1998, 1999 and 2000, respectively. Government support for capital expenditures funding has totaled \$182.4 million, \$53.4 million and \$95.2 million in the years 1998, 1999 and 2000, respectively. Such funding has been used to support our capital investment; while receipt of these funds is not directly reflected in our results of operations, the resulting lower amounts recorded in property, plant and equipment reduce the level of depreciation recognized by us.

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 1998, 1999 and 2000, we had \$49.4 million, \$48.8 million and \$31.3 million, respectively, of indebtedness outstanding under state-assisted financing programs at an average interest cost of 2.1%, 1.6% and 1.4%, respectively.

Due to changes in legislation and/or review by the competent administrative or judicial bodies, there can be no assurance that government funding granted to us may not be revoked or challenged or discontinued in whole or in part, by any competent state or European authority, until the legal time period for challenging or revoking such funding has fully lapsed.

#### Suppliers

The quality and technology of equipment used in the IC manufacturing process defines the limits of our technology. Demand for increasingly smaller chip structures means that semiconductor producers must quickly incorporate the latest advances in process technology to remain competitive. Advances in process technology

cannot be brought about without commensurate advances in equipment technology, and equipment costs tend to increase as the equipment becomes more sophisticated.

In the front-end process we use steppers, scanners, track equipment, strippers, chemo-mechanical polishing equipment, cleaners, inspection equipment, etchers, physical and chemical vapor deposition equipment, implanters, furnaces, testers, probers and other specialized equipment. The manufacturing tools that we use in the back-end process include bonders, burn-in ovens, testers and other specialized equipment.

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

#### Environmental Matters

Our manufacturing operations use many chemicals, gases and other hazardous substances, and we are subject to a variety of governmental regulations related to the use, storage, discharge and disposal of such chemicals and gases and other hazardous substances, emissions and wastes. Consistent with our TQEM principles, we have established proactive environmental policies with respect to the handling of such chemicals and gases and emissions and waste disposals from our manufacturing operations. We have engaged outside consultants to audit our environmental activities and have created environmental management teams, information systems, education and training programs, and environmental assessment procedures for new processes and suppliers. All of our plants are validated for the Eco-Management and Audit Scheme ("EMAS") and have also obtained ISO 14001 certification. We are also participating in various working groups set up by the European Commission to propose new legislation regarding the collection, recovery and disposal of electronic equipment, as well as banning the use of lead and some flame retardants in manufacturing electronic components. We intend to proactively implement such new legislation when enacted in line with our commitment towards environmental protection.

Although we have not suffered material environmental claims in the past and believe that our 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 us, suspension of production or a cessation of operations, and as with other companies engaged in similar activities, any failure by us to control the use of or adequately restrict the discharge of hazardous substances, emissions or wastes could subject us to future liabilities.

Because we have manufacturing facilities located in California and southern Italy (Sicily), we face the risk that an earthquake could damage these facilities, which would cause a reduction in our revenue and profitability. Any disruption in our product development capability or our manufacturing capability arising from earthquakes could cause significant delays in the production or shipment of our products until we are able to shift development or production to different facilities or arrange for third parties to manufacture our products. We may not be able to obtain alternate capacity on favorable terms or at all. The risk of earthquakes to our manufacturing facilities in Catania (Italy) and in California is significant due to the proximity of major earthquake fault lines to these manufacturing facilities. In addition, some of our suppliers are located in regions where there is a risk of earthquake.

#### Industry Background

##### The Semiconductor Market

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, consumer goods, automotive products 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 21% in 2000. 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 \$204.4 billion in 2000 (growing at a compound annual rate of approximately 15.4%). 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, increased from approximately \$15.0 billion in 1983 to \$165.7 billion in 2000 (growing at a compound annual rate of approximately 15.2%). In 2000, the TAM increased by 36.8%. Based on trade association data for the first quarter of 2001, the TAM decreased in the first quarter of 2001 by 4.5% compared to the first quarter of 2000. In addition, in the first quarter of 2001, the TAM decreased by 19.6% compared to the fourth quarter of 2000. The SAM increased 34.8% in 2000 compared to 1999; however, based on preliminary trade association data for the first quarter of 2001, the SAM decreased by 1.6% compared to the first quarter of 2000. In 2000, approximately 31.3% of all semiconductors were shipped to the Americas, 22.9% to Japan, 20.7% to Europe, and 25.1% to the Asia Pacific region.

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

	Worldwide Semiconductor Sales (1)					Compound Annual Growth Rates (2)			
	1983	1993	1998	1999	2000	83-93	93-97	98-99	99-00
	(in billions of \$)					(expressed as percentages)			
Integrated Circuits....	\$13.3	\$66.0	\$109.1	\$130.3	\$176.9	17.4%	16.0%	19.3%	35.8%
Analog (linear and Mixed-signal).....	2.8	10.7	19.1	22.1	30.5	14.3	16.5	15.7	38.0
Digital Logic.....	6.7	34.1	67.0	75.9	97.2	17.7	19.9	13.3	28.1
Memory:									
DRAM.....	1.7	13.1	14.0	20.7	28.9	22.7	10.7	47.8	39.6
Others.....	2.0	8.1	9.0	11.6	20.3	15.0	4.4	28.9	75.0
Total Memory.....	3.7	21.2	23.0	32.3	49.2	19.1	8.4	40.3	52.3
Total digital.....	10.4	55.3	90.0	108.2	146.4	18.2	15.8	20.0	35.3
Discrete.....	3.7	8.6	11.9	13.4	17.7	8.8	11.1	12.6	32.0
Opto-electronics.....	0.7	2.6	4.6	5.7	9.8	14.0	14.7	23.9	71.9
TAM.....	\$17.8	\$77.3	\$125.6	\$149.4	\$204.4	15.8%	15.4%	18.9%	36.8%
Europe.....	3.3	14.6	29.4	31.9	42.3	16.0	18.8	8.5	32.6
Americas.....	7.8	24.7	41.4	47.5	64.1	12.2	16.8	14.7	34.9
Asia Pacific.....	1.2	14.2	28.9	37.2	51.3	28.0	20.7	28.7	37.9
Japan.....	5.5	23.8	25.9	32.8	46.7	15.8	7.8	26.6	42.4
TAM.....	\$17.8	\$77.3	\$125.6	\$149.4	\$204.4	15.8%	15.4%	18.9%	36.8%

(1) Source: WSTS

(2) Calculated using end points of the periods specified.

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 58.7% of semiconductor memory sales in 2000, 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 per bit of stored information than EEPROMs, and can also be erased and rewritten. The entire content 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, are progressively replacing EPROMs in many of their current applications. Flash memories are typically used in high volume in digital mobile phones and digital consumer applications (set-top boxes, DVDs, digital cameras, MP3 digital music players) and are also suitable for solid state mass storage of data and emerging high volume application.

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 (including alarm systems, household appliance controls and video products), automotive systems (including engine control and dashboard instrumentation), computer peripheral equipment (including disk drives, facsimile machines, printers and optical scanners), industrial applications (including motor drives and process controllers), and telecommunications systems (including 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 for utilization 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 is 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.

#### ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion should be read in conjunction with our 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. Our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future actual results to differ materially from our 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" and under the caption "Item 3: Key Information - Risk Factors". We assume no obligation to update the forward-looking statements or such factors.

##### Overview

Business conditions in 1999 and 2000 improved from the difficult conditions experienced in the semiconductor industry in 1997 and 1998. According to trade association data, worldwide sales of semiconductor products (the total available market or "TAM") increased 36.8% in 2000 over 1999. Based on trade association data, the estimated market for products produced by us (the serviceable available market or "SAM") (which consists of the TAM without DRAMs, and opto-electronic products) increased approximately 34.8% in 2000 over 1999. However, the higher rates of increase were recorded in the first three quarters of 2000, while during the fourth quarter 2000 the semiconductor industry showed some signs of decreased growth rates with the total market declining approximately 3% in that quarter compared to the third quarter 2000. The reverse in the trend in the semiconductor industry which began in the fourth quarter of 2000 led to negative growth expectations for 2001. Industry analysts at the end of 2000 were forecasting a downturn in the 2001 semiconductor market.

Our net revenues for 2000 increased 54.5% compared to 1999, a stronger increase than both the TAM and the SAM. We benefited from increased volumes in virtually all product families and an improved product mix, including sales of new products.

In the last five years, despite the difficult market conditions in 1997 and 1998, our net revenues increased from \$4,122.4 million in 1996 to \$7,813.2 million in 2000, representing a compound annual growth rate of 17.3%. According to trade association data, the TAM increased from \$132.0 billion in 1996 to \$204.4 billion in 2000, representing a compound annual growth rate of 11.6%, while the SAM increased from \$102.7 billion in 1996 to \$165.7 billion in 2000, representing a compound annual growth rate of 12.7%. During the same period, our share of the TAM increased from 3.1% to 3.8%, while our share of the SAM increased from 4.0% to 4.7%. Our revenue growth from 1996 through 2000 was particularly significant for differentiated ICs (which we define as being our dedicated products, semicustom devices and microcontrollers).

As a result of our performance during the period 1996 to 2000, we not only gained market share against both the TAM and SAM, but, according to ranking by leading market analysts, became the sixth largest semiconductor company in the world during 2000, up from ninth in 1999. However, we believe that the general market conditions have led certain of our competitors to redirect their marketing focus and manufacturing capacity toward products that compete with our products. We believe increased competition in our core product markets is

generating greater pricing pressure, increased competition for market share in the SAM and a generally more challenging market environment for us.

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

In 2000, we continued to focus on differentiated ICs and analog ICs. Differentiated ICs accounted for approximately 63% of our net revenues in both 2000 and 1999. 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 49% of our net revenues in 2000 compared to 51% in 1999, while discrete devices accounted for approximately 10% of our net revenues in 2000 compared to approximately 12% in 1999. 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 semiconductor industry. However, the difficult competitive environment in the semiconductor market in more recent years has led to price pressures in these product families as well.

In order to reinforce our presence in certain strategic business segments, we completed the acquisition from Nortel Networks of a 150mm facility in Ottawa, Canada, in June 2000 with a commitment for \$2 billion in sales to Nortel Networks over the following three years (in conjunction with the acquisition, we entered into an agreement with Nortel Networks for the development of processes, packages and fundamental IP for high-speed optical interfaces). We also acquired Waferscale Integration (a leading manufacturer of programmable system memory devices) and Portland Group (a vendor of compilers and software development tools for the high-performance parallel computing market).

Our gross profit margin increased from 41.4% in 1996 to 46.0% in 2000. Benefiting from a favorable industry environment in 1996, we had a gross profit margin of approximately 41% and an operating income margin of approximately 19%. 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 12%. Benefiting from the market recovery in 1999 and 2000, gross profit margin increased in 2000 to 46.0% while operating income as a percentage of net revenues rose significantly to 22.8%.

Preliminary projections for 2001 assumed a worsening of the market correction. According to industry data, the market for the first quarter of 2001 declined 19.6% compared to the fourth quarter of 2000 and 4.5% compared to the first quarter of 2000. The latest forecasts by industry analysts at the end of March 2001 estimate a 12% decline in the TAM and a 10% decline in the SAM in 2001 compared to 2000. We estimate that the market correction which began abruptly with a sharp inventory adjustment in the fourth quarter of 2000 is likely to continue through much of 2001. Its duration is closely tied to macroeconomic conditions, particularly in the United States and Japan, as well as to industry-specific issues such as overcapacity and excess inventory levels.

While we are expecting a difficult business environment, we are confident in our ability to continue to outperform the industry by a meaningful margin. Within this challenging near term environment, our strategy continues to be based upon profitable market share gains through the development of world-leading products, strong customer alliances, efficient global manufacturing and a modular approach to capital expenditure.

## Results of Operations

The tables below set forth information on our net revenues by product group and by geographic region:

	Year ended December 31,				
	1996	1997	1998	1999	2000
	(in millions)				
<b>Net Revenues by Product Group: (1)</b>					
Telecommunications, Peripherals and Automotive(1).....	\$1,614.0	\$1,606.9	\$1,855.2	\$2,305.5	\$3,481.7
Discrete and Standard ICs(1) .....	778.1	839.5	816.7	927.9	1,213.1
Memory Products.....	736.8	708.6	659.6	835.9	1,552.9
Consumer and Microcontrollers(1) .....	870.2	738.8	805.8	881.7	1,438.9
New Ventures Group and Others(2) .....	123.3	125.4	110.5	105.3	126.6
Total.....	\$4,122.4	\$4,019.2	\$4,247.8	\$5,056.3	\$7,813.2
	=====	=====	=====	=====	=====
<b>Net Revenues by Geographic Region:(3)</b>					
Europe.....	\$1,788.5	\$1,753.3	\$1,768.9	\$1,833.6	\$2,629.2
North America.....	903.0	899.1	937.3	1,156.1	1,843.0
Asia Pacific.....	1,125.7	1,065.8	1,247.9	1,658.2	2,614.7
Japan.....	228.2	214.5	180.7	239.7	402.4
Emerging Markets(3) .....	77.0	86.5	113.0	168.7	323.9
Total.....	\$4,122.4	\$4,019.2	\$4,247.8	\$5,056.3	\$7,813.2
	=====	=====	=====	=====	=====
	(As a percentage of net revenues)				
<b>Net Revenues by Product Group:(1)</b>					
Telecommunications, Peripherals and Automotive(1).....	39.1%	40.0%	43.6%	45.6%	44.6%
Discrete and Standard ICs(1) .....	18.9	20.9	19.2	18.4	15.5
Memory Products.....	17.9	17.6	15.5	16.5	19.9
Consumer and Microcontrollers(1) .....	21.1	18.4	19.0	17.4	18.4
New Ventures Group and Others(2) .....	3.0	3.1	2.7	2.1	1.6
Total.....	100.0%	100.0%	100.0%	100.0%	100.0%
	=====	=====	=====	=====	=====
<b>Net Revenues by Geographic Region:(3)</b>					
Europe.....	43.4%	43.6%	41.6%	36.3%	33.6%
North America.....	21.9	22.4	22.1	22.9	23.6
Asia Pacific.....	27.3	26.5	29.4	32.8	33.5
Japan.....	5.5	5.3	4.3	4.7	5.2
Emerging Markets(3).....	1.9	2.2	2.6	3.3	4.1
Total.....	100.0%	100.0%	100.0%	100.0%	100.0%
	=====	=====	=====	=====	=====

(1) In January 1999, we implemented organizational changes to better orient our product groups to end-use applications. As a result, net revenues have been restated for prior periods to reflect these changes. In addition, the former Dedicated Products Group has become the Telecommunications, Peripherals and Automotive Groups, while the former Programmable Products Group has become the Consumer and Microcontrollers Groups.

(2) 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 center for our new business opportunities.

(3) 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. In the fourth quarter of 2000, Region Five changed its name to become the Emerging Markets region.

The following table sets forth certain financial data from our consolidated statements of income since 1996, expressed in each case as a percentage of net revenues:

	Year ended December 31,				
	1996	1997	1998	1999	2000
Net sales.....	98.9%	98.8%	99.1%	99.3%	99.4%
Other revenues.....	1.1	1.2	0.9	0.7	0.6
	---	---	---	---	---
Net revenues.....	100.0	100.0	100.0	100.0	100.0
Cost of sales.....	(58.6)	(61.1)	(61.7)	(60.4)	(54.0)
	-----	-----	-----	-----	-----
Gross profit.....	41.4	38.9	38.3	39.6	46.0
Operating Expenses:					
Selling, general and administrative.....	(10.2)	(11.3)	(11.5)	(10.6)	(9.0)
Research and development.....	(12.9)	(15.2)	(16.2)	(16.5)	(13.1)
Other income and expenses.....	1.1	0.5	1.7	0.8	(1.1)
	---	---	---	---	---
Total operating expenses.....	(22.0)	(26.0)	(26.0)	(26.3)	(23.2)
	-----	-----	-----	-----	-----
Operating income.....	19.4	12.9	12.3	13.3	22.8
Net interest income (expense).....	(0.3)	--	0.2	0.7	0.6
Gain on disposal of investment.....	0.2	--	--	--	--
	---	---	---	---	---
Income before income taxes and minority interests.	19.3	12.9	12.5	14.0	23.4
Income tax expense.....	(4.2)	(2.9)	(2.8)	(3.1)	(4.8)
	-----	-----	-----	-----	-----
Income before minority interests .....	15.1	10.0	9.7	10.9	18.6
Minority interests.....	0.1	0.1	--	(0.1)	--
	---	---	---	---	---
Net income.....	15.2%	10.1%	9.7%	10.8%	18.6%
	====	====	===	====	====

#### 2000 vs. 1999

In 2000, we benefited from the industry recovery and our strong market position, and increased significantly our net revenues, operating income, net income and diluted earnings per share in each successive quarter. We continued to invest significant amounts in research and development and completed several strategic acquisitions which enhanced our intellectual property portfolio. We accelerated our capital spending during the year in order to build up capacity to meet demand.

Net revenues. Net sales increased 54.6%, from \$5,023.1 million in 1999 to \$7,764.4 million in 2000. The increase in net sales was primarily the result of higher volume and an improved product mix, including sales of new products. The exchange rate impact on net sales in 2000 was estimated to be negative. Other revenues increased from \$33.2 million in 1999 to \$48.8 million in 2000 due primarily to an increase in licensing revenues. Net revenues increased 54.5%, from \$5,056.3 million in 1999 to \$7,813.2 million in 2000.

The Telecommunications, Peripherals and Automotive Groups' net revenues increased 51.0% primarily as a result of volume increases in wireless and wireline telecommunications, data storage devices and automotive products and a more favorable product mix in wireline products. The Discrete and Standard ICs Group's net revenues increased 30.7%, as the volume increases in basically all major product families and the more favorable product mix in standard commodities and discrete devices more than offset the price declines in basically all major product families. Net revenues of the Memory Products Group increased by 85.8% as a result of volume increases in basically all product families (such as Flash memories, smartcard ICs and EEPROMs) and improved mix in Flash memories and EPROMs. The Consumer and Microcontrollers Groups' net revenues increased 63.2% as a result of significantly higher volumes in digital video, digital consumer applications and imaging products, partially offset by a general decrease in prices in most major product families.

Gross profit. Our gross profit increased 79.7%, from \$2,001.8 million in 1999 to \$3,596.3 million in 2000 primarily as a result of higher net revenues. As a percentage of net revenues, gross profit increased from 39.6% in

1999 to 46.0% in 2000, benefiting from higher production volumes, improved product mix and a more cost-effective utilization of manufacturing facilities.

Cost of sales increased from \$3,054.5 million in 1999 to \$4,216.9 million in 2000, primarily due to a significant increase in production volume, the increase in purchases of wafers from external foundries and the increased depreciation associated with new capital investments.

The exchange rate impact on gross profit in 2000 compared to 1999 was estimated to be favorable. The appreciation of the U.S. dollar versus the euro had a favorable impact on cost of sales that was higher than the unfavorable impact on net revenues. See "--Impact of Changes in Exchange Rates."

Selling, general and administrative expenses. Selling, general and administrative expenses increased 31.7%, from \$534.2 million in 1999 to \$703.7 million in 2000, reflecting increased efforts in the marketing and administrative functions and the information technology area. As a percentage of net revenues, selling, general and administrative expenses decreased from 10.6% in 1999 to 9.0% in 2000.

Research and development expenses. Research and development expenses increased 22.8%, from \$836.0 million in 1999 to \$1,026.3 million in 2000. We continued to invest heavily in research and development and plan to continue increasing our research and development staff. We continue to allocate significant financial resources to expand our market leadership in key applications, reflecting our commitment to service and continuous innovation. Our reported research and development expenses do not include marketing design center, process engineering, pre-production or industrialization costs. As a percentage of net revenues, research and development expenses decreased from 16.5% in 1999 to 13.1% in 2000.

Other income and expenses. Other income and expenses decreased from income of \$39.9 million in 1999 to expenses of \$83.6 million in 2000. Other income and expenses include primarily funds received from government agencies in connection with our research and development programs, the cost of new plant start-ups, the amortization of goodwill and related acquisition costs, 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. In addition, lower funds received from government agencies in connection with our research and development programs, higher patent expenses and higher goodwill amortization contributed to the increase in expenses.

Operating income. Our operating income increased by 165.5%, from \$671.5 million in 1999 to \$1,782.7 million in 2000. The exchange rate impact on operating income in 2000 was estimated to be favorable since the appreciation of the U.S. dollar against the euro had a favorable impact on gross profit and operating expenses.

Net interest income (expense). Net interest income increased from income of \$35.6 million in 1999 to income of \$46.7 million in 2000 primarily as a result of the increase in cash and cash equivalents following the share offering and the Liquid Yield Option (TM) Notes ("LYONs") offering completed on September 22, 1999 and to the convertible debt offering completed on November 16, 2000.

Income tax expense. Provision for income tax was \$375.1 million in 2000 compared to \$157.2 million in 1999, primarily as a result of the increase in income before income taxes and minority interests. The accrued effective tax rate decreased from 22.2% in 1999 to 20.5% in 2000 mainly due to the application of new benefits in certain countries. As such benefits may not be available after 2000, an increase in the effective tax rate could result in the coming years.

Net income. Our net income increased 165.3%, from \$547.3 million to \$1,452.1 million. As a percentage of net revenues, 2000 net income was 18.6%, up from 10.8% of 1999 net income. Diluted earnings per share reached \$1.58, an increase of 154.8% compared to diluted earnings per share of \$0.62 in 1999. All per share numbers have been adjusted to reflect the 2-for-1 stock split effected in June 1999 and for the 3-for-1 stock split effected in May 2000.

1999 vs. 1998

In 1999, we benefited from the industry recovery and our strong market position, and increased our net revenues, operating income, net income and diluted earnings per share in each successive quarter. We continued to

invest significant amounts in research and development and completed several strategic acquisitions which enhanced our intellectual property portfolio. We accelerated our capital spending in the second half of the year.

Net revenues. Net sales increased 19.3%, from \$4,210.6 million in 1998 to \$5,023.1 million in 1999. 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 1999 was estimated to be negligible. Other revenues decreased from \$37.2 million in 1998 to \$33.2 million in 1999 due primarily to a reduction in licensing revenues. Net revenues increased 19.0%, from \$4,247.8 million in 1998 to \$5,056.3 million in 1999.

The Telecommunications, Peripherals and Automotive Groups' net revenues increased 24.3% primarily as a result of volume increases in wireless telecommunications, data storage and automotive products and a more favorable product mix. The Discrete and Standard ICs Group's net revenues increased 13.6%, as the volume increases in basically all major product families and the more favorable product mix in standard commodities more than offset the price declines in all product families. Net revenues to the Memory Products Group increased by 26.7% as the volume increases in all product families more than offset the price declines in nearly all product families (such as EPROMs, EEPROMs, smartcard ICs and flash memories). The Consumer and Microcontrollers Groups' net revenues increased 9.4% as a result of significantly higher volumes in digital video and microcontrollers products, partially offset by decreased volumes in graphics products and lower prices in all product families.

Gross profit. Our gross profit increased 23.2%, from \$1,624.8 million in 1998 to \$2,001.8 million in 1999 primarily as a result of higher net revenues. As a percentage of net revenues, gross profit increased from 38.3% in 1998 to 39.6% in 1999, due to higher sales volumes and improved manufacturing efficiency.

Costs of sales increased from \$2,623.0 million in 1998 to \$3,054.5 million in 1999, 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 1999 compared to 1998 was estimated to be favorable, as the negligible impact of the variation of the U.S. dollar on net revenues was more than offset by the positive impact on cost of sales of the appreciation of the U.S. dollar versus the euro. See "--Impact of Changes in Exchange Rates".

Selling, general and administrative expenses. Selling, general and administrative expenses increased 9.4%, from \$488.1 million in 1998 to \$534.2 million in 1999, reflecting higher expenditure for information technology, marketing and administrative functions, including the expenses for year 2000 compliance. As a percentage of net revenues, selling, general and administrative expenses decreased slightly from 11.5% in 1998 to 10.6% in 1999.

Research and development expenses. Research and development expenses increased 21.2%, from \$689.8 million in 1998 to \$836.0 million in 1999. We continued to invest heavily in research and development and plan to continue increasing our research and development staff. We continue to allocate significant financial resources to expand our market leadership in key applications, reflecting our commitment to service and continuous innovation. Our reported research and development expenses do not include marketing design center, process engineering, pre-production or industrialization costs. As a percentage of net revenues, research and development expenses increased from 16.2% in 1998 to 16.5% in 1999.

Other income and expenses. Other income and expenses decreased from income of \$76.5 million in 1998 to income of \$39.9 million in 1999. Other income and expenses include primarily funds received from government agencies in connection with our 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, from the inclusion of the goodwill amortization of Vision Group, of Peripherals Technology Solutions and, to a lesser extent, of Arithmos, and from a slight decrease in funds received from government agencies in connection with our research and development programs.

Operating income. Our operating income increased by 28.3%, from \$523.4 million in 1998 to \$671.5 million in 1999. The exchange rate impact on operating income in 1999 was favorable since the appreciation of the U.S. dollar against the euro had a favorable impact on gross profit and operating expenses.



Net interest income (expense). Net interest income increased from income of \$8.7 million in 1998 to income of \$35.6 million in 1999 primarily as a result of the increase in cash and cash equivalents following the 1999 Share Offering and the 1999 LYONs Offering completed on September 22, 1999.

Income tax expense. Provision for income tax was \$157.2 million in 1999 compared to \$120.4 million in 1998, primarily as a result of the increase in income before income taxes and minority interests. The accrued effective tax rate decreased from 22.6% in 1998 to 22.2% in 1999 mainly due to the application of benefits in certain countries. As such benefits may not be available after 1999, an increase in the effective tax rate could result in the coming years.

Net income. Our net income increased 33.1%, from \$411.1 million to \$547.3 million. As a percentage of sales, 1999 net income was 10.8%, up from 9.7% of 1998 net income. The increase was mainly due to higher net sales. Diluted earnings per share reached \$0.62 compared to diluted earnings per share of \$0.48 in 1998. All per share numbers have been adjusted to reflect the 2-for-1 stock split effected in June 1999 and the 3-for-1 stock split effected in May 2000.

#### Quarterly Results of Operations

The following table sets forth certain financial information for the years 1999 and 2000. 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 us in recent years, the increasingly competitive nature of the markets in which we operate, the changes in product mix and the currency effects of changes in the composition of sales and production among different geographic regions, we believe that period-to-period comparisons of our operating results should not be relied upon as an indication of future performance.

Our 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 our expenses varies with our revenues, there can be no assurance that we 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 our operating results.

Quarter ended (Unaudited)

	April 3, 1999	July 3, 1999	Oct. 2, 1999	Dec. 31, 1999	April 1, 2000	July 1, 2000	Sept. 30, 2000	Dec. 31, 2000
(in millions, except percentages and per share data)(1)								
Consolidated Statement of Income Data								
Net revenues.....	\$1,113.3	\$1,190.6	\$1,274.2	\$1,478.2	\$1,702.2	\$ 1,877.3	\$ 2,042.0	\$ 2,191.7
Cost of sales.....	(685.4)	(719.9)	(766.8)	(882.4)	(985.1)	(1,001.6)	(1,077.1)	(1,153.1)
Gross profit.....	427.9	470.7	507.4	595.8	717.1	875.7	964.9	1,038.6
Operating expenses:								
Selling, general and administrative.....	(119.1)	(130.3)	(136.8)	(148.0)	(159.5)	(177.1)	(174.0)	(193.1)
Research and development..	(193.5)	(202.8)	(205.5)	(234.1)	(235.1)	(245.1)	(259.8)	(286.4)
Other income and expenses..	16.1	14.9	5.0	3.8	(30.5)	(37.7)	(19.3)	4.1
Total operating expenses..	(296.5)	(318.2)	(337.3)	(378.3)	(425.1)	(459.9)	(453.1)	(475.4)
Operating income.....	131.4	152.5	170.1	217.5	292.0	415.8	511.8	563.2
Net interest income.....	3.7	6.0	8.2	17.7	16.4	14.0	7.3	9.0
Income before income taxes and minority interests..	135.1	158.5	178.3	235.2	308.4	429.8	519.1	572.2
Income tax expense.....	(29.9)	(35.4)	(41.6)	(50.3)	(69.4)	(92.7)	(103.6)	(109.5)
Income before minority interests.....	105.2	123.1	136.7	184.9	239.0	337.1	415.5	462.7
Minority interests.....	(0.1)	(0.6)	(1.4)	(0.6)	(0.6)	(0.6)	(0.2)	(0.8)
Net income.....	\$ 105.1	\$ 122.5	\$ 135.3	\$ 184.3	\$ 238.4	\$ 336.5	\$ 415.3	\$ 461.9
Earnings per share (basic)	\$0.12	\$ 0.14	\$ 0.16	\$ 0.21	\$ 0.27	\$ 0.38	\$ 0.47	\$ 0.52
Earnings per share (diluted)	\$0.12	\$ 0.14	\$ 0.15	\$ 0.21	\$ 0.26	\$ 0.37	\$ 0.45	\$ 0.50
Number of shares used in calculating earnings per share (basic).....	855.1	856.5	858.2	866.8	878.2	887.0	888.5	889.3
Number of shares used in calculating earnings per share (diluted).....	888.3	890.6	896.2	930.6	933.5	934.5	934.0	942.4
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.....	(61.6)	(60.5)	(60.2)	(59.7)	(57.9)	(53.4)	(52.7)	(52.6)
Gross profit.....	38.4	39.5	39.8	40.3	42.1	46.6	47.3	47.4
Operating expenses:								
Selling, general and administrative.....	(10.7)	(10.9)	(10.7)	(10.0)	(9.4)	(9.4)	(8.5)	(8.8)
Research and development..	(17.4)	(17.0)	(16.1)	(15.8)	(13.8)	(13.1)	(12.7)	(13.1)
Other income and expenses..	1.5	1.2	0.3	0.2	(1.8)	(2.0)	(0.9)	0.2
Total operating expenses..	(26.6)	(26.7)	(26.5)	(25.6)	(25.0)	(24.5)	(22.2)	(21.7)
Operating income.....	11.8	12.8	13.3	14.7	17.2	22.1	25.1	25.7
Net interest income.....	0.3	0.5	0.7	1.2	1.0	0.8	0.3	0.4
Income before income taxes and minority interests..	12.1	13.3	14.0	15.9	18.1	22.9	25.4	26.1
Income tax expense.....	(2.7)	(3.0)	(3.3)	(3.4)	(4.1)	(4.9)	(5.1)	(5.0)
Income before minority interests.....	9.4	10.3	10.7	12.5	14.0	18.0	20.3	21.1
Minority interests.....	-	-	(0.1)	-	-	(0.1)	-	-
Net income.....	9.4%	10.3%	10.6%	12.5%	14.0%	17.9%	20.3%	21.1%

(1) All share information has been adjusted to reflect the 2-for-1 stock split effected in June 1999 and the 3-for-1 stock split effected in May 2000.

Net revenues. Fourth quarter 2000 net revenues recorded a 7.3% sequential improvement over the third quarter of 2000, with gains mainly from the Memory Products Group and the Telecommunications, Peripherals and Automotive Groups. We recorded an increase in net revenues of 48.3% versus the fourth quarter of 1999, experiencing strong sales gains across all product groups. Third quarter 2000 net revenues showed an 8.8% sequential increase over the second quarter of 2000 in spite of seasonal factors that generally reduce sales during the

summer months and were 60.3% above 1999 third quarter net revenues. Second quarter 2000 net revenues increased 10.3% compared to the first quarter of 2000, and were 57.7% above second quarter 1999 net revenues. First quarter 2000 net revenues increased 15.2% compared to the fourth quarter of 1999, and were 52.9% above first quarter 1999 net revenues.

With respect to the product groups, the Memory Products Group had the highest year-over-year and quarter-over-quarter results; its revenues in the 2000 fourth quarter rose 84.1% in comparison to the 1999 fourth quarter and increased 13.7% in comparison to the 2000 third quarter, reflecting our significant progress in penetrating the market with new generation flash products. In the 2000 fourth quarter, net revenues from the Telecommunications, Peripherals and Automotive Groups increased 49.2% over the year ago quarter and 12.0% sequentially, reflecting the strength in sales of ICs for telecommunications, mainly wireless, hard disk drives, digital cellular phones and automotive applications. Net revenues for the Consumer and Microcontrollers Groups increased 39.4% compared to the 1999 fourth quarter and net revenues for the Discrete and Standards ICs Products Group increased 15.5%. Overall, our 48.3% revenue growth of the 2000 fourth quarter over the 1999 fourth quarter resulted from the rapidly increasing demand for our products as well as our ability to effectively deploy our resources.

In 2000, approximately 34% of our net revenues originated in Europe, compared to approximately 36% in 1999. Our third quarter revenues in Europe have generally been slightly less than average revenues during other quarters due to production slowdowns by our European customers in July and August. 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.

Gross profit. In the fourth quarter of 2000, gross profit was \$1,038.6 million, 74.3% above the year-ago period. Gross profit margin in the 2000 fourth quarter was 47.4%, representing a significant improvement compared to 40.3% in the fourth quarter of 1999, as a result of higher production volumes, improved product mix, and more cost-effective utilization of manufacturing facilities.

Selling, general and administrative expenses. Selling, general and administrative expenses were \$193.1 million in the fourth quarter of 2000, or 8.8% of net revenues, compared to \$148.0 million, or 10.0% of net revenues in the fourth quarter of 1999. The percentage decrease results principally from the increase in net revenues.

Research and development expenses. In the fourth quarter of 2000, research and development costs of \$286.4 million increased 22.3% compared to the fourth quarter of 1999. Research and development represented 13.1% of net revenues in the fourth quarter of 2000 compared to 15.8% of net revenues in the fourth quarter of 1999, as a result of the increase in net revenues.

Other income and expenses. Other income and expenses remained basically unchanged from income of \$3.8 million in the 1999 fourth quarter to income of \$4.1 million in 2000 fourth quarter as the gain from the sale of certain marketable securities was offset by lower research and development funding received from government agencies in connection with our research and development programs and slightly higher start-up costs of new production facilities.

Operating income. Operating income reached \$563.2 million in the fourth quarter of 2000 which represented an increase of 158.9% compared to the level of the fourth quarter of 1999. Operating income margin for the 2000 fourth quarter was 25.7% compared to 14.7% in the 1999 fourth quarter.

Net income. Net income for the 2000 fourth quarter rose sharply, increasing 150.6% to \$461.9 million compared to \$184.3 million in the 1999 fourth quarter and 11.2% compared to \$415.3 million in the third quarter 2000. Diluted earnings per share increased 138.1% to \$0.50 from \$0.21 in the fourth quarter 1999 and 11.1% from \$0.45 in the third quarter 2000. All per share figures have been adjusted to reflect the 2-for-1 stock split effected in June 1999 and the 3-for-1 stock split effect May 2000.

During the first quarter of 2001, the semiconductor industry experienced a decline in revenues in excess of earlier forecasts, estimated at a 4% decrease versus the first quarter of 2000 and 19% sequentially. Based on this, the latest forecasts by industry analysts estimate a 12% decline in the TAM and a 10% decline in the SAM in 2001 compared to 2000. Our revenues have been affected by the strong negative market correction that is currently taking place. On a comparative basis with the first quarter of 2000, our first quarter 2001 revenues recorded a 12.9% increase, in excess of the industry average, but 12.3% below the revenue level reached in the fourth quarter of 2000.

We have taken steps to significantly reduce costs during this period of uncertain market conditions. Specifically, capital expenditure plans for 2001 have been reduced from \$2.5 billion to \$1.9 billion and stringent cost control programs have taken effect throughout our company, including a hiring freeze.

These forward-looking statements are subject to certain risks and uncertainties, in particular the rapid pace of change in the semiconductor industry, and may differ materially from actual events.

#### Impact of Changes in Exchange Rate

Our 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 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 us, 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 our operations are located. Fluctuations in the value of these currencies, particularly the euro, compared to the U.S. dollar can affect our costs and therefore our profitability.

The appreciation in the U.S. dollar in 2000 compared to 1999 against the principal European and Asian currencies (excluding the Japanese yen, which appreciated compared to the U.S. dollar) that have a material impact on us resulted in a favorable impact on results of operations because of the favorable impact on cost of sales and operating expenses.

Our 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, we purchase or sell currencies forward to cover currency risk in obligations or receivables. We have not experienced significant gains or losses as a result of exchange coverage activities. Our 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 our results, thus making our 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 2.3 to the Consolidated Financial Statements. Income and expenses are translated at the average exchange rate for the period. Adjustments resulting from the translation are recorded directly in shareholders' equity, and are shown as "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, 2000, our outstanding indebtedness was denominated principally in U.S. dollars, French francs and Italian lire. See Note 14 to the Consolidated Financial Statements.

#### Liquidity and Capital Resources

Treasury activities are regulated by our procedures which define policies, objectives and controls. The policies focus on the management of our financial risk in terms of exposure to exchange rates and interest rates. Our objectives are to neutralize our exposure to changes in exchange rates, to optimize the use of credit facilities and funds available, and to obtain the best possible market conditions for our financial and treasury operations. Our treasury controls include systematic reporting to senior management and are subject to internal and external audits. Most of our treasury activities are centralized, with any local treasury activities subject to oversight from our head

treasury office. Basically all of our cash and cash equivalents are held in U.S. dollars and are placed with financial institutions rated "A+" or higher. Marginal amounts are held in other currencies. Foreign currency operations and hedging transactions are performed only to cover commercial positions. For further information on our funding and treasury policies, see "Item 11: Quantitative and Qualitative Disclosures About Market Risk."

On November 16, 2000, we issued \$1,480.0 million initial aggregate principal amount of zero-coupon unsubordinated convertible notes, due 2010, with yield to maturity of 3.75% per annum. Our net proceeds in connection with the 2000 notes offering were \$1,457.8 million. On September 22, 1999, we completed an equity offering of 8,970,000 shares of capital stock at \$24.88 per share (adjusted for the three-for-one stock split). Our net proceeds in connection with the 1999 equity offering were \$216.8 million. On September 22, 1999, we also issued \$720.9 million initial aggregate principal amount of zero-coupon convertible Liquid Yield Option(TM) Notes, due 2009, with yield to maturity of 2.4375% per annum. Our net proceeds in connection with the 1999 LYONs offering was \$708.3 million. Our net cash generated from operations totaled \$2.4 billion in 2000 compared to \$1.5 billion in 1999 and \$1.0 billion in 1998. Significant amounts of net cash generated from operations in 1998, 1999 and 2000 coupled with the debt offering undertaken by us in November 2000, and the equity and debt offerings in September 1999, enabled us to finance capital expenditures and strengthen our balance sheet over the last five years.

We had a negative net financial position (cash, cash equivalents and marketable securities net of total debt) of \$511.2 million at December 31, 2000 compared to a positive net financial position of \$351.4 million at December 31, 1999. At December 31, 2000, cash and cash equivalents totaled \$2,295.7 million, compared to \$1,823.1 million at December 31, 1999. At December 31, 2000, the aggregate amount of our long-term debt was approximately \$2,806 million, all of which was outstanding, and additionally the aggregate amount of our short-term credit facilities was approximately \$884 million, under which approximately \$36 million of indebtedness was outstanding. At December 31, 2000, we had approximately \$106 million of long-term indebtedness that will become due within one year and expect to fund such debt repayments from available cash. During 2000, certain holders of our 1998 and 1999 LYONs requested conversion of the LYONs into our shares for approximately \$334 million principal amount at maturity. We have issued a redemption notice for these LYONs and intend to redeem them at a redemption price of \$885.22 per \$1,000 principal amount on June 11, 2001. According to the information available to us, on May 11, 2001, approximately \$45.6 million in total indebtedness was outstanding under the 1998 LYONs. Based on the amount outstanding on May 11, 2001, if all remaining holders of the 1998 LYONs chose to convert them into Common Shares before the redemption date, 2,772,291 Common Shares would be issued.

In 2000, our capital expenditure payments totaled \$3.3 billion, compared to \$1.3 billion in 1999. Capital expenditures for 2000 were devoted principally to (i) the conversion from 150mm to 200mm and expansion at one of our front-end wafer fabrication plants in Agrate (Italy), (ii) the increase of capacity of the 200mm facilities and upgrading of the 150mm fabrication plant in Catania (Italy), (iii) the completion of construction of our new 200mm front-end wafer fabrication facility in Rousset (France), (iv) the conversion of our facilities in Crolles (France), to 0.25 micron and 0.18 micron processes, (v) the construction of a new 200mm facility and the equipment of a new 150mm facility in Singapore, (vi) the increase of capacity of our 200mm facilities in Phoenix (Arizona), and of the 150mm facility in Carrollton (Texas), and (vii) the expansion of the back-end facilities in Muar (Malaysia), Morocco and Singapore. Capital expenditures for 1999 were used principally to (i) expand a 150mm facility and the construction of a new 200mm front-end facility in Agrate (Italy), (ii) equip and upgrade both the new 200mm and existing 150mm front-end facilities at the Catania (Italy) plant, (iii) expand the 200mm front-end wafer fabrication plant in Crolles (France), (iv) expand the 150mm facility in Carrollton (Texas), (v) upgrade the 150mm facility in Rousset (France), (vi) ramp-up of production at the Phoenix (Arizona) 200mm front-end facility, (vii) construct the new 200mm front-end plant in Rousset (France) and (viii) expand the back-end facilities in Muar (Malaysia), Morocco, Malta and Shenzhen (China).

According to present visibility, as of the end of March 2001, we currently expect that capital spending for 2001 will be in the range of \$1.9 billion, with the ability to adjust that amount up or down in response to the changes in market conditions. The most significant of our 2001 capital expenditure projects are expected to be (i) the expansion of the 200mm front-end facilities in France and Italy, (ii) the start-up of the 200mm facility in Singapore, (iii) the expansion of the new back-end facilities in Morocco and (iv) the conversion of the facilities in Crolles (France), from 0.18 micron to 0.15 micron processes. We have also decided to build a new 300mm 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 us in Crolles. We will continue to monitor our level of capital spending, however, taking into consideration factors such as trends in the semiconductor market, capacity utilization and announced additions.

At December 31, 2000, our receivables from government agencies totaled \$139.4 million compared to \$152.2 million in 1999. See Note 7 to the Consolidated Financial Statements. In 2000, our advances from government agencies totaled \$10.6 million compared to \$38.7 million in 1999. 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 we have received the amounts recorded in such receivables, there have been instances in which such funds ultimately have not been paid.

We expect to have significant capital requirements in the coming years and intend to continue to devote a substantial portion of our net revenues to research and development. We plan to fund our capital requirements from cash from operations, available funds, available support from third parties (including state support) 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 our working capital requirements, research and development, industrialization costs or expansion plans, or that any such financing, if available, will be on terms acceptable to us.

We believe that our available funds, available support from third parties, and additional borrowings will be sufficient to meet our anticipated needs for liquidity through at least 2001. For further information on our research and development, including amounts spent, see "Item 4: Information on the Company -- Research and Development."

#### Impact of Recently Issued U.S. Accounting Standards

In June 1998, the U.S. Financial Accounting Standards Board issued Statement No. 133, Accounting for Derivative Instruments and Hedging Activities ("Statement No. 133"), which is required to be adopted in fiscal years beginning after June 15, 2000. Statement No. 133 requires us to recognize all derivatives on the balance sheet at fair value. Derivatives that are not used for hedging must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. We have adopted the standards required by this statement in the first quarter of 2001. We believe that adoption of Statement No. 133 has not had a material effect on our financial position or results of operations.

In December 1999, the U.S. Securities and Exchange Commission released Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements ("SAB 101"), providing the staff's views on applying generally accepted accounting principles to selected revenue recognition issues. For companies with fiscal years that begin between December 16, 1999 and March 15, 2000, portions of SAB 101 became effective in the fourth quarter of 2000. We believe that adoption of these portions of SAB 101 has not had a material effect on our financial position or overall trends in results of operations.

#### 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 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 during the subsequent six months. We do not expect that the introduction and use of the euro will materially affect our foreign exchange activities, or our use of derivatives and other financial instruments, or will result in any material increase in costs to us. We 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.

#### Backlog

Our backlog has increased steadily since the end of 1998 and we continued to experience record incoming order rates and backlog levels during 2000. In order to meet this backlog, we are ramping up production at the new 200mm facility at Rousset, France, and Agrate, Italy, facilities and we are also increasing our use of front-end external foundry services. Orders under frame contracts also increased during 2000. Frame contracts are annual

fixed-price contracts with customers setting forth the forecasted quantities and schedule for purchase and sale of specific products that may be ordered in the future. Frame contracts are intended to secure capacity availability for the customer and improved visibility with respect to customer requirements. Due to the deterioration of the semiconductor industry recorded during the first quarter of 2001, our backlog at the end of March 2001 declined in comparison to the end of December 2000.

#### ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

##### Directors and Senior Management

##### Supervisory Board

Our management is entrusted to the Managing Board under the supervision of the Supervisory Board. The Supervisory Board advises the Managing Board and is responsible for supervising the policies pursued by the Managing Board and the general course of our affairs and business. In fulfilling their duties under Dutch law, the members of the Supervisory Board must serve our interests and 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 our Supervisory Board 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 shareholder. See "Item 7: Major Shareholders and Related Party Transactions - Major Shareholders - Shareholder Agreements." Our Supervisory Board currently includes three 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 Managing 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 Managing 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, our 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 our 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 our operations 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 Italian shareholder, 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, STMicroelectronics and our 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 STMicroelectronics N.V. or our 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 us and our subsidiaries may give rise to a conflict of interest between our interests and the individual shareholders approving such actions, and may result in a delay in the ability of the Managing 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 our management.

The members of the Supervisory Board are:

Name	Position	Year Appointed	Term Expires	Age
Jean-Pierre Noblanc.....	Chairman	1994	2002	62
Bruno Steve.....	Vice Chairman	1989	2002	59
Tom de Waard.....	Member	1998	2002	54
Remy Dullieux.....	Member	1993	2002	50
Douglas Dunn.....	Member	2001	2002	57
Riccardo Gallo.....	Member	1997	2002	57
Francis Gavois.....	Member	1998	2002	65
Alessandro Ovi.....	Member	1994	2002	57
Robert M. White.....	Member	1996	2002	62

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 Bagnoux 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 a Member of the French Academy of Technology and serves on the Board of Directors of CEA Industrie, FT1CI and Picogiga S.A. He is also the Chairman of the Board of MEDEA+, an industry research and development program on microelectronics belonging to the EUREKA organization.

Bruno Steve has been a member of our 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 President of the board of statutory auditors of Alitalia S.p.a., Italia Express S.p.a. and Sigma S.p.A., Chairman of the Board of EEMS S.p.A., and member of statutory auditors of Stretto di Messina S.p.A. Until December 1999, he served as Chairman of MEI. 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 has been a partner of Clifford Chance, a leading English law firm, since March 2000. Prior to that, he was a partner at Stibbe, Simont, Monahan, & Duhot, where he held several positions since 1979 and 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. Mr. Dullieux also serves on the Board of Directors of FT1CI.



Douglas Dunn was appointed to the Supervisory Board in 2001. He is President and Chief Executive Officer of ASM Lithography Holding N.V. He was a member of the Managing Board of Royal Philips Electronics in 1998. From 1996 to 1998 he was Chairman and Chief Executive Officer of Philips Consumer Electronics. From 1993 to 1996 Chairman and Chief Executive Officer of Philips Semiconductors. From 1980 to 1993 he held various positions at Plessey Semiconductors. Prior to 1980, Mr. Dunn served in executive positions at Motorola Semiconductors.

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 has also been a member of the board of directors of Comitato Sir from 1981 until the present. 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, FT1CI 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 Chief Executive Officer of Banque Francaise du Commerce Extérieur (BFCE). Prior to that time Mr. Gavois held positions in the French government. He is Inspecteur des Finances and 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 currently is a Special Advisor to the President of the European Community and also serves on the boards of Carnegie Mellon University and Corporation Development Committee of the Massachusetts Institute of Technology. Until April 2000, Mr. Ovi was 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.

Robert M. White was appointed to the Supervisory Board in June 1996. Mr. White is a University Professor and Director of the Data Storage Systems Center at Carnegie Mellon University and serves as a member of several corporate boards, including those of Ontrack Data Systems, Inc., and Read-Rite, 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 physics from Massachusetts Institute of Technology.

#### Supervisory Board Committees

Audit Committee. The Audit Committee was established in 1996 to assist the Supervisory Board in fulfilling its oversight responsibilities relating to corporate accounting, reporting practices, and the quality and integrity of our financial reports. Its primary duties and responsibilities according to its charter are to oversee that:

- o Our management has maintained the reliability and integrity of the accounting policies and financial reporting and disclosure practices;
- o Our management has established and maintained processes to assure compliance with all applicable laws, regulations and corporate policy concerning financial accounting; and
- o The independence and performance of our external auditors.

Our Audit Committee is composed of four directors, and meets at least five times annually, and more frequently as circumstances dictate. It is currently chaired by Mr. de Waard and also comprised of Messrs. Gavois, Ovi and White.

Compensation Committee. Our Compensation Committee approves the compensation for the sole member of our Managing Board. It also approves any increase in the incentive compensation component of our executive officers. Finally, the Compensation Committee is informed of the compensation plans for our executive officers. It is currently comprised of the Chairman (Mr. Noblanc), the Vice-Chairman (Mr. Steve) and Mr. White.

Strategic Committee. Our Strategic Committee was instituted to monitor key developments within the semiconductor industry and our overall strategy, and is particularly involved in supervising the execution of significant transactions. Our Strategic Committee does not have a charter or regular meetings, but meets as often as is required by our ongoing business or any new significant opportunities. It is currently comprised of Messrs. Noblanc and Steve.

#### Managing Board

Our management is entrusted to the Managing Board under the supervision of the Supervisory Board. Mr. Pasquale Pistorio, our President and Chief Executive Officer, is currently the sole member of the Managing Board. His term expires in 2002. There is no mandatory retirement age for members of our Managing Board.

Under the Articles of Association, the Managing 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 of our multi-year plans 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 Managing 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 our assets or concerns; and (ii) all mergers, acquisitions or joint ventures which we wish 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 Managing Board that require its prior approval. Following the adoption of such a resolution, the actions by the Managing Board requiring such prior approval include the following: (i) modification of our Articles of Association; (ii) change in our authorized share capital, issue, acquisition or disposal of our own shares, change in any shareholder rights or issue of any instruments granting an interest in our capital or profits; (iii) liquidation or disposal of all or a substantial and material part of our assets or any shares we hold in any of our 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 Managing Board obtain prior approval from the Supervisory Board for (i) the appointment of the members of the statutory management, administration and control bodies of our French and Italian subsidiaries; and (ii) the nomination of our statutory management, administration and control bodies and each of our 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 Managing Board that require shareholder approval. Our Articles of Association provide that the Managing Board must obtain shareholder approval prior to (i) the sale of all or an important part of our assets and concerns; and (ii) all mergers, acquisitions or joint ventures which we wish to enter into and which the Supervisory Board considers to be of material significance. However, during a meeting held on September 23, 2000, the Supervisory Board authorized the Managing Board to proceed with acquisitions without prior consent of the Supervisory Board subject to a maximum amount of \$25 million per transaction, provided the Managing Board keeps the Supervisory Board informed of progress regarding transactions and gives a full report once the transaction is completed. See "Item 4: Information on the Company" and "Item 7: Major Shareholders and Related Party Transactions - Related Party Transactions."

The Managing 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 Managing 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 Managing Board to be chairman of the Managing Board require the approval of a majority of its members.

Board for a three year term (upon approval of at least three-quarters of the members of the Supervisory Board). Resolution

The general meeting of shareholders may suspend or dismiss one or more members of the Managing 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 Managing 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 Managing Board, be temporarily responsible for our management. Upon delegation from the Supervisory Board, the Compensation Committee determines the compensation and other terms and conditions of employment of the members of the Managing Board.

#### Executive Officers

Our executive officers support the Managing Board in its management of us, without prejudice to the Managing Board's ultimate responsibility. We are 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. Our executive officers are:

Name	Position	Years with Company(1)	Years in Semiconduct or Industry	Age
Pasquale Pistorio	President and Chief Executive Officer	21	37	65
Georges Auguste	Corporate Vice President, Total Quality and Environmental Management	14	27	52
Laurent Bosson	Corporate Vice President, Front-end Manufacturing	18	18	58
Carlo Bozotti	Corporate Vice President, Memory Products Group	24	24	48
Salvatore Castorina	Corporate Vice President, Discrete and Standard ICs Group	19	35	64
Alain Dutheil	Corporate Vice President, Strategic Planning and Human Resources	18	31	56
Philippe Geyres	Corporate Vice President, Consumer and Microcontroller Group	17	25	49
Maurizio Ghirga	Corporate Vice President, Chief Financial Officer	18	18	63
Jean-Claude Marquet	Corporate Vice President, Asia/Pacific Region	15	34	59
Pier Angelo Martinotti	Corporate Vice President, New Ventures Group	20	33	60
Joel Monnier	Corporate Vice President, Central Research and Development	18	27	55
Piero Mosconi	Corporate Vice President, Treasurer	37	37	61
Carmelo Papa	Corporate Vice President, Emerging Markets	17	17	52
Richard Pieranunzi	Corporate Vice President, Americas Region	20	35	62
Aldo Romano	Corporate Vice President, Telecommunications, Peripherals and Automotive Group	36	36	60
Giordano Seragnoli	Corporate Vice President, Back-end Manufacturing and Subsystems Products Group	36	38	64
Keizo Shibata	Corporate Vice President, Japan Region	9	36	64
Enrico Villa	Corporate Vice President, European Region	33	33	60

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

Pasquale Pistorio has more than 37 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 our President and Chief Executive Officer upon our 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 us, Mr. Auguste worked with Philips Components from 1974 to 1986, in various positions in the field of manufacturing. From 1990 to 1997 he headed our 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 our 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 us as General Manager of Transistors in Catania and became the General Manager of our 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 our 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 our 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.

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 our Corporate Vice President, Strategic Planning.

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 us 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 Organization 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 with us 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, our former subsidiary. 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 Supérieure 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.

Carmelo Papa has served as Corporate Vice President, Emerging Markets since January 2000. Mr. Papa received his degree in nuclear physics at Catania University. Mr. Papa joined us in 1983 and since 1986 has been Director of Product Marketing and Customer Service for Transistors and Standard ICs. During this time, he has overseen a substantial growth both in the product portfolio and the sales volume. He has also played a key role both in the expansion of our facility in Catania, Italy, from its origin as a low-cost assembly plant to its present position as one of our most important and dynamic centres, hosting advanced R&D in areas ranging from process technology to fuzzy logic and other "soft computing" disciplines, leading-edge wafer manufacturing and Sales and Marketing HQ for our Discrete and Standard Circuits division.

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 our formation in 1987, he became Vice President Marketing and Sales for the U.S. organization. For three years, Mr. Pieranunzi headed our 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 our 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 our management, 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 our Japanese subsidiary since 1992. Mr. Shibata obtained bachelors and masters degrees in Engineering from Osaka University and has 32 years of experience in the semiconductor industry. Prior to joining us, 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, Europe since January 1, 2000. Mr. Villa has served in various capacities within our management 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, our 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 our 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 us. We do not maintain insurance with respect to the loss of any of our key personnel.

#### Compensation

The aggregate compensation paid in 2000 to the members of our Supervisory Board by us was approximately \$500,000. The amount of compensation paid in 2000 to our executive officers and members of our Managing Board as a group by us was approximately \$8.7 million.

In 1989, we established a Corporate Executive Incentive Program (the "EIP") that entitles selected executives and members of the Managing 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 or member's salary and is adjusted to reflect our overall performance. The participants in the EIP must satisfy certain personal objectives that are focused on customer service, profit, cash flow and market share.

For information regarding stock options granted to members of our Supervisory Board, the Managing Board and our executive officers please refer to "--Stock Option Plans" below.

The executive officers and the Managing Board were also covered in 2000 under certain group life and medical insurance programs provided by us. The aggregate additional amount set aside by us in 2000 to provide pension, retirement or similar benefits for executive officers and our Managing Board as a group is estimated to have been approximately \$3.5 million, which includes statutory employer contributions for state-run retirement and similar benefit programs. We do not have any service agreements with members of our Supervisory Board, the Managing Board or our executive officers that provide for benefits upon termination of employment, beyond their legal entitlement in accordance with applicable employment laws.

#### Share Ownership

None of the members of our Supervisory and Managing Boards, or our executive officers hold more than 1% of our shares.

## Stock Option Plans

The following description of our stock options plans has been adjusted for the 2:1 stock split effected on June 16, 1999 and the 3:1 stock split effected on May 5, 2000. Taking into account these stock splits, the total options outstanding as of March 31, 2000 give the right to acquire 26,441,561 Common Shares by our employees and 402,500 Common Shares by members and professionals of our Supervisory Board, or a total of 26,844,061 shares.

On October 20, 1995, our shareholders approved resolutions authorizing the Supervisory Board for a period of five years to adopt and administer a stock option plan that provides for the granting to our managers and professionals of options to purchase up to a maximum of 33.0 million Common Shares (the "1995 Stock Option Plan"). We granted options to acquire a total of 31,561,441 shares pursuant to the 1995 Stock Option Plan as follows:

- o On March 1, 1996, we granted options to purchase 7,200,000 Common Shares with an exercise price per Common Share of \$6.04. All such options will expire on March 1, 2004. As of March 31, 2001, options to purchase 2,840,600 shares were outstanding, of which 681,200 were held by the members of the Managing Board and our executive officers, as a group.
- o On September 12, 1997, we granted options to purchase 3,873,000 Common Shares with an exercise price per Common Share of \$14.23, which will expire on September 12, 2005. As of March 31, 2001, options to purchase 3,515,820 shares were outstanding, of which 1,034,100 were held by the members of the Managing Board and our executive officers, as a group.
- o On July 28, 1998, we granted options to purchase 3,900,000 Common Shares with an exercise price per Common Share of \$12.03, which will expire on July 28, 2006. As of March 31, 2001, options to purchase 3,820,140 shares were outstanding, of which 1,069,140 were held by the members of the Managing Board and our executive officers, as a group.
- o On September 16, 1999, we granted options to purchase 8,878,200 Common Shares with an exercise price per Common Shares of \$24.88, which will expire on September 16, 2007. As of March 31, 2001, options to purchase 8,680,200 shares were outstanding, of which 1,772,400 were held by the members of the Managing Board and our executive officers, as a group.
- o On January 24, 2000, we made a special grant of options to purchase 150,000 Common Shares to former employees of Arithmos with an exercise price of \$55.25 and which expire on January 24, 2008. As of March 31, 2001, options to purchase 113,730 shares were outstanding pursuant to this grant.
- o On June 16, 2000, we granted options to purchase 5,331,250 Common Shares with an exercise price per Common Shares of \$62.01, which will expire on June 16, 2008. As of March 31, 2001, options to purchase 5,269,150 shares were outstanding, of which 712,000 were held by the members of the Managing Board and our executive officers, as a group.
- o On September 18, 2000, we made a special grant of options to purchase 70,000 Common Shares to former employees of Waferscale Integration Inc. with an exercise price per Common Shares of \$52.88, which will expire on September 18, 2008. As of March 31, 2001, options to purchase 69,370 shares were outstanding.
- o On December 11, 2000, we granted options to purchase 2,019,640 Common Shares with an exercise price per Common Shares of \$50.69, which will expire on December 11, 2008. As of March 31, 2001, options to purchase 1,993,200 shares were outstanding.
- o On December 18, 2000, we made a special grant of options to purchase 26,501 Common Shares to former employees of PGI with an exercise price per Common Shares of \$44.00, which will expire on December 18, 2008. As of March 31, 2001, options to purchase 26,501 shares were outstanding.

- o On March 1, 2001, we made a special grant of options to purchase 112,850 Common Shares with an exercise price per Common Shares of \$31.65, which will expire on March 1, 2008. As of March 31, 2001, options to purchase 112,850 shares were outstanding.

As of March 31, 2001, of the total options outstanding under the 1995 Stock Option Plan, options to purchase 5,268,840 shares were held by the member of the Managing Board and executive officers as a group.

On April 25, 2001, our shareholders approved resolutions authorizing the Supervisory Board for a period of five years to adopt and administer a new stock option plan that provides for the granting to our managers and professionals of options to purchase up to a maximum of 60.0 million Common Shares (the "2001 Stock Option Plan"). On April 27, 2001, our Supervisory Board authorized the granting of options to purchase 9,462,800 options with an exercise price per Common Share of \$39.00, which will expire on April 27, 2011. Of this amount, options to purchase 981,000 Common Shares were granted to the member of the Managing Board and our 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 which correspond to the right to purchase approximately 378,000 of our Common Shares over a period of three years, beginning in 1996. Following this grant, certain persons have renounced the right to retain the stock options granted to them. The following options have been granted to members and professionals of our Supervisory Board:

- o On October 24, 1996, we granted to members and professionals of the Supervisory Board options to purchase 198,000 Common Shares with an exercise price per Common Share of \$9.00, which will expire on October 22, 2004. As of March 31, 2001, options to purchase 57,000 shares were outstanding.
- o On September 12, 1997, we granted to members and professionals of the Supervisory Board options to purchase 90,000 Common Shares with an exercise price per Common Share of \$14.23, which will expire on September 12, 2005. As of March 31, 2001, options to purchase 30,500 shares were outstanding.
- o On July 28, 1998, we granted to members and professionals of the Supervisory Board options to purchase 103,500 Common Shares with an exercise price per Common Share of \$12.03, which will expire on July 28, 2006. As of March 31, 2001, options to purchase 45,000 shares were outstanding.

In 1999, the general meeting of the shareholders voted to renew the Supervisory Board Option Plan whereby members of the Supervisory Board may receive, during the three-year period 1999-2001, at least the same number of options as were granted during the first three-year period. The following options have been granted:

- o On September 16, 1999, we granted options to members and professionals of the Supervisory Board to purchase 180,000 Common Shares with an exercise price per Common Share of \$24.88, which will expire on September 16, 2007. As of March 31, 2001, options to purchase 180,000 shares were outstanding.
- o On June 16, 2000, we granted options to members and professionals of the Supervisory Board to purchase 103,500 Common Shares with an exercise price per Common Share of \$62.01, which will expire on June 16, 2008. As of March 31, 2001, options to purchase 90,000 shares were outstanding.
- o On April 27, 2001, we granted options to members and professionals of the Supervisory Board to purchase 112,500 Common Shares with an exercise price per Common Share of \$39.00, which will expire on April 27, 2009.



Employees

The tables below set forth the breakdown of employees by main category of activity and geographic area for the past three years.

	At December 31,		
	1998	1999	2000
France.....	5,950	7,200	9,600
Italy.....	6,350	7,650	9,200
Rest of Europe.....	650	850	1,050
United States.....	2,650	3,250	4,350
Malta and Morocco.....	5,450	6,000	7,450
Asia .....	8,150	9,550	12,000
	-----	-----	-----
Total .....	29,200	34,500	43,650
	=====	=====	=====

	At December 31,		
	1998	1999	2000
Research and Development.....	4,400	5,350	6,800
Marketing and Sales.....	1,700	1,900	2,250
Manufacturing.....	20,200	23,800	30,450
Administration and General Services.....	1,600	1,800	2,200
Divisional Functions.....	1,300	1,650	1,950
	-----	-----	-----
Total .....	29,200	34,500	43,650
	=====	=====	=====

Our future success, in particular in a period of strong increased demand will also depend on our 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. We have not experienced any significant strikes or work stoppages in recent years, other than in connection with national strikes in Italy, and management believes that our relations with employees are good.

As part of our commitment to the principles of TQEM, we 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 STMicroelectronics and coordinating all training for our employees. In 2000, ST University organized over 130,000 hours of training for 5,000 employees.

We have also established an Employee Stock Purchase Plan that includes the following provisions:

- o A total of 4.5 million shares are to be offered to employees of STMicroelectronics N.V. and its majority owned subsidiaries in 20 specified countries and such other countries to which the Supervisory Board may extend the Plan, on the recommendation of our Managing Board.
- o The first 1.5 million shares offered will be new shares. The source of the remaining 3.0 million shares is to be decided by the Supervisory Board in due course.
- o The Plan has a three year term, from 2000 to 2003 and features semi-annual offering periods.
- o For each offering period, the subscription price will be equal to 85% of the lesser of the NYSE closing price for shares on the first day of the offering period and the last day of the offering period.
- o The maximum fair value of the shares that may be subscribed per employee per offering period is \$12,500.

The first tranche of the Employee Stock Purchase Plan was offered in November 2000 and the second tranche has now been launched, with the subscription period ending May 21, 2001.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS.

Major Shareholders

The following table sets forth certain information with respect to the ownership of our Common Shares as of April 28, 2001.

Shareholders	Common Shares Owned (1)	
	Number	%
STMicroelectronics Holding II B.V. ("ST Holding II").....	389,483,280	43.55

(1) Following the 2:1 stock split and 3:1 stock split effected by us on June 16, 1999, and May 5, 2000, respectively.

ST Holding is 50% owned by FT1CI, a group of French shareholders that are indirectly controlled by the French government, and 50% owned by Finmeccanica S.p.A., also directly and indirectly controlled by the Italian government. FT1CI, 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. Finmeccanica is an Italian holding company owned by both the Italian Ministry of Treasury, which controls important actions of Finmeccanica due to its significant holding in it, Istituto per la Ricostruzione Industriale-IRI S.p.A. in liquidazione ("I.R.I.", the holding company for Italian state-owned industrial and commercial interests) and the public. The Italian Ministry of Treasury has appointed a majority of the members of Finmeccanica's Board of Directors and pursuant to the provisions of its articles of association and Italian law, retains veto rights over certain major transactions involving Finmeccanica. The shares of France Telecom are listed on Euronext Paris and the New York Stock Exchange. Certificats d'investissement of CEA-Industrie are listed on Euronext Paris. The shares of Finmeccanica are listed on the Milan Stock Exchange.

The chart below illustrates the current shareholding structure as of April 28, 2001:

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

Description of Shareholding Structure: STMicroelectronics N.V. is owned 43.55% by STMicroelectronics Holding II B.V. and 56.45% by the public. STMicroelectronics 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. The Italian shareholder, Finmeccanica, is owned 5% by I.R.I., 32.4% by the Italian Ministry of Treasury, and 62.6% by the public.

Shareholder Agreements

In connection with our formation, Thomson-CSF and STET, as our shareholders, 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 STMicroelectronics N.V., 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. 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. 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 transferred to or assumed by, as the case may be, MEI. Finally, following the merger of MEI into Finmeccanica (effective on December 31, 1999), Finmeccanica acquired all of the obligations and rights of MEI under the Holding Shareholders Agreement.

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 us. 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, and our Supervisory Board, each one within its respective sphere of competence, must give their respective prior approval before ST Holding, STMicroelectronics N.V., or any of our subsidiaries may: (i) modify our articles of incorporation; (ii) change our authorized share capital, issue, acquire or dispose of our shares, change any shareholder rights or issue any instruments granting an interest in our capital or profits; (iii) be liquidated or dispose of all or a substantial and material part of our assets or any shares we hold in any of our 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 our long-term business plans and annual budgets and for our subsidiaries, as well as any significant modifications thereto, shall be approved in advance by the Supervisory Board of each of ST Holding and STMicroelectronics, each one within its respective sphere of competence. 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.

Pursuant to the terms of the Holding Shareholders Agreement, ST Holding and STMicroelectronics are 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 us in the area of semiconductor products, subject to certain exceptions, and to offer us opportunities to commercialize or invest in any semiconductor product developments by them. Any financing or capital provided by the parties to ST Holding or us is intended to be provided pro rata based on the parties' respective shareholdings in ST Holding. See further details below.

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 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, FT1CI (the "French Owner"), on the one hand, and Finmeccanica (the "Italian Owner"), on the other hand, have agreed to maintain equal interests in our share capital. See further details below.

We have been informed that the shareholders of FT1CI have also entered into a separate shareholder agreement that requires the consent of the Board of Directors, with a two-thirds majority, for certain actions taken by ST Holding, STMicroelectronics and our subsidiaries. These agreements provide for the management of the interests of CEA-Industrie and France Telecom in ST Holding and us, 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 STMicroelectronics and our subsidiaries. We are 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 us 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 us, (ii) any change in the capital of ST Holding or us, or issuance, purchase or sale by ST Holding or us of our 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 us, (iii) the liquidation or dissolution of ST Holding or us or the sale of all or an important and material part of the business or assets of ST Holding or us representing at least \$10,000,000 of our consolidated shareholders' equity, (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 we participate or in which a proposal is made to participate, or the establishment by ST Holding or us of new companies or groups, (v) approval of the balance sheets and consolidated accounts of ST Holding, us and our subsidiaries as well as the policies of distributions of profits among the group, (vi) any agreement between ST Holding and/or us 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 us and (viii) approval of strategic multi-year plans and annual consolidated budgets of ST Holding and us. 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 Secretariat d'Etat a l'Industrie (Secretary 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.

Pursuant to the principal Italian privatization law, certain special government powers may be introduced into the by-laws of firms considered strategic by the Italian government. In the case of Finmeccanica, these powers were established by decrees adopted by the Minister of the Treasury on November 8, 1999 and Finmeccanica's by-laws were subsequently amended on November 23, 1999. The special powers of the Minister of the Treasury (who will act in agreement with the Minister of Industry) include (i) the approval or disapproval of the acquisition of material interests in Finmeccanica's share capital, (ii) approval of material shareholders' agreements relating to Finmeccanica's share capital, (iii) appointment of members of Finmeccanica's board of directors and board of statutory auditors, and (iv) powers to veto resolutions to dissolve Finmeccanica, transfer its business, merge, conduct spin-offs, sell businesses or lines of business, including the transfer of equity participations in subsidiaries or affiliates, transfer its registered office outside of Italy, change Finmeccanica's corporate purposes or amend or modify any of the Minister of the Treasury's special powers.

In connection with the Initial Public Offering, we entered into a registration rights agreement with ST Holding II pursuant to which we agreed that, upon request from ST Holding II, we 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, we will grant ST Holding II the right to include our Common Shares in any registration statements covering offerings of Common Shares by us. 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 our outstanding Common Shares.

The French and Italian shareholders of ST Holding agreed in a document dated August 31, 1999, to continue to manage their interest in us through ST Holding until at least December 31, 2000, and they agreed (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 40% of our share capital and voting rights on a fully diluted basis after exercise or conversion of all stock options and convertible securities, and (iv) to jointly exercise their decision-making powers and monitor strategies and actions as part of ST Holding's management bodies. Both the French and Italian governments have the authority to veto certain decisions of the French and Italian shareholders, respectively, as explained above. ST Holding has informed us that its shareholders have not extended this agreement. Therefore, we cannot exclude the possibility that the percentage of our common stock and of our voting rights held by ST Holding may change at any time. Any such transaction, or publicity concerning such a potential transaction, could affect the market price of our common shares and cause the market price of our common shares to drop significantly.

On May 31, 1999, our shareholders at the annual general meeting approved the creation of 180,000,000 Preference Shares (540,000,000 Preference Shares, as adjusted for the 3:1 stock split implemented in May 2000). 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, 1999, we 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 our Supervisory Board recognizing that a hostile takeover or similar action exists and giving our 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 our issued share capital.

#### Related Party Transactions

We have in the normal course of our business taken certain equity positions, in each case less than 20% of the share capital of the companies in question. In this context, we have entered into development contracts where certain of these companies provide us services on arms' length terms. These contracts are not material to our business.

We have formed a joint venture research and development center with France Telecom R&D and LETI in the form of a GIE named "Centre Commun de Microelectronique de Crolles". France Telecom R&D is a research laboratory that is wholly owned by France Telecom, one of our indirect shareholders. The Laboratoire d'Electronique et de Technologie d'Instrumentation is a wholly owned research laboratory of CEA, one of our indirect shareholders. See "Item 4: Information on the Company--Research and Development" and "--Major Shareholders." The research center is housed at our Crolles, France manufacturing facility, and is developing sub-micron process technologies. The joint venture with France Telecom R&D was created in 1990 before France Telecom became our indirect shareholder. The activity of the Centre Commun de Microelectronique de Crolles is directed towards sub 0.13-micron technologies with a view to preparing the technology to begin production of 300mm wafers and associated wafer fabrication processes. The tripartite cooperation is intended to last until the end of 2002.

We participate 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 4: Information on the Company -- Public Funding." The shareholders of ST Holding, the corporate parent of our principal shareholder, are controlled, directly or indirectly, by the governments of the Republics of France and Italy. See "--Principal Shareholders."

Sales to our shareholders and our affiliates totaled \$0.2 million in 2000.

#### ITEM 8. FINANCIAL INFORMATION

##### Legal Proceedings

As is the case with many companies in the semiconductor industry, we have 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, we could incur significant costs with respect to the defense thereof which could have a material adverse effect on our results of operations or financial condition.

We are currently involved in certain legal proceedings; however, we do not believe that the ultimate resolution of pending legal proceedings will have a material adverse effect on our financial condition.

## Dividend policy

On April 25, 2001, our shareholders approved the payment of a cash dividend with respect to the year ended December 31, 2000 of \$0.04 per share payable to shareholders of record as of April 27, 2001. This dividend was approximately 2.5% of our earnings for 2000. In 2000, we paid a dividend of \$0.03 per share, which represented 4.9% of our earnings for 1999. In 1999, we paid a dividend of \$0.027 per share, which represented approximately 5.5% of our earnings for 1998. In the future, we may consider proposing dividends representing a similar proportion of our earnings for a particular year.

## ITEM 9. THE OFFER AND LISTING.

### Trading History of the Company's Shares

Since 1994, the Common Shares have been traded on the New York Stock Exchange under the symbol "STM" and on Euronext Paris (formerly known as 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 Euronext Paris, 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 Euronext Paris 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 ADSs on the New York Stock Exchange and the high and low prices in euros for the Common Shares on Euronext Paris and the Italian Stock Exchange during each quarter in 1998, 1999 and, to date in 2000. In December 1994, we 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, we effected a 2:1 stock split and on May 5, 2000, we effected a 3:1 stock split. The table below has been adjusted to reflect the split. Each range is based on the highest or lowest rate within each day for Common Share price ranges for the relevant exchange.

Calendar Period	New York Stock Exchange Price per Common Share		Euronext Paris Price per Common Share (1)		Italian Stock Exchange Price per Common Share (2)	
	High	Low	High	Low	High	Low
Annual information for the past five years						
1996.....	\$12.02	\$4.75	Euro10.09	Euro3.58	--	--
1997.....	\$16.51	\$8.58	Euro15.83	Euro7.96	--	--
1998.....	\$15.29	\$5.98	Euro14.16	Euro5.01	Lira 23,166.64	Lira 9,833.32
1999.....	\$51.33	\$13.42	Euro51.67	Euro11.47	Euro51.67	Euro10.68
2000.....	\$73.88	\$39.06	Euro76.93	Euro39.53	Euro76.67	Euro40.35
Quarterly information for the past two years						
1999						
First quarter.....	\$17.94	\$13.44	Euro16.17	Euro11.47	Euro 16.00	Euro10.68
Second quarter.....	\$24.17	\$16.33	Euro23.00	Euro14.83	Euro 23.33	Euro14.83
Third quarter.....	\$27.13	\$21.27	Euro26.07	Euro20.03	Euro 26.15	Euro20.27
Fourth quarter.....	\$51.33	\$25.00	Euro51.67	Euro23.05	Euro 51.67	Euro23.17
2000						
First quarter.....	\$73.88	\$40.67	Euro76.93	Euro39.53	Euro76.67	Euro40.35
Second quarter.....	\$69.94	\$46.88	Euro75.90	Euro50.50	Euro74.33	Euro51.30
Third quarter.....	\$68.13	\$46.94	Euro74.50	Euro53.50	Euro72.90	Euro56.05
Fourth quarter.....	\$52.38	\$39.06	Euro60.90	Euro44.20	Euro60.80	Euro44.45
2001						
First quarter.....	\$48.70	\$29.35	Euro52.45	Euro31.55	Euro52.35	Euro31.60
Second quarter (through April 23, 2001)	\$41.13	\$31.05	Euro44.85	Euro35.00	Euro44.30	Euro35.20
Monthly information for most recent six months						
October 2000.....	\$52.38	\$40.06	Euro59.65	Euro46.15	Euro59.60	Euro46.60
November 2000.....	\$52.25	\$39.06	Euro60.90	Euro47.12	Euro60.80	Euro47.20
December 2000.....	\$51.44	\$40.69	Euro58.55	Euro44.20	Euro56.70	Euro44.45
January 2001.....	\$48.70	\$37.00	Euro52.45	Euro37.65	Euro52.35	Euro38.15
February 2001.....	\$47.60	\$31.20	Euro50.85	Euro34.00	Euro50.85	Euro34.05
March 2001.....	\$38.40	\$29.35	Euro42.48	Euro31.55	Euro42.30	Euro31.60

Source: Reuters

- (1) For periods prior to January 1, 1999, the share prices on Euronext Paris have been converted into euro at the official exchange rate of Euro 1.00 = FF 6.55957.
- (2) For periods prior to January 1, 1999, the share prices on the Italian Stock Exchange have been converted into euro at the official exchange rate of Euro 1.00 = Lit. 1,936.27. The shares have been listed on the Italian Stock Exchange since June 5, 1998.

At December 31, 2000, there were 889,881,287 Common Shares issued and outstanding, of which 45,234,378 or 5% were registered in the Common Share registry maintained on our behalf in New York.

1998 Liquid Yield Option<sup>TM</sup> Notes

Our 1998 Liquid Yield Option<sup>TM</sup> Notes ("LYONs") are traded on the New York Stock Exchange and Euronext Paris. 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 Euronext Paris, in both cases as a percentage of principal amount at maturity, during each quarter in 1999 and to date in 2000. Each range is based on the highest or lowest rate at the end of each closing day on the relevant exchange. We have issued a redemption notice for these LYONs and intend to redeem them at a redemption price of \$885.22 per \$1,000 principal amount on June 11, 2001. According to the information available to us, on May 11, 2001, approximately \$45.6 million in total indebtedness was outstanding under the 1998 LYONs. Based on the amount outstanding on May 11, 2001, if all remaining holders of the 1998 LYONs chose to convert them into Common Shares before the redemption date, 2,772,291 Common Shares would be issued.

Calendar Period -----	New York Stock Exchange Price per LYON		Euronext Paris Price per LYON	
	High ----	Low ---	High ----	Low ---
Annual information for the past five years				
1998.....	89%	69.87%	88.88%	69.25%
1999.....	277.75%	88.88%	277.25%	87.63%
2000.....	389.25%	221.47%	379.20%	222.70%
Quarterly information for the past two years				
1999				
First quarter.....	105.04%	88.88%	104.00%	87.63%
Second quarter.....	129.66%	98.92%	132.75%	100.19%
Third quarter.....	147.03%	119.98%	146.25%	119.94%
Fourth quarter.....	277.75%	141.64%	277.25%	143.51%
2000				
First quarter.....	389.25%	227.94%	379.20%	319.80%
Second quarter.....	368.59%	283.47%	368.05%	301.35%
Third quarter.....	360.71%	263.38%	361.18%	263.75%
Fourth quarter.....	276.67%	221.47%	276.65%	222.70%
2001				
First quarter.....	256.96%	159.90%	254.13%	169.15%
Second quarter (through April 23, 2001).....	209.06%	172.48%	208.50%	171.62%
Monthly information for most recent six months				
October 2000.....	270.45%	221.47%	268.38%	222.70%
November 2000.....	276.67%	222.10%	276.65%	226.13%
December 2000.....	265.09%	230.70%	255.88%	229.78%
January 2001.....	256.96%	199.79%	254.13%	203.98%
February 2001.....	251.91%	169.17%	221.53%	208.10%
March 2001.....	202.83%	159.50%	203.90%	169.15%

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Source: Bloomberg



1999 Liquid Yield Option™ Notes

Our 1999 Liquid Yield Option™ Notes ("LYONS") are traded on the New York Stock Exchange and Euronext Paris. 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 Euronext Paris, in both cases as a percentage of principal amount at maturity, during each quarter in 1999 and to date in 2000. Each range is based on the highest or lowest rate at the end of each closing day on the relevant exchange.

Calendar Period	New York Stock Exchange Price per LYON		Euronext Paris Price per LYON	
	High	Low	High	Low
Annual information for the past five years				
1999.....	138.09%	81.56%	140.25%	81.94%
2000.....	192.10%	118.27%	192.10%	118.44%
Quarterly information for the past two years				
1999				
Third quarter (since September 16).....	84.06%	81.56%	84.5%	82%
Fourth quarter.....	138.09%	81.88%	140.25%	81.94%
2000				
First quarter.....	192.10%	119.13%	192.10%	118.48%
Second quarter.....	182.66%	143.30%	183.25%	142.95%
Third quarter.....	179.23%	135.65%	195%	134.75%
Fourth quarter.....	142.06%	118.27%	201.75%	160%
2001				
First quarter.....	132.62%	94.54%	146.50%	102.50%
Second quarter (through April 23, 2001).....	114.79%	100.20%	114.41%	100.65%
Monthly information for most recent six months				
October 2000.....	138.63%	119.03%	139.20%	118.64%
November 2000.....	142.06%	118.27%	141.72%	118.44%
December 2000.....	136.06%	121.23%	136.25%	121.77%
January 2001.....	132.62%	110.13%	132.83%	109.56%
February 2001.....	130.50%	97.68%	130.82%	98.26%
March 2001.....	116.66%	94.54%	112.23%	94.61%

Source: Bloomberg

Market Information

Euronext Paris

On September 22, 2000, upon successful completion of an exchange offer, the ParisBourse SBF SA, or the "SBF", the Amsterdam Stock Exchanges and the Brussels Stock Exchanges merged to create Euronext, the first pan-European exchange. Through the exchange offer, all the shareholders of SBF, the Amsterdam Stock Exchange and the Brussels Stock Exchanges contributed their shares to Euronext N.V., a Dutch holding company. Securities quoted on exchanges participating in Euronext will be traded over a common Euronext platform, with central clearinghouse, settlement and custody structures. However, these securities will remain listed on their local exchanges. As part of Euronext, Euronext Paris retains responsibility for the admission of shares to Paris Bourse's trading markets as well as the regulation of those markets.

Securities approved for listing by Euronext Paris are traded in one of three markets. The securities of most large public companies are listed on the Premier Marche with the Second Marche available for small and medium-sized companies. Trading on the Nouveau Marche was introduced in March 1996 to allow companies seeking

development capital to access the stock market. Securities of certain other companies are traded on a non-regulated over-the-counter market, the Marche Libre-OTC, which is also operated by Euronext Paris.

The Common Shares are listed on the Premier Marche. Shares listed on Euronext Paris 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 FF 250,000 or twenty trades).

Official trading of listed securities on Euronext Paris is transacted through providers of investment services (investment companies and other financial institutions) and takes place continuously on each business day from 9:00 a.m. to 5:30 p.m., with a pre-opening session from 7:15 a.m. to 9:00 a.m. and a pre-closing session from 5:30 p.m. to 5:35 p.m. during which transactions are recorded but not executed and a closing auction at 5:35 p.m. Any trade effected after the close of a stock exchange session will be recorded, on the next Euronext Paris trading day, at the closing price for the relevant security at the end of the previous day's session.

Euronext Paris publishes a daily Official Price List that includes price information on each listed security. Euronext Paris has introduced continuous trading by computer for most listed securities.

Trading in the listed securities of an issuer may be suspended by Euronext Paris if quoted prices exceed certain price limits defined by the regulations of Euronext Paris. 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. Euronext Paris 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 are settled on a cash basis on the third trading day following the trade. Market intermediaries are also permitted to offer investors a deferred settlement service (service de reglement differe) for a fee. The deferred settlement service is only available for trades in securities which either (i) are a component of the Index SBF 120 or (ii) have both a total market capitalization of at least Euro 1 billion and a daily average volume of trades of at least Euro 1 million. The Common Shares are eligible to the deferred settlement service. Investors can elect on the determination date (date de liquidation), which is the fifth trading day before the end of the month, either to settle the trade by the last trading day of the month or to pay an additional fee and postpone the settlement decision to the determination date of the following month.

Ownership of equity securities traded on a deferred settlement basis passes at the time of registration of the securities in the shareholders' account. In accordance with French securities regulations, any sale of shares executed on a deferred settlement basis during the month of a dividend payment date is deemed to occur after the payment of the dividend. In such cases, the purchaser's account is credited with an amount equal to the dividend paid and the seller's account is debited by the same amount.

#### Securities Trading in Italy

The Mercato Telematico Azionario (the "MTA"), the Italian automated screen-based quotation system on which our Common Shares are listed, is organized and administered by Borsa Italiana S.p.A. ("Borsa Italiana") subject to the supervision of the 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 "Eurosime Decree") and as modified by Legislative Decree 58 of February 24, 1998 (the "Financial Act"). 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 three-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 cancelled 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 a decree of the Italian Ministry of Treasury and a resolution of the CONSOB, respectively.

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 depository 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

#### ITEM 10. ADDITIONAL INFORMATION

##### Memorandum and articles of association

We were incorporated under the law of The Netherlands by deed of May 21, 1987. Set forth below is a summary of certain provisions of our articles of association and relevant Dutch corporate law. The summary below does not purport to be complete and is qualified in its entirety by reference to the articles of association and relevant Dutch corporate law.

References herein to shares include common and preference shares and references herein to shareholders include common and preference shareholders, unless otherwise provided.

##### Share Capital

Our authorized share capital is Euro 1,809,600,000, consisting of 1,200,000,000 common shares and 540,000,000 preference shares, nominal value of Euro1.04 per share. As of March 31, 2001, 890,310,233 common shares were outstanding, as well as options to acquire 26,844,061 common shares. No preference shares are currently outstanding. Pursuant to a shareholders' resolution adopted at the annual general meeting on April 25, 2001, our Supervisory Board has been authorized for a period of five years to resolve upon (i) the issuance of any number of new ordinary or preference shares, (ii) the terms and conditions of an issuance of shares; (iii) waiver of existing shareholders' pro rata preemptive rights; and (iv) granting of rights to subscribe for ordinary shares and or preference shares.

Shares are issued in registered form only. The preference shares are intended to protect us from a hostile take-over or similar action. Share registers are maintained in New York by The Bank of New York, the New York Transfer Agent and Registrar (the "New York Registry"), and in Amsterdam, The Netherlands, by Netherlands

Management Company B.V., the Dutch Transfer Agent and Registrar (the "Dutch Registry"). Shares of New York Registry held through The Depository Trust Company ("DTC") are registered in the name of Cede & Co., the nominee of DTC, and shares of Dutch Registry held through the French clearance and settlement system, Euroclear France, are registered in the name of Euroclear France or its nominee.

#### Dividends

Our Supervisory Board may establish reserves out of our annual profits, upon proposal of our Managing Board. The portion of our annual profits that remains after the establishment of reserves is at the disposal of the general meeting of shareholders. If the general meeting of shareholders resolves to distribute profits, preference shareholders shall first be paid a percentage equal to the Euribor interest for one-year cash loans computed over the paid up capital on the preference shares, provided that the amount paid to preference shareholders may not exceed the total amount resolved to be distributed to shareholders. If the paid up capital of the preference shares is increased or decreased in the financial year in respect of which the dividend is paid, the payment thereon will be adjusted accordingly. The profits remaining after payment has been made to preference shareholders may be distributed to the common shareholders.

Our general meeting of shareholders may declare distributions out of our share premium reserve and other reserves available for shareholder distributions under Dutch law, upon the proposal of our Supervisory Board. Pursuant to a resolution of our Supervisory Board, distributions approved by the general meeting of shareholders may be fully or partially made in the form of our new shares to be issued. We may not pay dividends if the payment would reduce shareholders' equity below the paid-up and called portion of the share capital, plus the reserves which are required by statute. Our Supervisory Board may, subject to certain statutory provisions, distribute one or more interim dividends in respect of any year before the accounts for such year have been approved and adopted at a general meeting of shareholders. Rights to cash dividends and distributions that have not been collected within five years after the date on which they became due and payable shall revert to us.

At December 31, 2000, the amount of retained earnings available to pay dividends under Dutch law was approximately \$5,263 million. Retained earnings for purposes of this calculation are based on our unconsolidated accounts using generally accepted accounting principles in The Netherlands ("Dutch GAAP"). The only material difference between our Dutch GAAP and U.S. GAAP accounts resulted because we canceled our accumulated deficit through a share capital reduction in 1993. Under U.S. GAAP, as this operation was not a quasi-reorganization, the net effect of the par value reduction was applied against capital surplus. At December 31, 2000, under U.S. GAAP, we had accumulated earnings of approximately \$3,977 million.

As approved by the annual general meeting of shareholders on May 31, 1999, we paid a cash dividend in respect of the year ended December 31, 1998 of \$0.027 per common share on June 15, 1999 to shareholders of record as of June 1, 1999. As approved by the annual general meeting on April 26, 2000, we paid on May 4, 2000 a cash dividend in respect of the year ended December 31, 1999 of \$0.03 per share issued and outstanding as per April 28, 2000. As approved by the annual general meeting on April 25, 2001, we paid on May 11, 2001 a cash dividend in respect of the year ended December 31, 2000 of \$0.04 per share issued and outstanding at April 27, 2001. In the event that dividends are declared in the future, we expect that we would pay such dividends in U.S. dollars, although dividends may be declared in other currencies. Cash dividends to holders of shares of Dutch Registry will be paid to the Dutch Transfer Agent and Registrar who will, if necessary, convert such dividends into French francs or Italian lira at the rate of exchange on the date such dividends are paid, for disbursement to such holders. Cash dividends to holders of shares of New York Registry will be paid to the New York Transfer Agent and Registrar, who will, if necessary, convert such dividends into U.S. dollars at the rate of exchange on the date such dividends are paid, for disbursement to such holders.

#### Shareholder Meetings and Voting Rights

Each registered shareholder has the right to attend general meetings of shareholders, either in person or represented by a person holding a written proxy, to address shareholder meetings and to exercise voting rights, subject to the provisions of the articles of association. Our ordinary general meetings of shareholders are held at least annually, within six months after the close of each financial year, in Amsterdam, Haarlemmermeer (Schiphol Airport), Rotterdam or The Hague, The Netherlands. Extraordinary general meetings of shareholders may be held as often as our Supervisory Board deems necessary, and must be held upon the written request of registered holders

of at least 10% of the total outstanding share capital to our Managing Board or our Supervisory Board specifying in detail the business to be dealt with.

We will give notice by mail to registered holders of shares of each shareholders' meeting, and will publish notice thereof in a national daily newspaper distributed throughout The Netherlands and in at least one daily newspaper in each country other than the United States in which the shares are admitted for official quotation. Such notice shall be given no later than the twenty-first day prior to the day of the meeting and shall either state the business to be considered or state that the agenda is open to inspection by the shareholders at our offices. We are exempt from the proxy rules under the United States Securities Exchange Act of 1934. Euroclear France will provide notice of general meetings of shareholders to, and compile voting instructions from, holders of shares held directly or indirectly through Euroclear France. DTC will provide notice of general meetings of shareholders to holders of shares held directly or indirectly through DTC and the New York Transfer Agent and Registrar will compile voting instructions. In order for holders of shares held directly or indirectly through Euroclear France to attend general meetings of shareholders in person, such holders must withdraw their shares from Euroclear France and have such shares registered directly in their name or in the name of their nominee. In order for holders of shares held directly or indirectly through DTC to attend general meetings of shareholders in person, such holders need not withdraw such shares from DTC but must follow rules and procedures established by the New York Transfer Agent and Registrar.

Each share is entitled to one vote. Unless otherwise required by the articles of association or Dutch law, resolutions of general meetings of shareholders require the approval of a majority of the votes cast at a meeting at which at least one-third of the outstanding share capital is present or represented.

The articles of association allow for separate meetings for holders of common shares and for holders of preference shares. At a meeting of holders of preference shares at which the entire issued capital of shares of such class is represented, valid resolutions may be adopted even if the requirements in respect of the place of the meeting and the giving of notice have not been observed, provided that such resolutions are adopted by unanimous vote. Also, valid resolutions of preference shareholder meetings may be adopted outside a meeting if all holders of preference shares and holders of a right of usufruct on preference shares indicate by letter, telegram, telex communication or facsimile that they vote in favor of the proposed resolution, provided that no depositary receipts for preference shares have been issued with our cooperation.

#### Approval of Annual Accounts and Discharge of Management Liability

Each year, our Managing Board must prepare annual accounts and submit them to the general meeting of shareholders for approval within five months after the end of our financial year, unless the general meeting of shareholders has extended this period by a maximum of six months on account of special circumstances.

Adoption of our annual accounts by the general meeting of shareholders discharges the members of our Managing Board and our Supervisory Board from liability in respect of the exercise of their duties during the financial year concerned, unless an explicit reservation is made by the general meeting of shareholders and without prejudice to the provisions of Dutch law relating to liability of members of supervisory boards and managing boards upon bankruptcy of a company pursuant to articles 138 and 149 of Book 2 of the Dutch Civil Code. Under Dutch law, this discharge does not extend to matters not disclosed to shareholders.

#### Liquidation Rights

In the event of our dissolution and liquidation, after payment of all debts and liquidation expenses, the holders of preference shares shall, if possible, receive the paid up portion of the nominal amount of their preference shares. Any assets then remaining shall be distributed among the registered holders of common shares in proportion to the nominal value of their shareholdings.

#### Issue of Shares; Preemptive Rights

Unless limited or eliminated by the general meeting of shareholders or our Supervisory Board as described below, registered holders of common shares have a pro rata preemptive right to subscribe for any newly issued common shares, except for common shares issued for consideration other than cash and common shares issued to our employees or of one of our group companies. Shareholders do not have a preemptive right to subscribe for any newly issued preference shares. Holders of preference shares have no preemptive rights.

The general meeting of shareholders, upon proposal and on the terms and conditions set by our Supervisory Board, has the power to issue shares. The general meeting of shareholders may also authorize our Supervisory Board, for a period of no more than five years, to issue shares and to determine the terms and conditions of share issuances. At the general meeting of shareholders held on April 25, 2001, our Supervisory Board was delegated this authority for a period of five years.

The general meeting of shareholders, upon proposal by the Supervisory Board, also has the power to limit or exclude preemptive rights in connection with new issuances of shares. Such a resolution of the general meeting of shareholders requires the approval of at least two-thirds of the votes cast at a general meeting of shareholders at which at least 50% of the outstanding share capital is present or represented. The general meeting of shareholders may authorize our Supervisory Board, for a period of no more than five years, to limit or exclude preemptive rights. At the general meeting of shareholders held on April 25, 2001, our Supervisory Board was delegated this authority for a period of five years.

#### Acquisition of Shares

We may acquire shares, subject to certain provisions of Dutch law and of our articles of association, if and to the extent that (i) the shareholders' equity less the payment required to make the acquisition does not fall below the sum of the paid-up and called-up portion of the share capital and any reserves required by Dutch law and (ii) the aggregate nominal value of shares that we or our subsidiaries acquire, hold or hold in pledge would not exceed one-tenth of our issued share capital. Share acquisitions may be effected by our Managing Board, subject to the approval of our Supervisory Board, only if the general meeting of shareholders has authorized the Managing Board to effect such repurchases, which authorization may apply for a maximum period of 18 months. We may not vote shares we hold. Our articles of association have been amended effective as of May 5, 2000 by the general annual meeting on April 26, 2000 to provide that we shall be able to acquire shares in our own share capital in order to transfer these shares under employee stock option or stock purchase plans, without an authorization of the general meeting of shareholders being required.

#### Capital Reduction

Upon proposal by our Supervisory Board, the general meeting of shareholders may resolve to reduce our issued share capital by canceling shares held by us or by reducing the nominal value of shares, subject to certain statutory provisions. Upon proposal by our Supervisory Board, the general meeting of shareholders also may cancel all preference shares against payment of the amount paid up on those shares, subject to certain statutory provisions.

#### Amendment of the Articles of Association

The articles of association may be amended if amendments are proposed by our Supervisory Board and approved by a simple majority of the votes cast at a general meeting of shareholders at which at least one-third of the outstanding share capital is present or represented. The complete proposal for the amendment must be made available for inspection by the shareholders and the other persons entitled to attend general meetings of shareholders at our offices as from the day of the notice convening such meeting until the end of the meeting. Any amendment of the articles of association that negatively affects the rights of the holders of a certain class of shares, requires the prior approval of the meeting of holders of such class of shares.

#### Managing Board

Responsibility for our management lies with our Managing Board. Our Managing Board consists of such number of members as resolved by the general meeting of shareholders upon the proposal of the Supervisory Board.

The members of the Managing Board are appointed for three-year terms by the general shareholders' meeting. Our Supervisory Board appoints one of the members of the Managing Board to be chairman of the Managing Board. The remuneration and other conditions of employment of the members of the Managing Board are determined by the Supervisory Board.

The Managing Board and each member of the Managing Board is authorized to represent us. Resolutions of our Managing Board require the approval of a majority of its members. Under the articles of association, the Managing Board is required to obtain prior approval from the Supervisory Board for:

- o all proposals to be submitted to a vote at the general meeting of the shareholders,
- o the formation of all companies, acquisition or sale of any participation and the entering into of any joint venture or participation agreement,
- o all of our multi-annual plans and the budget for the upcoming year, covering investment policy, policy regarding research and development, as well as commercial policy and objectives, general financial policy and policy regarding personnel, and
- o 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 in a resolution adopted by it to that effect. The Supervisory Board has, by resolution, specified additional resolutions of the Managing Board that require its approval.

In addition, under the articles of association, our Managing Board must obtain prior approval from the general meeting of shareholders for decisions relating to:

- o the sale of all or of an important part of our assets or business enterprise(s), and
- o the entering into of mergers, acquisitions or joint ventures that the Supervisory Board considers of material significance.

The general meeting of shareholders may by resolution specify additional resolutions that require its approval.

The general meeting of shareholders may suspend or dismiss one or more members of the Managing Board at a meeting at which at least one-half of the outstanding share capital is present or represented. A quorum of one-third is required if a suspension or dismissal is proposed by the Supervisory Board. The Supervisory Board may suspend members of the Managing Board, but a general meeting of shareholders must be convened within three months after such suspension to confirm or reject the suspension.

#### Supervisory Board

Our Supervisory Board advises our Managing Board and is responsible for supervising the policies pursued by the Managing Board and the general course of our affairs. In addition, certain resolutions by the Managing Board require the prior approval of the Supervisory Board, and the Supervisory Board may by resolution specify additional resolutions that require such approval. Resolutions of the Supervisory Board require the approval of three-quarters of its members. In fulfilling their duties, members of the Supervisory Board must serve our interests.

The members of the Supervisory Board are appointed by the general meeting of shareholders. The general meeting of shareholders, upon proposal of the Supervisory Board, determines the number of the members of the Supervisory Board, provided that there shall always be at least six supervisory directors. The remuneration of the members of the Supervisory Board is determined by the general meeting of shareholders. The general meeting of shareholders may dismiss or suspend the members of the Supervisory Board with a simple majority vote.

Each member of the Supervisory Board must resign no later than three years after he has been appointed, but may offer himself for re-election following the expiry of his term of office. Each member of the Supervisory Board must retire at the annual general meeting of shareholders held in the financial year in which he reaches the statutory maximum age of members of the Supervisory Board (currently 72 years).

#### Disclosure of Holdings

Under the Dutch Act on Disclosure of Holdings in listed companies ("Wet melding zeggenschap in ter beurze genoteerde vennootschappen 1996"), registered shareholders and beneficial owners must promptly notify us and the Securities Board of The Netherlands established in Amsterdam if their holding in us reaches, exceeds or falls below 5%, 10%, 25%, 50% or 66% of the capital interest and/or voting rights, including rights to acquire capital interest and/or voting rights, of us. Failure to comply constitutes a criminal offense and could result in criminal as well as civil sanctions, including suspension of voting rights and the right to acquire the same. We must in turn

inform the Conseil des Marchés Financiers of all such notifications provided by registered shareholders and beneficial owners to us.

#### Limitations on Right to Hold or Vote Shares

There are currently no limitations imposed by Dutch law or by the articles of association on the right of non-resident holders to hold or vote the shares.

#### Exchange controls

None.

#### Taxation

##### Certain Dutch tax consequences for holders of Common Shares

Following is a summary of the principal Dutch tax consequences of the ownership and disposition of Common Shares.

It applies only to a holder of Common Shares who is neither resident nor deemed to be resident in The Netherlands for Dutch tax purposes and, in the case of an individual, has not elected to be treated as a resident of The Netherlands for Dutch income tax purposes (a "Non-Resident Shareholder"). The summary does not apply to any Non-Resident Shareholder who is or has been or is deemed to be or has been deemed to be an employee of us or of any entity related to us.

It is a general summary that does not discuss every aspect of Dutch taxation that may be relevant to a Non-Resident Shareholder, for instance if such holder is subject to special circumstances or if such holder is subject to special treatment under applicable law. This summary assumes that we are organized and that our business will be conducted in the manner outlined in this annual report on Form 20-F. Changes in our organizational structure or the manner in which we conduct our business may invalidate the contents of this summary. Furthermore, this summary assumes that each transaction with respect to Common Shares is at arm's length.

Unless stated otherwise, this summary is based on Dutch tax laws in effect as of the date of this annual report on Form 20-F. These laws are subject to change, which changes may have retroactive effect. A change to such laws may invalidate the contents of this summary. This summary will not be updated to reflect changes in laws.

EACH INVESTOR SHOULD CONSULT HIS PROFESSIONAL TAX ADVISOR REGARDING THE PARTICULAR TAX CONSEQUENCES OF HIS OWNING AND DISPOSING OF COMMON SHARES.

#### Withholding tax

Dividends we distribute to Non-Resident Shareholders are generally subject to a withholding tax imposed by The Netherlands at a rate of 25%. The concept "dividends we distribute," as used in this summary, includes (but is not limited to) the following:

- (i) distributions in cash or in kind, deemed and constructive distributions, and repayments of capital not recognized as paid-in for Dutch 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 us in excess of the average capital recognized as paid-in for Dutch dividend withholding tax purposes;
- (iii) the par value of 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 Dutch dividend withholding tax purposes, has been made or will be made; and
- (iv) partial repayment of capital, recognized as paid-in for Dutch dividend withholding tax purposes, if and to the extent that there are net profits (zuivere winst), unless (a) the general meeting of our shareholders has resolved in advance to make such repayment and (b) the par value of the



Common Shares concerned has been reduced by an equal amount by way of an amendment of our articles of association.

If a Non-Resident Shareholder is resident in a country with which The Netherlands has concluded a double taxation treaty that is in effect, such Non-Resident Shareholder may be eligible for a full or partial relief from the Dutch dividend withholding tax provided that such relief is duly claimed. Legislation is in force, but not effective, pursuant to which withholding tax will only be creditable or refundable to the beneficial owner of dividends we distribute. The Dutch tax authorities have taken the position that the beneficial ownership test can also be applied to deny relief from Dutch dividend withholding tax under double taxation treaties. Following consultations with the Dutch financial sector, the Dutch government has announced its intention to submit a new legislative proposal on the subject of beneficial ownership of dividends. The intention is that this new legislation will take effect retroactively to April 27, 2001.

We are not required to withhold dividend tax from a dividend we distribute to a Non-Resident Shareholder, who is resident in the Netherlands Antilles or Aruba or in a member state of the European Union or in a country that has concluded a double taxation treaty with The Netherlands, to the extent that the temporary special distribution tax, discussed below in the section "Distribution tax," applies to the distribution.

#### Dutch -- U.S. double taxation treaty

Under the Dutch -- United States double taxation treaty of December 18, 1992 (the "Dutch -- U.S. Treaty"), the dividend withholding tax rate on dividends we distribute in respect of Common Shares held by a resident of the United States who is entitled to the benefits of the Dutch -- U.S. Treaty will generally be reduced to 15%. As a rule, if the 15% rate is applicable under the Dutch -- US Treaty, we may apply this rate at source if, at the payment date, the relevant shareholders have submitted a duly signed form IB 92 USA. Only where the person entitled to relief has not been able to claim the relief at source, will he be entitled to a refund of the excess tax withheld. In that case he should as yet file a form IB 92 USA and state the circumstances that prevented him from claiming relief at source.

Dividends paid by us to qualifying U.S. pension funds and qualifying U.S. exempt organizations may be eligible for full relief of the Dutch dividend withholding tax.

#### Distribution tax

We are subject to a temporary special distribution tax at a rate of 20% to the extent that dividends we distribute during the period from January 1, 2001 up to and including December 31, 2005 are classified as "excessive." For purposes of this distribution tax, dividends we distribute are considered to be "excessive" to the extent that during a particular calendar year the total thereof exceeds the highest of the following three amounts:

- (i) 4% of our market capitalization at the beginning of the relevant calendar year;
- (ii) twice the amount of the average annual dividends (exclusive of extraordinary distributions) that we distributed in the three calendar years immediately preceding January 1, 2001; and
- (iii) our consolidated commercial result for the preceding book year, subject to certain adjustments.

See the section "Withholding tax" for a discussion of the concept "dividends we distribute."

The special distribution tax will not be levied if and to the extent the aggregate amount of dividends we distribute during the period from January 1, 2001 up to and including December 31, 2005 exceeds the fair market value of our assets ending on December 31, 2000, net of liabilities and provisions and reduced by our paid-in capital.

The special distribution tax will be reduced in proportion to the percentage of our shares that were held, at the time of the "excessive" distribution, during an uninterrupted period of three years, by individuals or entities (other than investment institutions (beleggingsinstellingen) as defined in the Dutch Corporate Income Tax Act 1969) holding at least 5% of our nominal paid-in capital, provided such shareholders are resident in The Netherlands, the Netherlands Antilles or Aruba, or in a member state of the European Union, or in a country that has concluded a double taxation treaty with The Netherlands. In that connection, shares that have been held since September 14, 1999 are deemed to have been held during an uninterrupted period of three years. The special distribution tax is not

a withholding tax; it is imposed directly on us. Therefore, if it is reduced because there are shareholders who own at least 5% of our paid-in capital, we will receive the benefit of the reduction and it will inure indirectly to all of our shareholders, not only to the shareholders whose shareholdings caused the reduction to apply.

## Taxes on income and capital gains

### Individuals

A Non-Resident Shareholder who is an individual will not be subject to any Dutch taxes on income or capital gains in respect of dividends we distribute (other than the withholding tax described above) or in respect of any gain realized on the disposal of Common Shares, unless:

- (i) such holder derives profits from an enterprise, whether as an entrepreneur (ondernemer) or pursuant to a co-entitlement to the net worth of such enterprise (other than as an entrepreneur or a shareholder), which enterprise is, in whole or in part, carried on through a permanent establishment or a permanent representative in The Netherlands and such holder's Common Shares are attributable to that enterprise, or
- (ii) such holder derives benefits from Common Shares that are taxable as benefits from miscellaneous activities in The Netherlands (resultaat uit overige werkzaamheden in Nederland), or
- (iii) such holder's Common Shares form part or are deemed to form part of a substantial interest (aanmerkelijk belang) in us that does not form part of the assets of an enterprise.

See the section "Withholding tax" for a discussion of the concept "dividends we distribute."

A Non-Resident Shareholder who is an individual may, inter alia, derive benefits from Common Shares that are taxable as benefits from miscellaneous activities in The Netherlands:

- (i) if the investment activities of such individual go beyond the activities of an active portfolio investor, for instance in case of the use of insider knowledge (voorkennis) or comparable forms of special knowledge; or
- (ii) if such individual makes Common Shares available or is deemed to make Common Shares available, legally or in fact, directly or indirectly, to certain connected individuals, associations or entities.

The holder of Common Shares has a substantial interest in us if such holder - alone or together with his partner (partner) - has, directly or indirectly, the ownership of, or certain rights, for instance a right of usufruct, over shares of us representing 5% or more of our total issued and outstanding capital (or the issued and outstanding capital of any class of shares), or rights to acquire, directly or indirectly, shares, whether or not already issued, that represent at any time 5% or more of our total issued and outstanding capital (or the issued and outstanding capital of any class of shares) or the ownership of, or certain rights, for instance a right of usufruct, over profit participating certificates (winstbewijzen) that relate to 5% or more of our annual profit or to 5% or more of our liquidation proceeds. If a holder of Common Shares has a substantial interest pursuant to the previous sentence, his Common Shares form part of a substantial interest. Furthermore, the holder's Common Shares form part of a substantial interest in us if such holder's partner or any of the relatives by blood or by marriage in the direct line (including foster-children) of the holder or of his partner holds shares that form part of, or are deemed to form part of, a substantial interest in us. Finally, if a holder's Common Shares do not form part of a substantial interest pursuant to the two previous sentences, they may be deemed to form part of a substantial interest in us if they have been acquired or are deemed to have been acquired by such holder under a non-recognition provision.

### Entities

A Non-Resident Shareholder who is (a) a legal person, or (b) a partnership or other form of association without legal personality that has a capital that is wholly or partly divided into shares, or (c) a trust or a form of co-investment (doelvermogen) or a similar legal form that is for Dutch purposes taxable as a corporation, will not be subject to any Dutch taxes on income or capital gains in respect of any payment under the Common Shares or in respect of any gain realized on the disposal of Common Shares, provided that the following two conditions are satisfied.

(i) All of the following are true:

- such holder derives profits from an enterprise, whether as an entrepreneur (ondernemer) or pursuant to a co-entitlement to the net worth of such enterprise (other than as an entrepreneur or a shareholder), which enterprise is, in whole or in part, carried on through a permanent establishment or a permanent representative in the Netherlands;
- such holder's Common Shares are attributable to that enterprise; and
- the benefits derived from such holder's Common Shares are not exempt under the participation exemption (as laid down in the Dutch Corporate Income Tax Act 1969).

(ii) If such holder's Common Shares form part or are deemed to form part of a substantial interest (aanmerkelijk belang) in us, these Common Shares form part of the assets of an enterprise.

See the section "Taxes on income and capital gains - Individuals" for a discussion of the concept "substantial interest in us."

#### Gift and inheritance taxes

No gift tax or inheritance taxes will arise in The Netherlands with respect to an acquisition of Common Shares by way of a gift by, or on the death of, a Non-Resident Shareholder, unless:

- (i) such 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 or were attributable; or
- (ii) in the case of a gift of Common Shares by an individual who at the time of the gift was a Non-Resident Shareholder, such individual dies within 180 days after the date of the gift, while (at the time of his death) being resident or deemed to be resident in The Netherlands.

For purposes of Dutch gift and inheritance tax, an individual who holds Dutch nationality will be deemed to be resident in The Netherlands if he has been resident in The Netherlands at any time during the ten years preceding the date of the gift or his death. For purposes of Dutch gift tax, an individual not holding Dutch nationality will be deemed to be resident in The Netherlands if he has been resident in The Netherlands at any time during the twelve months preceding the date of the gift.

#### Other taxes and duties

No Dutch registration tax, transfer tax, stamp duty or any other similar documentary tax or duty will be payable in The Netherlands in respect of or in connection with the delivery of the Common Shares.

#### United States Taxation

The following discussion is a summary of certain U.S. federal income tax consequences of the ownership and disposition of Common Shares by you if you are a U.S. Holder, as defined below. This summary applies to you only if you are a beneficial owner of Common Shares (a) who owns, directly or indirectly, less than 10% of our voting stock, (b) who is (i) an individual citizen or resident of the United States for U.S. federal income tax purposes, (ii) a U.S. domestic corporation, (iii) an estate whose income is subject to U.S. federal income taxation regardless of its source, or (iv) a trust if a court within the United States is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all of the substantial decisions of the trust, (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, investors are advised to consult their own tax advisors with respect to the U.S. federal, state, local and applicable foreign tax consequences of the ownership and disposition of Common Shares.

This summary is based on the Internal Revenue Code of 1986, as amended 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 us with respect to the Common Shares (including the amount of any Netherlands taxes withheld therefrom) will generally be includable in your gross income in the year received as foreign source dividend income to the extent that such distributions are paid out of our 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 our current or accumulated earnings and profits, it will be treated first as a tax-free return of your 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 us. 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 your U.S. federal income tax liability. Under current Dutch law, we, 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 us. To the extent that we have withheld an amount from dividends paid to shareholders which we then are 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. We will endeavor to provide to you information concerning the extent to which we have applied the reduction described above to dividends paid to you. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, dividends distributed by us 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. If you do not elect to claim a foreign tax credit you may instead claim an itemized 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, you will recognize capital gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the amount realized and your tax basis in such Common Shares. Any such gain or loss, if any, will generally be U.S. source gain or loss and will be treated as long-term gain or loss if your holding period in the Common Shares exceeds one year. If you are 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. The deductibility of capital losses is subject to significant limitations.

#### 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. U.S. persons who are required to establish their exempt status generally must provide such certification on IRS Form W-9 ("Request for Taxpayer Identification Number and Certification"). Non-U.S. holders generally are not subject to U.S. information reporting or backup withholding. However, such holders may be required to provide certification of non-U.S. status in connection with payments received in the United States or through U.S.-related financial intermediaries. Finalized Treasury regulations have

generally expanded the circumstances under which U.S. information reporting and backup withholding may apply. Holders of Common Shares should consult their tax advisors regarding the application of the U.S. information reporting and backup withholding rules, including the finalized Treasury regulations.

Backup withholding is not an additional tax. 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.

Documents on display

The documents filed by us with the U.S. Securities and Exchange Commission can be read at its public reference facilities at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549.

#### ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to changes in financial market conditions in the normal course of business due to our operations in different foreign currencies and our ongoing investing and financing activities. Market risk is the uncertainty to which future earnings or asset/liability values are exposed due to operating cash flows denominated in foreign currencies and various financial instruments used in the normal course of operations. We have established policies, procedures and internal processes governing our management of market risks and the use of financial instruments to manage our exposure to such risks.

We are exposed to changes in interest rates primarily as a result of our borrowing activities which include long-term debt used to fund business operations. We borrow in U.S. dollars as well as in other currencies from banks and other sources. We primarily enter into debt obligations to support general corporate and local purposes including capital expenditures and working capital needs. The nature and amount of our long-term debt can be expected to vary as a result of future business requirements, market conditions, and other factors. The principal interest rate risks to which we are exposed relate to our investment portfolio and long-term debt obligations. We primarily utilize fixed-rate debt and do not expect changes in interest rates to have a material effect on income or cash flows in 2001.

The functional currency of our subsidiaries is generally the local currency. Our operating cash flows are denominated in various foreign currencies as a result of our international business activities and certain of our borrowings are exposed to changes in foreign exchange rates. We continually evaluate our foreign currency exposure based on current market conditions and the business environment. In order to mitigate the impact of changes in foreign currency exchange rates, we enter into forward exchange contracts. The magnitude and nature of such activities are explained further in Note 22 to the Consolidated Financial Statements.

We place our cash and cash equivalents with high credit quality financial institutions. We manage the credit risks associated with financial instruments through credit approvals, investment limits and centralized monitoring procedures but do not normally require collateral or other security from the parties to the financial instruments with off-balance sheet risk. We are averse to principal loss and manage the safety and preservation of our invested funds by limiting default risk, market risk and reinvestment risk.

We enter into forward contracts and foreign currency options to protect against the volatility of foreign currency exchange rates and to cover a portion of both our 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 date the contract is made until the time it is settled.

Forward contracts outstanding as of December 31, 2000 have remaining terms of one to 3 months, which matured mainly during the first quarter of 2001. The notional amounts of foreign exchange forward contracts totaled \$780.4 million at December 31, 2000, and \$611.6 million at December 31, 1999. The principal currencies covered are the U.S. dollar, the euro, the Italian lira, the Japanese yen and the Swiss franc.

We do not anticipate any material adverse effect on our financial position, result of operations or cash flows resulting from the use of our 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. We do not use financial instruments for speculative or trading purposes.

The information below summarizes our market risks associated with cash equivalents, debt obligations, and other significant financial instruments as of December 31, 2000. The information below should be read in conjunction with Notes 4, 14 and 22 to the Consolidated Financial Statements.

The table below presents principal amounts and related weighted-average interest rates by year of maturity for our investment portfolio and debt obligations (in thousands of U.S. dollars, except percentages):

	2001	2002	2003	2004	2005	Thereafter	TOTAL	Fair value at December 31, 2000
	-----	-----	-----	-----	-----	-----	-----	-----
Assets:								
Cash equivalents....	2,295,703						2,295,703	2,295,703
Average interest rate	6.57%						6.57%	
Long-term debt:								
Fixed rate.....	105,972	111,572	84,457	57,555	47,492	2,339,406	2,806,454	3,325,678
Average interest rate	5.72%	6.01%	5.91%	5.45%	5.01%	3.26%	3.62%	

Amounts in thousands  
of U.S. dollars

Long-term debt by currency as of December 31, 2000:	
U.S. dollar.....	2,445,569
Italian lira.....	128,398
French franc.....	199,593
Other currencies.....	32,894
TOTAL in U.S. dollars.....	2,806,454
	=====

Amounts in thousands  
of U.S. dollars

Long-term debt by currency as of December 31, 1999:	
U.S. dollar.....	1,157,366
Italian lira.....	192,432
French franc.....	82,993
Other currencies.....	12,355
TOTAL in U.S. dollars.....	1,445,146
	=====

The following table provides information about our foreign exchange forward contracts at December 31, 2000 (in thousands of U.S. dollars):

Buy	Sell	Notional Amount	Average Contractual Forward Exchange Rate	Fair Value
-----	-----	-----	-----	-----
Foreign currency forward exchange contracts to buy U.S. dollars for foreign currencies:				
U.S. dollar.....	Euro	273,082	0.89	(12,772)
U.S. dollar.....	French franc	25,000	7.30	(845)
U.S. dollar.....	Italian lira	96,112	1,738.98	18,779
U.S. dollar.....	Malaysian ringgit	106,063	3.79	206
U.S. dollar.....	Singapore dollar	94,360	1.73	(11)
		-----		
Total.....		594,617		5,357
		=====		=====
Foreign currency forward exchange contracts to buy euro for foreign currencies:				
Euro.....	Malaysian ringgit	5,155	3.25	415
Euro.....	U.S. dollar	60,000	0.85	6,121
		-----		-----
Total.....		65,155		6,536
		=====		=====
Foreign currency forward exchange contracts to buy Japanese yen for foreign currencies:				
Japanese yen.....	Euro	26,108	101.51	(1,465)
Japanese yen(1)....	French franc	12,619	7.08	(1,959)
Japanese yen.....	Malaysian ringgit	3,684	0.03	(71)
		-----		-----
Total.....		42,411		(3,495)
		=====		=====
Foreign currency forward exchange contracts to buy Swiss francs for foreign currencies:				
Swiss franc.....	Euro	1,833	1.52	(6)
Swiss franc.....	French franc	2,138	4.36	(26)
Swiss franc.....	U.S. dollar	31,765	1.67	771
		-----		---
Total.....		35,736		739
		=====		===
Foreign currency forward exchange contracts to buy Singapore dollars for foreign currencies:				
Singapore dollar...	Euro	418	1.61	(2)
Singapore dollar...	Japanese yen	21,035	0.02	323
		-----		---
Total.....		21,453		321
		=====		===
Foreign currency forward exchange contracts to buy French francs for foreign currencies:				
French franc.....	U.S. dollar	15,000	7.79	1,551
		-----		-----
Total.....		15,000		1,551
		=====		=====
Foreign currency forward exchange contracts to buy Swedish kroners for foreign currencies:				
Swedish kroner.....	U.S. dollar	4,560	9.49	7
		-----		-
Total.....		4,560		7
		=====		=
Foreign currency forward exchange contracts to buy British pounds for foreign currencies:				
British pound.....	French franc	1,491	11.06	(73)
		-----		-----
Total.....		1,491		(73)
		=====		=====
TOTAL.....		780,423		10,943
		=====		=====

(1) Forward exchange rate for 100 Japanese yen.

The following table provides information about our foreign exchange forward contracts at December 31, 1999 (in thousands of U.S. dollars):

Buy	Sell	Notional Amount	Average Contractual Forward Exchange Rate	Fair Value
Foreign currency forward exchange contracts to buy U.S. dollars for foreign currencies:				
U.S. dollar.....	Euro	50,373	1.02	(943)
U.S. dollar.....	British pound	34,790	1.62	61
U.S. dollar.....	Italian lira	144,066	1,785.35	8,062
U.S. dollar.....	Malaysian ringgit	131,760	3.79	185
Total.....		360,989		7,365
Foreign currency forward exchange contracts to buy Singapore dollars for foreign currencies:				
Singapore dollar...	Euro	4,968	1.68	31
Singapore dollar...	Japanese yen (1)	36,186	1.61	(410)
Singapore dollar...	U.S. dollar	77,600	1.66	180
Total.....		118,754		(199)
Foreign currency forward exchange contracts to buy French francs for foreign currencies:				
French franc.....	U.S. dollar	43,000	6.43	(547)
Total.....		43,000		(547)
Foreign currency forward exchange contracts to buy Japanese yen for foreign currencies:				
Japanese yen.....	Euro	19,558	104.92	460
Japanese yen(1)....	French franc	17,015	6.16	696
Total.....		36,573		1,156
Foreign currency forward exchange contracts to buy euro for foreign currencies:				
Euro.....	Malaysian ringgit	781	3.85	(2)
Euro.....	U.S. dollar	23,000	1.02	379
Total.....		23,781		377
Foreign currency forward exchange contracts to buy Swiss francs for foreign currencies:				
Swiss franc.....	French franc	2,706	4.09	(2)
Swiss franc.....	U.S. dollar	16,345	1.58	(236)
Total.....		19,051		(238)
Foreign currency forward exchange contracts to buy Swedish kroners for foreign currencies:				
Swedish kroner.....	U.S. dollar	7,000	8.43	(56)
Total.....		7,000		(56)
Foreign currency forward exchange contracts to buy British pounds for foreign currencies:				
British pound.....	French franc	2,419	10.19	81
Total.....		2,419		81
TOTAL.....		611,567		7,939

(1) Forward exchange rate for 100 Japanese yen.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.



PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

None.

ITEM 15. [RESERVED]

ITEM 16. [RESERVED]

PART III

ITEM 17. FINANCIAL STATEMENTS

Not applicable.

ITEM 18. FINANCIAL STATEMENTS

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ITEM 19. EXHIBITS

1.1 Articles of Association, as amended as of May 5, 2000, of  
STMicroelectronics N.V. (incorporated by reference to the Annual Report on Form  
20-F for the year ended December 31, 1999, as filed with the Commission on June  
27, 2000)

4.1 Indenture, dated as of November 16, 2000, among STMicroelectronics  
N.V. as issuer and The Bank of New York, as Trustee, of our Zero Coupon Senior  
Convertible Bonds due 2010

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

10.1 Consent of PricewaterhouseCoopers N.V.

CERTAIN TERMS

ADSL.....asymmetrical digital subscriber line  
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  
CDMA.....code division multiple access  
CIM.....computer integrated manufacturing  
CMOS.....complementary metal oxide silicon  
DMOS.....diffused metal oxide silicon  
DRAMs.....dynamic random access memory  
DSP.....digital signal processor  
EMAS.....the Eco-Management and Audit Scheme (EAMS)  
is the voluntary European Community scheme  
for companies performing industrial  
activities for the evaluation and  
improvement of environmental performance  
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  
JavaCard(TM)applets.....application software for smartcard developed  
on Java platform  
Java.....operating system developed by Sun Microsystems.  
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  
TAM.....total available market  
VLSI.....very large scale integration  
VDSL.....very high-bit rate digital subscriber line  
VoIP.....voice over Internet protocol  
WCDMA.....wide-band CDMA

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

STMICROELECTRONICS N.V.

Date: May 15, 2001

By: /s/ Pasquale Pistorio

-----  
Name: Pasquale Pistorio  
Title: President and  
Chief Executive Officer

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Supervisory Board and Shareholders of  
STMicroelectronics N.V:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of cash flows and of changes in shareholder's equity present fairly, in all material respects, the financial position of STMicroelectronics N.V. and its subsidiaries at December 31, 2000 and December 31, 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 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 auditing standards generally accepted 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 our opinion.

/s/ PricewaterhouseCoopers N.V.

PricewaterhouseCoopers N.V.  
Amsterdam, The Netherlands  
February 1, 2001

STMicroelectronics N.V.  
CONSOLIDATED STATEMENT OF INCOME

In thousands of U.S. dollars except per share amounts	Year ended		
	December 31, 1998	December 31, 1999	December 31, 2000
Net sales	4,210,618	5,023,109	7,764,404
Other revenues	37,134	33,167	48,799
Net revenues	4,247,752	5,056,276	7,813,203
Cost of sales	(2,622,943)	(3,054,476)	(4,216,921)
Gross profit	1,624,809	2,001,800	3,596,282
Selling, general and administrative	(488,072)	(534,178)	(703,675)
Research and development	(689,785)	(835,964)	(1,026,348)
Other income and expenses	76,458	39,840	(83,533)
Operating income	523,410	671,498	1,782,726
Net interest income	8,691	35,624	46,703
Income before income taxes and minority interests	532,101	707,122	1,829,429
Income tax expense	(120,351)	(157,214)	(375,119)
Income before minority interests	411,750	549,908	1,454,310
Minority interests	(629)	(2,656)	(2,207)
Net income	411,121	547,252	1,452,103
Earnings per share (Basic)	0.49	0.64	1.64
Earnings per share (Diluted)	0.48	0.62	1.58

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

STMicroelectronics N.V.  
CONSOLIDATED BALANCE SHEET

	As at	
In thousands of U.S. dollars	December 31, 1999	December 31, 2000
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	1,823,086	2,295,703
Marketable securities	--	35,155
Trade accounts and notes receivable	913,282	1,496,446
Inventories	619,402	876,476
Other receivables and assets	435,784	554,035
<b>Total current assets</b>	<b>3,791,554</b>	<b>5,257,815</b>
Intangible assets, net	179,947	286,121
Property, plant and equipment, net	3,873,019	6,201,071
Investments and other non-current assets	85,783	135,488
<b>Total assets</b>	<b>7,930,303</b>	<b>11,880,495</b>
<b>Liabilities and shareholders' equity</b>		
<b>Current liabilities</b>		
Bank overdrafts	26,471	35,599
Current portion of long-term debt	96,669	105,972
Trade accounts and notes payable	998,881	1,745,553
Other payables and accrued liabilities	381,845	509,165
Accrued and deferred income tax	189,308	299,638
<b>Total current liabilities</b>	<b>1,693,174</b>	<b>2,695,927</b>
Long-term debt	1,348,477	2,700,482
Reserves for pension and termination indemnities	108,294	110,244
Other non-current liabilities	191,660	216,235
<b>Total liabilities</b>	<b>3,341,605</b>	<b>5,722,888</b>
<b>Commitments and contingencies</b>		
Minority interests	24,757	32,958
Common stock	1,112,680	1,133,739
Capital surplus	1,395,307	1,689,824
Accumulated result	2,551,817	3,977,316
Accumulated other comprehensive income	(495,863)	(676,230)
<b>Shareholders' equity</b>	<b>4,563,941</b>	<b>6,124,649</b>
<b>Total liabilities and shareholders' equity</b>	<b>7,930,303</b>	<b>11,880,495</b>

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



STMicroelectronics N.V.  
CONSOLIDATED STATEMENT OF CASH FLOWS

In thousands of U.S. dollars	Year ended		
	December 31, 1998	December 31, 1999	December 31, 2000
<b>Cash flows from operating activities:</b>			
Net income	411,121	547,252	1,452,102
Add (deduct) non-cash items:			
Depreciation and amortization	704,004	806,789	1,108,180
Amortization of discount on convertible debt	4,657	12,576	29,077
Other non-cash items	5,240	4,285	10,133
Minority interest in net income of subsidiaries	629	2,656	2,207
Deferred taxes	34,333	28,711	(4,535)
Changes in assets and liabilities:			
Trade accounts and notes receivable	(115,879)	(164,564)	(631,049)
Inventories	(18,807)	(38,340)	(299,993)
Trade accounts and notes payable	45,982	208,899	579,436
Other assets and liabilities, net	(58,733)	61,018	186,214
<b>Net cash provided by operating activities</b>	<b>1,012,547</b>	<b>1,469,282</b>	<b>2,431,772</b>
<b>Cash flows from investing activities:</b>			
Payment for purchases of tangible assets	(947,253)	(1,347,537)	(3,317,600)
Other investing activities	(18,997)	(190,290)	(249,543)
<b>Net cash used in investing activities</b>	<b>(966,250)</b>	<b>(1,537,827)</b>	<b>(3,567,143)</b>
<b>Cash flows from financing activities:</b>			
Proceeds from issuance of long-term debt	424,955	756,836	1,661,202
Repayment of long-term debt	(72,396)	(48,080)	(87,223)
Increase (decrease) in short-term facilities	(233,261)	(110,308)	30,665
Capital increase	233,334	230,437	38,175
Dividends paid	--	(22,848)	(26,603)
<b>Net cash provided by financing activities</b>	<b>352,632</b>	<b>806,037</b>	<b>1,616,216</b>
Effect of changes in exchange rates	(334)	(15,158)	(8,228)
<b>Net cash increase</b>	<b>398,595</b>	<b>722,334</b>	<b>472,617</b>
Cash and cash equivalents at beginning of the period	702,157	1,100,752	1,823,086
<b>Cash and cash equivalents at end of the period</b>	<b>1,100,752</b>	<b>1,823,086</b>	<b>2,295,703</b>

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

STMicroelectronics N.V.  
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

In thousands of U.S. dollars, except per share amounts

	Common Stock	Capital Surplus	Accumulated Result	Accumulated Other Comprehensive Income (Loss)	Shareholders' Equity
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
Capital increase	15,937	259,781			275,718
Comprehensive income:					
Net Income			547,252		547,252
Other comprehensive loss, net of tax				(319,491)	(319,491)
Comprehensive income					227,761
Dividends, \$0.027 per share			(22,848)		(22,848)
Balance as of December 31, 1999	1,112,680	1,395,307	2,551,817	(495,863)	4,563,941
Capital increase	21,059	294,517			315,576
Comprehensive income:					
Net Income			1,452,103		1,452,103
Other comprehensive loss, net of tax				(180,367)	(180,367)
Comprehensive income					1,271,736
Dividends, \$0.03 per share			(26,604)		(26,604)
Balance as of December 31, 2000	1,133,739	1,689,824	3,977,316	(676,230)	6,124,649

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

(In thousands of U.S. dollars, except per share amounts)

1. 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 designs, develops, manufactures and markets a broad range of semiconductor integrated circuits and discrete devices that are used in a wide variety of microelectronic applications.

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

At December 31, 2000, the Company was 43.77% (December 31, 1999: 44.80%) owned by STMicroelectronics Holding II B.V., and 56.23% by the public (December 31, 1999: 55.20%).

At December 31, 1999, and at December 31, 2000, STMicroelectronics Holding II B.V. was 100% owned by STMicroelectronics Holding N.V.

At December 31, 1999, 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 Finmeccanica, an Italian holding company, whose shareholders are Istituto per la Ricostruzione Industriale S.p.a. (I.R.I.) (54.2%), the Italian Ministry of Treasury (28.9%) and the public (16.9%).

At December 31, 2000, 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 Finmeccanica, an Italian holding company, whose shareholders are Istituto per la Ricostruzione Industriale S.p.a. (I.R.I.) (5.0%), the Italian Ministry of Treasury (32.4%) and the public (62.6%).

2. 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 (U.S. GAAP).

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

2.2) Use of estimates

The preparation of financial statements in accordance with U.S. 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.

2.3) Foreign currency

The U.S. 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 U.S. dollars exceed revenues in any other currency.

STMICROELECTRONICS 1.V.  
Notes to consolidated financial statements

(In thousands of U.S. dollars, except per share amounts)

The functional currency of 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 from local functional currencies 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 conducts its business on a global basis in various major international currencies. As a result, it is exposed to adverse movements in foreign currency exchange rates.

The Company utilizes foreign exchange forward contracts and currency options to cover foreign currency exposure. For the forward contracts and currency options that are considered identifiable hedges, recognition of gains and losses is deferred until settlement of the underlying commitments. Realized gains and losses are recorded as other income or expense when the underlying exposure materializes or the hedged transaction is no longer expected to occur. The discount or premium on these forward contracts designated as a hedge, are recorded as an asset or liability and amortized to interest expense over the terms of the contract. For the forward contracts and currency options that are not considered identifiable hedges, recognition of gains and losses is recognized at each reporting period, based on the fair market value of the forward contract. Realized gains or losses are recorded as other income and expense.

#### 2.4) Reclassifications

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

#### 2.5) Income recognition

##### \* Sales

Revenue on sales of semiconductor products is recognized upon transfer of the ownership of the goods at shipment. 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.

##### \* Fundings

Government fundings are recognized as the related costs are incurred, commencing when the fundings' contract is signed with the relevant government department or agency. Government fundings for research and development are included in "other income and expenses". Government fundings for capital expenditures are deducted from the cost of the related fixed assets and reduce depreciation over the assets' remaining estimated useful lives.

##### \* Other revenue

Other revenue consists of co-development contract fees, certain contract indemnity payments and patent royalty income. Other revenue is recognized rateably over the term of the agreement.

In December 1999, the Securities and Exchange Commission released Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB 101"), providing the staff's view on applying generally accepted accounting principles to selected revenue recognition issues. The Company adopted SAB 101 in the fourth quarter of 2000, as required. The adoption of SAB 101 did not have a material effect on the Company's financial position or overall trends in results of operations.

#### 2.6) Advertising costs

Advertising costs are expensed as incurred. Advertising expenses for 1998, 1999 and 2000 were \$16,012, \$21,102 and \$30,421, respectively.

STMICROELECTRONICS N.V.  
Notes to consolidated financial statements

(In thousands of U.S. dollars, except per share amounts)

2.7) 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 other research and development interest groups.

2.8) Start-up costs

Start-up costs incurred in the Company's new manufacturing facilities, before reaching a minimum level of production, are included in "other income and expenses" in the accompanying consolidated statement of income.

2.9) 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 bases 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.

2.10) 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.

2.11) Cash equivalents

All highly liquid investments purchased with an original maturity of ninety days or less are considered to be cash equivalents.

2.12) Marketable securities

Management determines the appropriate classification of debt and equity securities at the time of purchase and reassesses the classification at each reporting date. All marketable securities are classified as available-for-sale and are reported at fair value with net unrealized gains or losses reported as a separate component of comprehensive income in the statement of shareholders' equity. Unrealized losses that are other than temporary are recognized in net income. Gains and losses on securities sold are determined based on the specific identification method and are included in other income and expense.

2.13) 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.

2.14) Intangible assets

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

STMICROELECTRONICS N.V.  
Notes to consolidated financial statements

(In thousands of U.S. dollars, except per share amounts)

2.15) Property, plant and equipment

Property, plant and equipment are stated at cost, net of government fundings. 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.

When property, plant or equipment is retired or otherwise disposed of, the net book value of the asset is removed from the Company's books and the net gain or loss is included in the determination of income.

2.16) 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. The Company also holds certain equity investments constituting less than 20% ownership of the investee. These investments are carried at historical cost. Although the market value of the investments is not readily determinable, management believes the fair value of these investments exceeds their carrying amounts.

For those investments with readily determinable market values, the Company has accounted for those investments as available-for-sale. These investments are reported at fair value with the net unrealized gains or losses reported as a separate component of comprehensive income in the statement of shareholders' equity. Unrealized losses that are other than temporary are recognized in net income.

2.17) 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 benefits provided by the pension plan arrangements. These plans conform with local regulations and practices of the countries in which the Company operates.

2.18) Comprehensive income

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 and the unrealized gain or loss on marketable securities.

2.19) Stock splits

In May 1999, the Company's shareholders approved a two-for-one stock split of the Company's common stock. The record date for the stock split was June 16, 1999, and the distribution date was June 17, 1999. In April 2000, the Company's shareholders approved a three-for-one stock split of the Company's common stock. The record date for the stock split was May 5, 2000, and the distribution date was May 6, 2000. All earnings per share amounts, references to common stock, shareholders' equity amounts and stock option plan data have been restated as if the stock splits had occurred as of the earliest period presented.

2.20) New accounting pronouncements

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133 (FAS 133), "Accounting for Derivative Instruments and Hedging Activities". FAS 133 is required to be adopted for fiscal years beginning after June 15, 2000. 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 has adopted the standards required by this statement in the first quarter of 2001. Management believes that adoption of FAS 133 has not had a material effect on the Company's financial position or results of

operations.

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STMICROELECTRONICS N.V.  
Notes to consolidated financial statements

(In thousands of U.S. dollars, except per share amounts)

3. Consolidated entities

The consolidated financial statements include the accounts of STMICROELECTRONICS N.V. and the following entities as of December 31, 2000:

Legal Seat	Name	Percentage Ownership (Direct or Indirect)
United Kingdom	London	100
	London	100
Canada	Bristol	100
	Nepean	100
Israel	Netania	100
Sweden	Stockholm	100
Germany	Munich	100
Switzerland	Geneva	100
Malta	Malta	100
Spain	Madrid	100
France	Paris	100
	Paris	100
Italy	Milano	100
	Catania	100
	Milano	51
Singapore	Singapore	100
	Singapore	100
Malaysia	Muar	100
	Muar	100
Japan	Tokyo	100
Hong Kong	Hong Kong	100
Australia	Sydney	100
United States	Dallas	100
	Rancho Bernardo	100
	Dallas	100
	La Jolla	100
	Wilsonville	100
Brazil	Sao Paulo	100
Morocco	Casablanca	100
	Casablanca	100
China	Shenzhen	60
	Shenzhen	100
India	New Delhi	100
Finland	Helsinki	100

4. Marketable securities and certain investments

The marketable securities and certain investments had a cost basis of \$31,831 and a fair value of \$42,093 at December 31, 2000. The unrealized gain at December 31, 2000 related to these investments was \$10,262. The Company did not own any marketable securities or investments accounted for at fair value at December 31, 1999. For fiscal years 1998, 1999 and 2000, gross realized gains and losses were \$0, \$0 and \$8,952, respectively.



STMICROELECTRONICS N.V.  
Notes to consolidated financial statements

(In thousands of U.S. dollars, except per share amounts)

5. Trade accounts and notes receivable

Trade accounts and notes receivable consist of the following:

	December 31, 1999	December 31, 2000
Trade accounts and notes receivable	924,872	1,512,270
Less valuation allowance	(11,590)	(15,824)
<b>Total</b>	<b>913,282</b>	<b>1,496,446</b>

During 1998 no customer individually represented over ten percent of consolidated net revenues. In 1999, one customer represented 11.4% of consolidated net revenues and in 2000 one customer represented 13.4% of consolidated net revenues.

6. Inventories

Inventories consist of the following:

	December 31, 1999	December 31, 2000
Raw materials	101,590	88,501
Work-in-process	395,320	588,263
Finished products	122,492	199,712
<b>Total</b>	<b>619,402</b>	<b>876,476</b>

7. Other receivables and assets

Other receivables and assets consist of the following:

	December 31, 1999	December 31, 2000
Receivables from government agencies	152,237	139,418
Taxes and other government receivables	61,523	99,499
Down payment to suppliers	11,394	20,283
Loans to employees	3,557	3,914
Prepaid expenses	17,648	71,800
Sundry debtors	35,053	97,708
Deferred tax assets	73,079	71,651
Other	81,293	49,762
<b>Total</b>	<b>435,784</b>	<b>554,035</b>

Receivables from government agencies relate to research and development contracts, industrialization contracts and capital expenditures.

8. Intangible assets

Intangible assets consist of the following:

	December 31, 1999	December 31, 2000
Goodwill	67,417	116,898
Technologies and licenses	202,560	315,532
Less accumulated amortization	(90,030)	(146,309)
<b>Total</b>	<b>179,947</b>	<b>286,121</b>

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9. Property, plant and equipment

Property, plant and equipment consist of the following:

December 31, 1999	Gross	Depreciation	Net
Land and buildings	616,035	(132,973)	483,062
Machinery and equipment	6,216,830	(3,266,819)	2,950,011
Other tangible fixed assets	321,494	(235,968)	85,526
Construction in progress	354,420	--	354,420
<b>Total</b>	<b>7,508,779</b>	<b>(3,635,760)</b>	<b>3,873,019</b>

December 31, 2000	Gross	Depreciation	Net
Land and buildings	710,456	(144,422)	566,034
Machinery and equipment	8,698,233	(3,689,854)	5,008,379
Other tangible fixed assets	385,581	(254,406)	131,175
Construction in progress	495,483	--	495,483
<b>Total</b>	<b>10,289,753</b>	<b>(4,088,682)</b>	<b>6,201,071</b>

10. Investments and other non-current assets

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

	December 31, 1999	December 31, 2000
Investments	20,056	18,132
Long-term deposits and receivables	12,435	66,426
Deferred tax assets	33,373	15,916
Debt issuance costs, net	19,919	35,014
<b>Total</b>	<b>85,783</b>	<b>135,488</b>

11. Shareholders' equity

Public offerings of shares

In connection with a secondary offering of common stock in June 1998, the Company issued 18,000,000 new shares of common stock, which resulted in an increase in common stock and capital surplus of \$20,378 and \$188,320, respectively. In connection with a secondary offering of common stock in September 1999, the Company issued 8,970,000 new shares of common stock, which resulted in an increase in common stock and capital surplus of \$9,740 and \$207,027, respectively.

Outstanding shares

The authorized share capital of the Company is EUR 1,809,600,000, consisting of 1,200,000,000 common shares and 540,000,000 preference shares each with a nominal value of EUR 1.04. As of December 31, 1998, 1999 and 2000, the number of shares of common stock outstanding at a par value of EUR 1.04 was 854,868,636 shares, 869,424,420 shares and 889,881,287 shares, respectively. There were no preference shares outstanding as of December 31, 1998, 1999 and 2000.

Preference shares

In May 1999, the Company's shareholders approved the creation of 540,000,000 preference shares. The preference shares entitle a holder to full voting rights and to a preferential right to dividends and distributions upon liquidation. In May 1999, the Company entered into an option agreement with ST Holding II B.V. in order to protect the Company from a hostile takeover or other similar action. The option agreement provides for 540,000,000 preference shares to be issued to ST Holding II B.V. upon their request based on approval by the Company's Supervisory Board. ST Holding II B.V. would be required to pay at least 25% of the par value of the preference shares to be issued, and to retain ownership of at least 33% of the Company's issued share capital.

Stock option plans

In 1995, the Shareholders voted to adopt the 1995 Stock Option Plan (the "1995 Plan") whereby options for up to 33,000,000 shares may be granted in installments over a five year period. Under the 1995 Plan, the options may be granted to purchase shares of common 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 1996, the Shareholders voted to adopt the Supervisory Board Option Plan whereby each member of the Supervisory Board was eligible to receive, during the three year period 1996-1998, 18,000 options for 1996 and

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9,000 options for both 1997 and 1998, to purchase shares of common stock at the closing market price of the shares on the date of the grant. In the same three-year period, each professional of the Supervisory Board was eligible to receive 9,000 options for 1996 and 4,500 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 1999, the Shareholders voted to renew the Supervisory Board Option Plan whereby each member of the Supervisory Board may receive, during the three year period 1999-2001, 18,000 options for 1999 and 9,000 options for both 2000 and 2001, 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, each professional of the Supervisory Board may receive 9,000 options for 1999 and 4,500 options for both 2000 and 2001. Under the Plan, the options vest over one year and are exercisable for a period expiring eight years from the date of grant.

A summary of stock option activity for the plans for the three years ended December 31, 2000, follows:

	Number of Shares	Price Per Share	
		Range	Weighted Average
Outstanding at December 31, 1997	12,000,180	\$1.50-\$14.23	\$ 8.48
Options granted:			
1995 Plan	3,900,000	\$12.03	\$12.03
Supervisory Board Plan	90,000	\$12.03	\$12.03
Options cancelled	(57,390)	\$6.04-\$14.23	\$ 8.00
Options exercised	(344,460)	\$1.54- \$9.00	\$ 2.14
Outstanding at December 31, 1998	15,588,330	\$1.54-\$14.23	\$ 9.53
Options granted:			
1995 Plan	8,878,200	\$24.88	\$24.88
Supervisory Board Plan	180,000	\$24.88	\$24.88
Options cancelled	(161,640)	\$6.04-\$24.88	\$14.30
Options exercised	(2,767,200)	\$1.33-\$14.23	\$ 5.47
Outstanding at December 31, 1999	21,717,690	\$6.04-\$24.88	\$16.41
Options granted:			
1995 Plan	7,570,890	\$50.69-\$62.01	\$58.77
Supervisory Board Plan	103,500	\$62.01	\$62.01
Options cancelled	(253,950)	\$ 6.04-\$62.01	\$27.57
Options exercised	(1,988,195)	\$ 6.04-\$24.88	\$ 6.94
Outstanding at December 31, 2000	27,149,935	\$6.04-\$62.01	\$28.98

Stock options exercisable were as follows:

	December 31, 1998	December 31, 1999	December 31, 2000
Options exercisable	820,920	2,631,330	5,149,338
Weighted average exercise price	\$4.92	\$6.46	\$9.72

The weighted average remaining contractual life of options outstanding as of December 31, 1999 and December 31, 2000 was 6.4 and 6.1 years respectively.

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The range of exercise prices, the weighted average exercise price and the weighted average remaining contractual life of options outstanding as of December 31, 2000 was as follows:

Number of shares	Option price range	Weighted average exercise price	Weighted average remaining contractual life
3,017,360	\$6.04	\$6.04	3.2 years
3,657,455	\$14.23	\$14.23	4.7 years
3,885,840	\$12.03	\$12.03	5.6 years
8,918,100	\$24.88	\$24.88	6.7 years
126,840	\$55.25	\$55.25	7.1 years
5,391,700	\$62.01	\$62.01	7.5 years
70,000	\$52.88	\$52.88	7.7 years
2,019,640	\$50.69	\$50.69	7.9 years
63,000	\$9.00	\$9.00	3.8 years

The range of exercise prices, the weighted average exercise price and the weighted average remaining contractual life of options exercisable as of December 31, 2000 was as follows:

Number of shares	Option price range	Weighted average exercise price	Weighted average remaining contractual life
3,017,360	\$6.04	\$6.04	3.2 years
1,843,978	\$14.23	\$14.23	4.7 years
63,000	\$9.00	\$9.00	3.8 years
45,000	\$12.03	\$12.03	5.6 years
180,000	\$24.88	\$24.88	6.7 years

#### Employee stock purchase plans

In June 1998, the Company offered to certain of its employees worldwide the right to acquire up to 2,400 shares of capital stock per employee, at a price of \$10.59 (63 French francs, 18,467 Italian lira) per share, representing a discount of twelve percent from the market price. A total of 1,729,794 shares were issued to participating employees worldwide as a result of the offering.

In November 2000, the Company offered to certain of its employees world-wide the right to acquire up to 275 shares of capital stock per employee, at a price of \$38.675 (45 Euro) per share, representing a discount of fifteen percent from the market price. A total of 559,929 shares were issued to participating employees worldwide as a result of the offering.

#### Fair value of stock-based compensation

The Company has various stock option plans and employee stock purchase plans, as described above. 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 using the following weighted-average assumptions:

	1998	1999	2000
Expected life (years)	5	5	5
Volatility	38.2%	41.0%	42.2%
Risk-free interest rate	5.4%	5.8%	6.0%
Dividend yield	---	0.1%	0.05%

The weighted average fair value of options granted during 1998, 1999 and 2000 was \$5.65, \$11.08 and \$27.12 per option, respectively.

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If compensation cost for the Company's stock-based compensation plans had been determined based on the fair value at the grant dates consistent with FAS 123, the Company's net income and earnings per share would have been adjusted to the pro forma amounts indicated below:

	Year ended Dec 31, 1998 -----	Year ended Dec 31, 1999 -----	Year ended Dec 31, 2000 -----
Net income			
Pro forma	393,398	522,593	1,387,278
Pro forma earnings per share			
Basic	0.47	0.61	1.57
Diluted	0.46	0.59	1.51

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

Retained earnings

At December 31, 2000, the amount of retained earnings available to pay dividends under Dutch law was approximately \$5,263,500 (1999: \$3,653,000). 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, 2000.

Other comprehensive income

The accumulated balances related to each component of other comprehensive income were as follows:

	Foreign currency translation gains (losses)	Unrealized gains (losses) on securities	Accumulated other comprehensive income (loss)
Balance as of December 31, 1997	(313,781)	---	(313,781)
Other comprehensive income, net of tax	137,409	---	137,409
Balance as of December 31, 1998	(176,372)	---	(176,372)
Other comprehensive income, net of tax	(319,491)	---	(319,491)
Balance as of December 31, 1999	(495,863)	---	(495,863)
Other comprehensive income, net of tax	(190,629)	10,262	(180,367)
Balance as of December 31, 2000	(686,492)	10,262	(676,230)

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12. Earnings per share

For the years ended December 31, 1998, 1999 and 2000 earnings per share (EPS) was calculated as follows:

	Year ended Dec 31, 1998 -----	Year ended Dec 31, 1999 -----	Year ended Dec 31, 2000 -----
Basic EPS			
-----			
Net income	411,121	547,252	1,452,103
Weighted average shares outstanding	845,112,048	859,111,668	885,728,493
Basic EPS	0.49	0.64	1.64
Diluted EPS			
-----			
Net income	411,121	547,252	1,452,103
Convertible debt interest, net of tax	4,566	13,387	28,204
Net income adjusted	415,687	560,639	1,480,307
Weighted average shares outstanding	845,112,048	859,111,668	885,728,493
Dilutive effect of stock options	3,795,378	7,995,558	13,831,539
Dilutive effect of convertible debt	15,425,754	34,116,684	36,499,180
Number of shares used in calculating EPS	864,333,180	901,223,910	936,059,212
Diluted EPS	0.48	0.62	1.58

13. 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.

	December 31, ----- 1999	December 31, ----- 2000
-----		
Change in benefit obligation:		
Benefit obligation at beginning of year	87,949	102,363
Service cost	8,087	7,762
Interest cost	5,693	6,189
Benefits paid	(3,110)	(2,532)
Actuarial losses	9,137	14,053
Foreign currency translation adjustments	(3,656)	(5,964)
Other	(1,737)	634
Benefit obligation at end of year	102,363	122,505
-----		
Change in plan assets:		
Plan assets at fair value at beginning of year	83,287	99,448
Actual return on plan assets	13,424	1,266
Employer contributions	8,080	2,777
Benefits paid	(3,110)	(2,532)
Foreign currency translation adjustments	(2,286)	(6,076)
Other	53	405
Plan assets at fair value at end of year	99,448	95,288
-----		
Funded status	(2,915)	(27,217)
Unrecognized prior service cost	7,853	6,967
Unrecognized transition obligation	(3,022)	(2,310)
Unrecognized net actuarial gain (loss)	(2,034)	16,957
Accrued benefit cost	(118)	(5,603)
-----		
Net amount recognized in the balance sheet consists of the following:		
Prepaid benefit cost	5,663	7,423
Accrued benefit liability	(8,005)	(15,174)
Intangible asset	2,224	2,148

Net amount recognized

(118)

(5,603)

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

	December 31, 1998	December 31, 1999	December 31, 2000
Service cost	5,618	8,087	7,762
Interest cost	5,202	5,693	6,189
Expected return on plan assets	(6,147)	(5,956)	(7,020)
Amortization of unrecognized transition obligation	(366)	(324)	(303)
Recognized gains and losses	56	503	70
Recognition of prior service cost	762	850	847
<b>Net periodic benefit cost</b>	<b>5,125</b>	<b>8,853</b>	<b>7,545</b>

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

Assumptions	1998	1999	2000
Discount rate	7.16%	6.30%	6.22%
Salary increase rate	4.49%	3.81%	4.15%
Expected rate of return on funds	8.42%	7.04%	6.20%

The Company also has defined contribution pension plans which provide retirement benefits to certain of its employees. The benefit accrues to the employees on a pro-rata basis, adjusted for inflation, during their employment period and is based on the individuals' salary. As of December 31, 1999 and 2000, the Company accrued \$100,290 and \$99,961 respectively, for these defined contribution pension plans. The annual cost of these plans amounted to approximately \$13,800, \$15,200 and \$18,000 in 1998, 1999 and 2000 respectively.

#### 14. Long-term debt

Long-term debt, all of which is unsecured, includes debt held by the following subsidiaries:

	December 31, 1999	December 31, 2000
<b>STMicroelectronics S.A. (France)</b>		
- 4.90% Bank loan due 2002	30,718	21,278
- 4.88% Bank loan due 2002	30,718	21,278
- 5.21% Other bank loans	21,557	157,037
<b>STMicroelectronics s.r.l. (Italy)</b>		
- 5.68% Bank loan due 2002	52,033	32,928
- 5.35% Bank loan due 2006	34,322	27,501
- 4.22% Other bank loans	95,234	57,955
<b>STMicroelectronics N.V. (Netherlands)</b>		
- 1.75% Liquid Yield Option Notes (LYONS due 2008)	398,251	112,520
- 2.44% Liquid Yield Option Notes (LYONS due 2009)	725,813	743,371
- 3.75% Convertible Bonds (due 2010)	--	1,486,738
<b>STMicroelectronics (other countries)</b>		
- 6.53% Other bank loans	56,500	145,848
<b>Total long-term debt</b>	<b>1,445,146</b>	<b>2,806,454</b>
Less current portion	96,669	105,972
<b>Long-term debt, less current portion</b>	<b>1,348,477</b>	<b>2,700,482</b>

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Long-term debt is denominated in the following currencies:

	December 31, December 31,	
	1999	2000
U.S. dollar	1,157,366	2,445,569
Italian lira	192,432	128,398
French franc	82,993	199,593
Other	12,355	32,894
Total	1,445,146	2,806,454

Aggregate future maturities of long-term debt outstanding are as follows:

	December 31,
	2000
2001	105,972
2002	111,572
2003	84,457
2004	57,555
2005	47,492
Thereafter	2,399,406
Total	2,806,454

In June 1998, the Company issued \$513,852 face value of zero-coupon subordinated convertible notes (LYONs), due 2008, for net proceeds of \$421,837. The notes are convertible at any time by the holders at the rate of 53.712 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.

In September 1999, the Company issued \$918,530 face value of zero-coupon subordinated convertible notes (LYONs), due 2009, for net proceeds of \$708,288. The notes are convertible at any time by the holders at the rate of 26.292 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 September 22, 2004 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.

In November 2000, the Company issued \$2,145,923 face value of zero-coupon unsubordinated convertible bonds, due 2010, for net proceeds of \$1,457,828. The debt discount of \$665,923 is amortized straight-line over the term of the debt and recorded as interest expense. The notes are convertible at any time by the holders at the rate of 9.32 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 November 16, 2005 or by the Company on or after that date at the book value, payable in cash. The notes are unsubordinated to all the other existing and future indebtedness of the Company.

During 1999, \$52,476 face amount of convertible bonds were converted into 939,528 shares of common stock. During 2000, \$333,580 face amount of convertible bonds were converted into 17,908,743 shares of common Stock.

Credit facilities

The Company has revolving line of credit agreements with several financial institutions totaling \$884,000. At December 31, 2000, amounts available under the lines of credit are reduced by borrowings of \$35,599 at an average interest rate of 6.47%.

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15. Other payables and accrued liabilities

Other payables and accrued liabilities consist of the following:

	December 31, 1999	December 31, 2000
Taxes other than income taxes	64,950	50,228
Salaries and wages	111,125	181,516
Social charges	53,781	70,957
Advances received on fundings	38,686	10,562
Commercial rebates	23,775	32,755
Royalties payable	13,195	42,313
Other	76,333	120,834
<b>Total</b>	<b>381,845</b>	<b>509,165</b>

16. Other revenues

Other revenues consist of the following:

	December 31, 1998	December 31, 1999	December 31, 2000
Licensing revenues	1,765	--	--
Miscellaneous sales	27,833	30,205	41,229
Other	7,536	2,962	7,570
<b>Total</b>	<b>37,134</b>	<b>33,167</b>	<b>48,799</b>

17. Other income and expenses

Other income and expenses consist of the following:

	December 31, 1998	December 31, 1999	December 31, 2000
Research and development funding	63,531	60,352	42,065
Start-up costs	(12,609)	(24,736)	(115,137)
Exchange gain, net	19,019	14,653	15,767
Other	6,517	(10,429)	(26,228)
<b>Total</b>	<b>76,458</b>	<b>39,840</b>	<b>(83,533)</b>

18. Net interest income

Net interest income consists of the following:

	December 31, 1998	December 31, 1999	December 31, 2000
Income	54,294	81,888	111,403
Expense	(45,603)	(46,264)	(64,700)
<b>Total</b>	<b>8,691</b>	<b>35,624</b>	<b>46,703</b>

Cash paid for interest was \$48,569 in 1998, \$48,086 in 1999 and \$64,681 in 2000. Capitalized interest was \$5,487 in 1998, \$8,317 in 1999 and \$1,846 in 2000.

19. Income tax

Income before income tax expense is comprised of the following:



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	December 31, 1998	December 31, 1999	December 31, 2000
Loss recorded in The Netherlands	(18,730)	(17,494)	(6,393)
Income from foreign operations	550,831	724,616	1,835,822
Income before income tax expense	532,101	707,122	1,829,429

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.

Income tax expense is comprised of the following:

	December 31, 1998	December 31, 1999	December 31, 2000
Domestic taxes - current	(3,886)	(4,353)	(7,585)
Foreign taxes - current	(82,132)	(130,904)	(342,837)
Current taxes	(86,018)	(135,257)	(350,422)
Deferred taxes	(34,333)	(21,957)	(24,697)
Income tax expense	(120,351)	(157,214)	(375,119)

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

	December 31, 1998	December 31, 1999	December 31, 2000
Income tax expense computed at statutory rate	(186,235)	(247,493)	(640,300)
Benefit (deductions) for financial reporting with no tax effect	7,864	(699)	(13,349)
Variation in valuation allowance	397	3,107	(7,185)
Other tax and credits	2,995	8,549	(4,770)
Earnings of subsidiaries taxed at different rates	54,628	79,322	290,485
Income tax expense	(120,351)	(157,214)	(375,119)

Permanent differences reflect mainly the effects of capital allowance programs and special tax incentive programs existing in some Asia Pacific and Mediterranean countries, and of various non-deductible items. Included in the line "Earnings of subsidiaries taxed at different rates" are benefits related to certain tax holidays totaling \$41,758 in 1998, \$49,911 in 1999, \$225,193 in 2000.

Deferred tax assets and liabilities consist of the following:

	December 31, 1999	December 31, 2000
Tax loss carryforwards and capital allowances	74,321	22,672
Inventory	41,256	32,702
Other assets	111,447	67,375
Total deferred tax assets	227,024	122,749
Valuation allowance	(12,251)	(5,066)
Deferred tax assets, net	214,773	117,683
Fixed assets depreciation	(272,184)	(191,632)
Other liabilities	(52,979)	(25,086)
Deferred tax liabilities	(325,163)	(216,718)
Net deferred income tax liability	(110,390)	(99,035)

Deferred income taxes were classified in the consolidated balance as follows:

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	December 31, 1999	December 31, 2000
Other receivables and assets	73,079	71,651
Investments and other non-current assets	33,373	15,916
Accrued and deferred income tax	(31,072)	(8,041)
Other non-current liabilities	(185,770)	(178,561)
Net deferred income tax liability	(110,390)	(99,035)

As of December 31, 2000, the Company and its subsidiaries have net operating loss carryforwards of \$66,323 which expire between 2001 and 2006.

The Company paid \$75,886 cash for income taxes in 1998, \$99,930 cash for income taxes in 1999 and \$242,929 cash for income taxes in 2000.

20. Commitments

Lease commitments

The Company leases land, building, plant and equipment under non-cancellable lease agreements. As of December 31, 2000 the future minimum lease payments to which the Company was committed under operating leases were as follows:

Year	
2001	16,231
2002	12,524
2003	11,331
2004	9,681
2005	7,629
Thereafter	19,124
Total	76,520

Other commitments

As of December 31, 2000, the Company had commitments of \$1,670,263 for equipment purchases.

21. 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 has accrued for these loss contingencies when the loss is probable and can be estimated. Management believes that these contingencies will not have a material adverse effect on the business, financial condition or results of operations of the Company.

During 2000, the Company acquired a manufacturing facility. The terms of the agreement require the Company to pay additional amounts up to \$40,000 if certain conditions are met during the next three years. The contingent payments have not been recorded as of December 31, 2000, as it is not beyond a reasonable doubt that the amounts will be paid.

22. Financial Instruments and Risk Management

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

Foreign exchange forward contracts and currency options

The Company enters into foreign exchange forward contracts and currency options to manage exposure to fluctuations 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, 2000 have remaining terms of one to three months, maturing mainly during the first quarter of 2001.

STMICROELECTRONICS N.V.  
Notes to consolidated financial statements

(In thousands of U.S. dollars, except per share amounts)

The notional amounts of foreign exchange forward contracts totaled \$611,567 and \$780,423 at December 31, 1999 and 2000, respectively. The principal currencies covered are the US dollar, the euro, the Italian lira, the Japanese yen, and the Swiss franc.

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.

Concentration of credit risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of interest-bearing investments, financial instruments with off-balance sheet risks (primarily forward contracts), and trade receivables. The Company places its cash and cash equivalents and certain other financial instruments with a variety of high credit quality financial institutions and has not experienced any material losses relating to such instruments. The Company invests its excess cash in accordance with its investment policy which aims to minimize credit risk.

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. Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers and their dispersion across many geographic areas. The Company monitors the creditworthiness of its customers to which it grants credit terms in the normal course of business. The Company does not anticipate non-performance by counterparties which could have a significant impact on its financial position or results of operations.

Fair value or financial instruments

The estimates of fair value were obtained using prevailing financial market information resulting from various valuation techniques. The methodologies used to estimate fair value are as follows:

Cash and cash equivalents, accounts and notes receivable, bank overdrafts, short-term borrowings, accounts and notes payables

The carrying amounts reflected in the consolidated financial statements are reasonable estimates of fair value because of the relatively short period of time between the origination of the instruments and their expected realization.

Long-term debt and current portion of long-term debt

The fair values of long-term debt 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.

Foreign exchange forward contracts

The fair values of these instruments are estimated based upon quoted market prices for the same or similar instruments.

	1999		2000	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Balance sheet				
- Bank loans (including current portion)	321,082	323,482	463,825	465,922
- Convertible debt	1,124,064	2,521,752	2,342,629	2,859,756
Off-balance sheet				
-Forward exchange contracts	10,412	7,939	8,886	10,943



STMICROELECTRONICS N.V.  
Notes to consolidated financial statements

(In thousands of U.S. dollars, except per share amounts)

23. Related party transactions

Transactions with significant shareholders and their affiliates were as follows:

	December 31, 1998	December 31, 1999	December 31, 2000
Sales	5,608	19,033	196
Research and development expenses	(16,215)	(16,958)	(13,663)
Other purchases and expenses	(12,406)	(2,772)	(17,991)
Accounts receivable	1,872	6,222	774
Accounts payable	10,509	1,876	1,346

24. 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, ASICs (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 1998, 1999 and 2000. Long-lived assets consist of net property and equipment and other intangible assets.

Net revenues

	December 31, 1998	December 31, 1999	December 31, 2000
France	474,580	451,243	651,116
Italy	171,143	174,087	249,588
Germany	444,362	470,554	611,115
Other European countries	737,112	828,879	1,484,654
USA	978,662	1,222,743	1,761,783
Singapore	1,261,165	1,669,129	2,277,772
Other countries	180,728	239,641	777,175
<b>Total</b>	<b>4,247,752</b>	<b>5,056,276</b>	<b>7,813,203</b>

Long-lived assets

	December 31, 1998	December 31, 1999	December 31, 2000
France	1,169,273	1,239,540	1,889,729
Italy	899,689	1,117,241	1,650,506
Germany	1,134	1,094	1,620
Other European countries	19,922	236,202	345,359
USA	587,734	736,187	1,081,327
Singapore	216,817	245,386	649,116
Other countries	472,007	477,316	869,530
<b>Total</b>	<b>3,366,576</b>	<b>4,052,966</b>	<b>6,487,187</b>



STMICROELECTRONICS N.V.  
Notes to consolidated financial statements

(In thousands of U.S. dollars, except per share amounts)

25. Subsequent Events (Unaudited)

At the annual shareholders' meeting held on April 25, 2001, the shareholders approved the payment of a cash dividend of \$0.04 per share and the creation of a new five-year stock option plan that provides for the granting to management and selected employees of options to purchase up to a maximum of 60 million Common Shares. On April 27, 2001, the Supervisory Board authorized the granting of options to purchase 9,462,800 Common Shares under the new plan.

The Company issued a redemption notice for the LYONs due 2008 for a redemption price of \$885.22 per \$1,000 principal amount on June 11, 2001. On May 11, 2001, approximately \$45,600 in total indebtedness was outstanding under the LYONs due 2008; based on this amount outstanding, if all remaining holders chose to convert the instruments into Common Shares before the redemption date, 2,772,291 Common Shares would be issued.

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

Valuation and qualifying accounts deducted from the related asset accounts	Balance at beginning of period	Translation adjustment	Charged to costs and expenses	Deductions	Balance at end of period
	-----	-----	-----	-----	-----
2000					
Inventories.....	42,137	--	73,835	(42,137)	73,835
Accounts Receivable .....	11,590	(621)	4,869	(14)	15,824
1999					
Inventories.....	53,955	--	42,137	(53,955)	42,137
Accounts Receivable .....	10,494	(452)	1,662	(114)	11,590
1998					
Inventories.....	68,182	--	53,955	(68,182)	53,955
Accounts Receivable.....	15,228	89	(3,741)	(1,082)	10,494

Report of Independent Accountants on  
Financial Statement Schedule

To the Supervisory Board of STMicroelectronics N.V.:

Our audits of the consolidated financial statements referred to in our report dated February 1, 2001 appearing in this Annual Report on Form 20-F also included an audit of the financial statement schedule listed in Item 18 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 N.V.  
Amsterdam, The Netherlands  
February 1, 2001

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1.1 Articles of Association, as amended as of May 5, 2000, of STMicroelectronics N.V. (incorporated by reference to the Annual Report on Form 20-F for the year ended December 31, 1999, as filed with the Commission on June 27, 2000)

4.1 Indenture, dated as of November 16, 2000, among STMicroelectronics N.V. as issuer and The Bank of New York, as Trustee, of our Zero Coupon Senior Convertible Bonds due 2010

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

10.1 Consent of PricewaterhouseCoopers N.V.

-----  
INDENTURE

Dated as of November 16, 2000

-----  
The Bank of New York,  
Trustee

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CROSS-REFERENCING TABLE1

TIA Section	Indenture Section
310 (a)(1)	7.09
(a)(2)	7.09
(a)(3)	N.A.
(a)(4)	N.A.
(a)(5)	7.09
(b)	7.07; 7.09
(c)	N.A.
311 (a)	7.10
(b)	7.10
(c)	N.A.
312 (a)	2.05
(b)	11.03
(c)	11.03
313 (a)	7.05
(b)	7.05
(c)	7.05, 11.02
(d)	7.05
314 (a)	4.02, 11.02
(b)	N.A.
(c)(1)	11.04
(c)(2)	11.04
(c)(3)	N.A.
(d)	N.A.
(e)	11.05
(f)	4.04
315 (a)	7.01
(b)	7.04; 11.02
(c)	7.01
(d)(1)	7.01
(d)(2)	7.01
(d)(3)	7.01
(e)	6.11
316 (a)(1)(A)	6.05
(a)(1)(B)	6.04
(a)(2)	N.A.
(a)(last sentence)	2.07
(b)	6.07

1 This Cross-Reference Table shall not, for any purpose, be deemed to be part of the Indenture.

317 (a)(1) .....	6.08
(a)(2) .....	6.09
(b).....	2.04
318 (a).....	11.01

INDENTURE, dated as of November 16, 2000 between STMicroelectronics N.V., a company incorporated under the laws of The Netherlands with its corporate seat in Amsterdam, The Netherlands (the "Company"), and The Bank of New York, a New York banking corporation, as trustee (the "Trustee").

Each party agrees as follows for the benefit of the other party and for the equal and ratable benefit of the Holders of the Company's Zero Coupon Senior Convertible Bonds due 2010 (the "Securities"):

ARTICLE 1  
DEFINITIONS AND INCORPORATION BY REFERENCE

SECTION 1.01. Definitions.

"Affiliate" of any specified person means any other person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified person. For the purposes of this definition, "control", when used with respect to any specified person, means the power to direct or cause the direction of the management and policies of such person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Authenticating Agent" means any person authorized by the Trustee pursuant to Section 7.11 to act on behalf of the Trustee to authenticate Securities.

"Board" means, with respect to any matter, either the Managing Board of the Company or any committee of such Board duly authorized, with respect to such matter, to exercise the powers of such Board.

"Bonds" means Global Bonds and Definitive Registered Bonds, collectively.

"Business Day" means each day of the year on which banking institutions in Amsterdam, any Place of Payment or any Place of Conversion are not required or authorized by law or regulation to close.

"Capital Market Indebtedness" means any obligation to repay money that is borrowed through the issuance of bonds, notes or other debt securities which are capable of being listed or traded on a stock exchange or other

recognized securities market; except as expressly provided in Section 4.08, it does not include any off-balance sheet assets and obligations.

"Capital Stock" for any corporation means any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) capital stock issued by that corporation.

"Cash" or "cash" means such coin or currency of The United States of America as at any time of payment is legal tender for the payment of public and private debts.

"Common Shares" means the common shares, nominal value (U)1.04 per share, of the Company as it exists on the date of this Indenture or any other shares of capital stock of the Company into which such Common Shares shall be reclassified or changed. "Common Shares" includes Dutch Shares and New York Shares.

"Company" means the party named as the "Company" in the first paragraph of this Indenture until a successor replaces it pursuant to the applicable provisions of this Indenture and, thereafter, shall mean such successor. The foregoing sentence shall likewise apply to any subsequent successor to such successor or successors.

"Company Order" means a written request or order signed in the name of the Company by one or more of its Managing Directors (bestuurder) and one of its authorized officers and delivered to the Trustee.

"Consolidated Subsidiary" means, at any date, any Subsidiary the accounts of which are consolidated with those of the Company as of such date for public financial reporting purposes.

"Conversion Price" means, at any date, the then applicable Redemption Price divided by the Conversion Rate.

"Default" means any event that is, or after notice or passage of time or both would be, an Event of Default.

"Definitive Registered Bond" means any Security registered in the Registrar's books, substantially in the form attached hereto as Exhibit A-3.

"Depository" means The Depository Trust Company ("DTC") and its nominee and successors.

"Dutch Shares" means Common Shares maintained in Amsterdam, the Netherlands on the register of Netherlands Management Company B.V., the Dutch registrar.

"Exchange Act" means the Securities and Exchange Act of 1934, as amended.

"Global Bonds" means, the Rule 144A Global Bond and the Regulation S Global Bond, collectively.

"Holder" or "Securityholder" means a person in whose name a Security is registered on the Registrar's books.

"Indenture" means this Indenture as amended or supplemented from time to time in accordance with the terms hereof.

"Issue Date" of any Security means the date on which the Security was originally issued or deemed issued as set forth on the face of the Security.

"Issue Price" of any Security means, in connection with the original issuance of such Security, the initial issue price at which the Security is sold as set forth on the face of the Security.

"Lien" means a preference arrangement on property, such as, a mortgage or deed of trust, pledge, hypothecation, assignment, deposit arrangement, security interest, charge, preference, priority, security agreement, capital lease obligation, conditional sale or any other agreement that has the same economic effect as any of the foregoing.

"NASDAQ" means the National Association of Securities Dealers Automated Quotation System.

"New York Shares" means Common Shares maintained in New York, New York on the register of The Bank of New York, the New York registrar.

"Officers' Certificate" means a written certificate containing the information specified in Sections 11.04(1) and 11.05, and, if applicable, Sections 3.08(a), 4.06 and 5.01, signed in the name of the Company by one or more of its Managing Directors and one of its authorized officers and delivered to the Trustee.

"Opinion of Counsel" means a written opinion containing the information specified in Sections 11.04(2) and 11.05 and, if applicable, Section 5.01 rendered

by legal counsel who may be (i) an employee of, or counsel to, the Company or (ii) other counsel designated by the Company and reasonably satisfactory to the Trustee.

"Original Issue Discount" of any Security means the difference between the Issue Price and the Principal Amount of the Security as set forth on the face of the Security, and shall accrue as set forth in paragraph 1 of the Security and pursuant to the provisions set forth herein.

"Participant" means, with respect to DTC, a Person who has an account with DTC.

"Person" means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

"Principal" or "Principal Amount" of a Security means the principal amount due at the Stated Maturity of the Security as set forth on the face of the Security.

"Private Placement Legend" means the restrictive legend initially set forth in the Global Bond or the Definitive Registered Bonds, as set forth in Exhibits A-1, A-2 or A-3, as applicable.

"QIB" means a "qualified institutional buyer" as defined under Rule 144A.

"Redemption Date" shall mean the date specified for redemption of any of the Securities in accordance with the terms of the Securities and this Indenture.

"Redemption Price" shall have the meaning set forth in paragraph 5 of the Securities.

"Regulation S Definitive Registered Bond" means a Definitive Registered Security issued in respect of an interest in a Regulation S Global Bond.

"Regulation S Global Bond" means the global Bond or Bonds without coupons, substantially in the form of Exhibit A-2 attached hereto, which will represent all of the Bonds sold in reliance on Regulation S unless or until Definitive Registered Bonds are issued in respect of all or any Bonds represented by the Regulation S Global Bond in which case the "Regulation S Global Bond" will represent all those Bonds that are not from time to time evidenced by Definitive Registered Bonds.



"Regulation S" means Regulation S promulgated under the Securities Act.

"Rule 144A Definitive Registered Bond" means a Definitive Registered Security issued in respect of an interest in a Rule 144A Global Bond.

"Rule 144A Global Bond" means the global Bond or Bonds without coupons, substantially in the form of Exhibit A-1 attached hereto, which will represent all of the Bonds sold in compliance with Rule 144A, unless or until Definitive Registered Bonds are issued in respect of all or any Bonds represented by the Rule 144A Global Bond in which case the "Rule 144A Global Bond" will represent all those Bonds that are not from time to time evidenced by Definitive Registered Bonds.

"Rule 144A" means Rule 144A under the Securities Act.

"Sale Price" of a single Common Share on any date means the closing per share sale price (or if no closing sale price is reported, the average of the bid and ask prices or, if more than one in either case the average of the average bid and the average ask prices) on such date as reported in composite transactions for the principal United States securities exchange on which the Common Shares are traded or, if the Common Shares are not listed on a United States national or regional stock exchange, as reported by NASDAQ; or, if the Common Shares are not listed or admitted to trading on any United States national or regional stock exchange or quoted on NASDAQ, the average of the closing bid and asked prices in the over-the-counter market as furnished by any New York Stock Exchange member firm selected from time to time by the Company for that purpose.

"SEC" means the Securities and Exchange Commission.

"Securities" means any of the Company's Zero Coupon Senior Convertible Bonds due 2010, as amended or supplemented from time to time in accordance with the terms hereof, issued under this Indenture.

"Securities Act" means the Securities Act of 1933, as amended.

"SICOVAM" means SICOVAM S.A. and its successors.

"Stated Maturity", when used with respect to any Security, means the date specified in such Security as the fixed date on which the Principal of such Security is due and payable.

"Subsidiary" means (i) a corporation, a majority of whose Capital Stock with voting power, under ordinary circumstances, to elect directors (or other governing body of such corporation) is, at the date of determination, directly or indirectly owned by the Company, by one or more Subsidiaries of the Company or by the Company and one or more Subsidiaries of the Company, (ii) a partnership in which the Company or a Subsidiary of the Company holds a majority interest in the equity capital or profits of such partnership, or (iii) any other person (other than a corporation) in which the Company, a Subsidiary of the Company or the Company and one or more Subsidiaries of the Company, directly or indirectly, at the date of determination, has (x) at least a majority ownership interest or (y) the power to elect or direct the election of a majority of the directors or other governing body of such person.

"TIA" means the Trust Indenture Act of 1939, as amended by the Trust Indenture Reform Act of 1990, and as in effect on the date of this Indenture.

"Trading Day" means each day on which the securities exchange or quotation system which is used to determine the Sale Price is open for trading or quotation.

"Trustee" means the party named as the "Trustee" in the first paragraph of this Indenture until a successor replaces it pursuant to the applicable provisions of this Indenture and, thereafter, shall mean such successor.

"Trust Officer" when used with respect to the Trustee means any officer within the corporate trust department of the Trustee, including any vice president, assistant vice president, assistant treasurer, trust officer or any other officer of the Trustee who customarily performs functions similar to those performed by the Persons who at the time shall be such officers, respectively, or to whom any corporate trust matter is referred because of such person's knowledge of and familiarity with the particular subject and who shall have direct responsibility for the administration of this Indenture.

SECTION 1.02. Other Definitions.

Term	Defined in Section
- - - - -	-----
"Additional Amounts".....	4.06
"Associate".....	3.09
"Authorized Agent".....	11.10
"Average Sale Price".....	10.01
"Bankruptcy Law".....	6.01

Term	Defined in Section
-----	-----
"beneficial owner".....	3.09(a)
"Change in Control".....	3.09(a)
"Change in Control Purchase Date".....	3.09(a)
"Change in Control Purchase Notice".....	3.09(c)
"Change in Control Purchase Price".....	3.09(a)
"close of business".....	3.03
"Company Notice".....	3.08(c)
"Company Notice Date".....	3.08(c)
"Conversion Agent".....	2.03
"Conversion Date".....	10.02
"Conversion Rate".....	10.01
"Custodian".....	6.01
"Dutch Registrar".....	2.03
"Event of Default".....	6.01
"Ex-Dividend Time".....	10.01
"Extraordinary Cash Dividend".....	10.08
"Legal Holiday".....	11.08
"New York Conversion Agent".....	2.03
"New York Paying Agent".....	2.03
"New York Registrar".....	2.03
"Notice of Default".....	6.01
"Managers' Increase Option".....	2.02
"Paris Conversion Agent".....	2.03
"Paris Paying Agent".....	2.03
"Paying Agent".....	2.03
"Place of Conversion".....	2.03
"Place of Payment".....	2.03
"Principal Shareholders".....	3.09(a)
"Purchase Date".....	3.08(a)
"Purchase Notice".....	3.08(a)
"Purchase Price".....	3.08(a)
"Registrar".....	2.03
"Relevant Date".....	4.06

Term -----	Defined in Section -----
"Successor Jurisdiction".....	5.01
"Taxes".....	4.06
"Time of Determination".....	10.01

SECTION 1.03. Incorporation by Reference of Trust Indenture Act.

Whenever this Indenture refers to a provision of the TIA, such provision is incorporated by reference in and made a part of this Indenture. The following TIA terms used in this Indenture have the following meanings:

"Commission" means the SEC.

"indenture securities" means the Securities.

"indenture security holder" means a Securityholder.

"indenture to be qualified" means this Indenture.

"indenture trustee" or "institutional trustee" means the Trustee.

"obligor" on the indenture securities means the Company.

All other TIA terms used in this Indenture that are defined by the TIA or defined by TIA reference to another statute or regulation have the meanings assigned to them by such definitions.

SECTION 1.04. Rules of Construction. Unless the context otherwise requires:

(1) a term has the meaning assigned to it;

(2) an accounting term not otherwise defined has the meaning assigned to it in accordance with generally accepted accounting principles as in effect from time to time in The United States of America;

(3) "or" is not exclusive;

(4) "including" means including, without limitation; and

(5) words in the singular include the plural, and words in the plural include the singular.

ARTICLE 2  
THE SECURITIES

SECTION 2.01. Form and Dating. The Securities and the Trustee's certificate of authentication shall be substantially in the form of Exhibits A-1, A-2, A-3 and B-1, which are a part of this Indenture. The Securities may have notations, legends or endorsements required by law, stock exchange rule or usage (provided that any such notation, legend or endorsement required by usage is in a form acceptable to the Company and the Trustee). Each Security shall be dated the date of its authentication.

SECTION 2.02. Execution and Authentication; Transfers. The Securities shall be executed by the Company by one or more of its Managing Directors. The signature of any of these Managing Directors on the Securities may be manual or facsimile.

Securities bearing the manual or facsimile signatures of individuals who were at any time the proper officers of the Company shall bind the Company, notwithstanding that such individuals or any of them have ceased to hold such offices prior to the authentication and delivery of such Securities or did not hold such offices at the Issue Date of such Securities.

No Security shall be entitled to any benefit under this Indenture or be valid or obligatory for any purpose unless there appears on such Security a certificate of authentication substantially in the form provided for herein duly executed by the Trustee by manual signature of an authorized officer, and such certificate upon any Security shall be conclusive evidence, and the only evidence, that such Security has been duly authenticated and delivered hereunder.

The Trustee shall authenticate and deliver Securities for original issue in an aggregate Principal Amount of \$1,866,020,000 upon a Company Order without any further action by the Company; provided, however, that in the event that the Company sells any Securities pursuant to the Managers' increase option (the "Managers' Increase Option") granted pursuant to Section 2 of the Purchase Agreement, dated November 6, 2000, among the Company and UBS AG, acting through its business group UBS Warburg, and other Managers named therein, then the Trustee shall authenticate and deliver Securities for original issue in an aggregate Principal Amount of up to \$1,866,020,000 plus up to \$279,903,000

aggregate Principal Amount of Securities sold pursuant to the Managers' Increase Option upon a Company Order. The aggregate Principal Amount of Securities outstanding at any time, plus the aggregate Principal Amount of any Securities that have been converted or redeemed pursuant to the provisions of this Indenture prior to such time, may not exceed the amount set forth in the foregoing sentence, subject to the proviso set forth therein, except as provided in Section 2.06.

The Securities shall be issued in fully registered form without interest coupons in the form of two or more certificates. The Securities initially offered and sold in reliance on Rule 144A shall be held through The Depository Trust Company and shall be represented by a Rule 144A Global Bond in definitive, fully registered form without interest coupons, substantially in the form set forth in Exhibit A-1 hereto. The Rule 144A Global Bond shall be deposited with the Bank of New York, as custodian for DTC, and registered in the name of the nominee of DTC. Securities initially offered and sold in reliance on Regulation S shall be held through SICOVAM, in which case they shall be represented by a Regulation S Global Bond in definitive, fully registered form without interest coupons, substantially in the form set forth in Exhibit A-2 hereto. The Regulation S Global Bond shall be registered in the name of, and deposited with, SICOVAM.

Subject to the other provisions of this Indenture, upon a request to exchange beneficial interests in the Rule 144A Global Bond for beneficial interests in the Regulation S Global Bond, the New York Registrar shall appropriately adjust the register relating to the Rule 144A Global Bond and shall then instruct the Dutch Registrar to adjust the register relating to the Regulation S Global Bond accordingly. The Dutch Registrar shall then appropriately adjust the register relating to the Regulation S Global Bond, notify SICOVAM of the increase in the number of Securities held through SICOVAM and ask SICOVAM to have the exchanged Securities credited to the appropriate account. Upon a request to SICOVAM to exchange beneficial interests in the Regulation S Global Bond for beneficial interests in the Rule 144A Global Bond, SICOVAM shall instruct the Dutch Registrar to appropriately adjust the register relating to the Regulation S Global Bond and the Dutch Registrar shall instruct the New York Registrar to adjust the register relating to the Rule 144A Global Bond. The New York Registrar shall then appropriately adjust the register relating to the Rule 144A Global Bond, notify DTC of the increase in the number of Securities held through DTC and instruct DTC to have the exchanged Securities credited to the appropriate account.

SECTION 2.03. Registrar, Paying Agent and Conversion Agent. The Company shall maintain an office or agency where Securities may be presented for (a) registration of transfer or for exchange in each of The City of New York (the "New York Registrar") and Amsterdam (the "Dutch Registrar" and

together with the New York Registrar, the "Registrar"), (b) purchase or payment in each of The City of New York (the "New York Paying Agent") and Paris (the "Paris Paying Agent" and together with the New York Paying Agent, the "Paying Agent") and (c) conversion in each of The City of New York (the "New York Conversion Agent") and Paris (the "Paris Conversion Agent" and together with the New York Conversion Agent, the "Conversion Agent").

Any city in which any Paying Agent or any Conversion Agent is located shall be called herein a "Place of Payment" or a "Place of Conversion", respectively. The New York Registrar and the Dutch Registrar shall keep a register of the Securities and of their transfer and exchange. The Company may have one or more co-registrars, one or more additional paying agents and one or more additional conversion agents. The term Paying Agent includes any additional paying agent. The term Conversion Agent includes any additional conversion agent.

The Company shall enter into an appropriate agency agreement with any Registrar, Paying Agent, Conversion Agent or co-registrar other than the Trustee. The agreement shall implement the provisions of this Indenture that relate to such agent. The Company shall notify the Trustee and the Holders of the name and address of any such agent and of any change in any office or agency referred to in Section 4.05. If the Company fails to maintain any required Registrar, Paying Agent or Conversion Agent, the Trustee shall act as such and shall be entitled to appropriate compensation therefor pursuant to Section 7.06. The Company or any Subsidiary or an Affiliate of either of them may act as Paying Agent, Registrar, Conversion Agent or co-registrar.

The Company initially appoints The Bank of New York as New York Conversion Agent and New York Paying Agent in connection with the Securities and initially appoints BNP Paribas, a societe anonyme organized under the laws of the French Republic, as Paris Conversion Agent and Paris Paying Agent in connection with the Securities, pursuant to a Paying and Conversion Agency Agreement dated as of November 16, 2000. The Company initially appoints The Bank of New York as New York Registrar. The Company also initially appoints Netherlands Management Company B.V., a company incorporated under the laws of The Netherlands, as Dutch Registrar pursuant to a Registrar's Agreement dated as of November 16, 2000.

SECTION 2.04. Paying Agent to Hold Money and Securities in Trust. In accordance with Section 4.05 and except as otherwise provided herein, prior to or on each due date for payments in respect of any Security, the Company shall deposit with any Paying Agent a sum of money or, if permitted by the terms hereof, securities sufficient to make such payments when so becoming due.

The Company shall require each Paying Agent (other than the Trustee) to agree in writing that such Paying Agent shall hold in trust for the benefit of Securityholders or the Trustee all money and securities held by such Paying Agent for the making of payments in respect of the Securities and shall promptly notify the Trustee of any default by the Company in making any such payment. At any time during the continuance of any default by the Company in making any payments in respect of the Securities, each Paying Agent shall, upon the written request of the Trustee, forthwith pay to the Trustee all money and securities so held in trust.

If the Company, a Subsidiary or an Affiliate of either of them acts as Paying Agent, it shall segregate the money and securities held by it as Paying Agent and hold it as a separate trust fund. The Company at any time may require a Paying Agent to pay all money and securities held by it to the Trustee and to account for any money and securities disbursed by it. Upon doing so, such Paying Agent shall have no further liability for such money and securities.

SECTION 2.05. Securityholder Lists. Each of the New York Registrar and the Dutch Registrar shall preserve in as current a form as is reasonably practicable the most recent list available to it of the names and addresses of Securityholders.

The Company shall furnish or cause to be furnished to the Trustee (i) at least semiannually on June 1 and December 1 a list of the names and addresses of Securityholders dated within 15 days of the date on which the list is furnished and (ii) at such other times as the Trustee may request in writing a list, in such form and as of such date as the Trustee may reasonably require, of the names and addresses of Securityholders, other than (unless the Trustee is not the New York Registrar) those registered with the New York Registrar.

SECTION 2.06. Replacement Securities. If (a) any mutilated Security is surrendered to the Company or the Trustee, or (b) the Company and the Trustee receive evidence to their satisfaction of the destruction, loss or theft of any Security, and there is delivered to the Company and the Trustee such security or indemnity as may be required by them to save each of them harmless, then, in the absence of notice to the Company or the Trustee that such Security has been acquired by a bona fide purchaser, the Company shall execute, and upon its written request the Trustee shall authenticate and deliver, in exchange for any such mutilated Security or in lieu of any such destroyed, lost or stolen Security, a new Security of like tenor and Principal Amount, bearing a number not contemporaneously outstanding.

In case any such mutilated, destroyed, lost or stolen Security has become or is about to become due and payable, or is about to be purchased by the



Company pursuant to Article 3 hereof, the Company in its discretion, but subject to any conversion rights, may, instead of issuing a new Security, pay or purchase such Security, as the case may be.

Upon the issuance of any new Securities under this Section, the Company may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Trustee) in connection therewith.

Every new Security issued pursuant to this Section in lieu of any mutilated, destroyed, lost or stolen Security shall constitute an original additional contractual obligation of the Company, whether or not the destroyed, lost or stolen Security shall be at any time enforceable by anyone, and shall be entitled to all benefits of this Indenture equally and proportionately with any and all other Securities duly issued hereunder.

The provisions of this Section are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities.

SECTION 2.07. Outstanding Securities; Determinations of Holders' Action. Securities outstanding at any time are all the Securities authenticated by the Trustee except for those cancelled by it, those delivered to it for cancellation, mutilated, destroyed, lost or stolen Securities for which the Trustee has authenticated and delivered a new Security in lieu therefor pursuant to Section 2.06 and those described in this Section 2.07 as not outstanding. Subject to Section 2.08, a Security does not cease to be outstanding because the Company or an Affiliate thereof holds the Security; provided, however, that in determining whether the Holders of the requisite Principal Amount of Securities have given or concurred in any request, demand, authorization, direction, notice, consent or waiver hereunder, Securities owned by the Company, or any other obligor upon the Securities, or any Affiliate of the Company or such other obligor, shall be disregarded and deemed not to be outstanding, except that, in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Securities which a Trust Officer of the Trustee has actual knowledge or has received written notice to be so owned shall be so disregarded. Subject to the foregoing, only Securities outstanding at the time of such determination shall be considered in any such determination (including, without limitation, determinations pursuant to Articles 6 and 9).

If a Security is replaced pursuant to Section 2.06, it ceases to be outstanding unless the Trustee receives proof satisfactory to it that the replaced Security is held by a bona fide purchaser.

If any Paying Agent holds, in accordance with this Indenture, on a Redemption Date, or on the Business Day following the Purchase Date, or on the Business Day following a Change in Control Purchase Date, or on Stated Maturity, money sufficient to pay the Securities payable on that date, then on and after that date such Securities shall cease to be outstanding and Original Issue Discount and interest, if any, on such Securities shall cease to accrue and all other rights of the Holder shall terminate (other than the right to receive the applicable Redemption Price, Purchase Price or Change in Control Purchase Price, as the case may be, upon delivery of the Security in accordance with the terms of this Indenture); provided, that if such Securities are to be redeemed, notice of such redemption has been duly given pursuant to this Indenture or provision therefor satisfactory to the Trustee has been made.

If a Security is converted in accordance with Article 10, then from and after the Conversion Date such Security shall cease to be outstanding and Original Issue Discount and interest, if any, shall cease to accrue on such Security.

SECTION 2.08. Cancellation. All Securities surrendered for payment, redemption or purchase by the Company pursuant to Article 3, conversion pursuant to Article 10, registration of transfer or exchange shall, if surrendered to any person other than the Trustee, be delivered to the Trustee and shall be promptly cancelled by it. The Company may at any time deliver to the Trustee for cancellation any Securities previously authenticated and delivered hereunder which the Company may have acquired in any manner whatsoever, and all Securities so delivered shall be promptly cancelled by the Trustee. The Company may not issue new Securities to replace Securities it has paid or delivered to the Trustee for cancellation or that any Holder has converted pursuant to Article 10. No Securities shall be authenticated in lieu of or in exchange for any Securities cancelled as provided in this Section, except as expressly permitted by this Indenture. Unless the Company requests otherwise, the Trustee shall dispose of all cancelled Securities in accordance with its outstanding procedures.

SECTION 2.09. Restrictive Legends. Unless and until a Security is registered under the Securities Act, (i) the Rule 144A Global Bond and Rule 144A Definitive Registered Bonds shall bear a restrictive legend in the face thereof substantially in the form contained in Exhibits A-1 and A-3 respectively, and (ii) the Regulation S Global Bond and the Regulation S Definitive Registered Bonds shall bear a restrictive legend in the face thereof substantially in the form

contained in Exhibits A-2 and A-3, respectively, until the 41st day after the date hereof.

SECTION 2.10. Transfer and Exchange. (a) Transfers of any Global Bond shall be limited to transfers of such Global Bond in whole, but not in part. Transfers of interests in the Rule 144A Global Bond and the Regulation S Global Bond shall be effected by an increase or a reduction in the aggregate amount of Bonds represented by the Rule 144A Global Bond and the corresponding reduction or increase in the aggregate amount of Bonds represented by the Regulation S Global Bond, as the case may be.

(b) When Definitive Registered Bonds are presented to the Registrar with a request from the Holder of such Definitive Registered Bonds to register a transfer, the Registrar shall register the transfer as requested. Every Definitive Registered Security presented or surrendered for registration of transfer or exchange shall be duly endorsed or be accompanied by a written instrument of transfer in form satisfactory to the Company and the Registrar, duly executed by the Holder thereof or his attorneys duly authorized in writing.

At the option of the Holder, Definitive Registered Bonds may be exchanged for other Definitive Registered Bonds in denominations of \$1,000 principal amount at maturity and integral multiples thereof evidencing an equivalent aggregate principal amount at maturity, upon surrender of the Definitive Registered Bonds to be exchanged at the office or agency maintained for such purpose pursuant to Section 2.04.

To permit registrations of transfers and exchanges, the Company shall issue and execute and the Trustee shall authenticate new Definitive Registered Bonds evidencing such transfer or exchange at the Registrar's request. No service charge shall be made to the Holder for any registration of transfer or exchange. The Company shall not charge a service charge for any registration of transfer or exchange, but the Company may require payment of a sum sufficient to pay all taxes, assessments or other governmental charges that may be imposed in connection with the transfer or exchange of the Securities from the Securityholder requesting such transfer or exchange (other than any exchange of a temporary Security for a definitive Security not involving any change in ownership). The Registrar shall not be required to exchange or register a transfer of any Definitive Registered Security for a period of 15 days immediately preceding the first mailing of notice of redemption of Definitive Registered Bonds to be redeemed or of any Definitive Registered Security selected, called or being called for redemption except, in the case of any Definitive Registered Security where public notice has been given that such Definitive Registered Security is to be redeemed in part, the portion thereof not to be redeemed.

The Company shall not be required to make, and the Registrar need not register, transfers or exchanges of (a) Securities selected for redemption (except, in the case of Securities to be redeemed in part, the portion thereof not to be redeemed), (b) any Securities in respect of which the Purchase Notice or a Change in Control Purchase Notice has been given and not withdrawn by the Holder thereof in accordance with the terms of this Indenture (except, in the case of Securities to be purchased in part, the portion thereof not to be purchased) or (c) any Securities for a period of 15 days before a selection of Securities to be redeemed.

(c) Definitive Registered Bonds will also be issued in exchange for the Rule 144A Global Bond or the Regulation S Global Bond as directed by the Holder thereof (i) if an Event of Default occurs, upon the written request of the Holder of such Global Bond or, (ii) if the Depositary notifies the Company that it is unwilling or unable to continue as Depositary, and a successor thereof is not appointed by the Company within 90 days of such notice, and, in each case, in accordance with the provisions of Section 2.12. In any such event,

(A) the Company shall execute, and the Trustee, upon receipt of an Officers' Certificate for the authentication and delivery of Definitive Registered Bonds, shall authenticate and deliver, without service charge, to the Persons specified by the Holder of such Global Bond, Definitive Registered Bonds each evidencing \$1,000 principal amount at maturity or integral multiples thereof and registered in such names as such Holder shall instruct the Trustee evidencing an aggregate principal amount at maturity equal to and in exchange for such Global Bond held by such Holder; and

(B) if the principal amount at maturity evidenced by the surrendered Global Bond is greater than the aggregate principal amount at maturity evidenced by all the Definitive Registered Bonds authenticated and delivered pursuant to clause (i) above, the Registrar shall adjust the register relating to such Global Bond to decrease the principal amount at maturity evidenced by such Global Bond by an amount equal to the aggregate principal amount at maturity evidenced by all such Definitive Registered Bonds.

Upon the exchange of such Global Bond for Definitive Registered Bonds evidencing an aggregate principal amount of indebtedness at maturity equal to that of such Global Bond, such Global Bond shall be canceled by the Trustee.

The Company shall reimburse the Registrar and the Trustee for reasonable expenses they incur in documenting such exchanges and issuances of Definitive Registered Bonds.

(d) Any Rule 144A Definitive Registered Security delivered in exchange for an interest in a Rule 144A Global Bond pursuant to paragraph (c) of this Section 2.10 shall, except as otherwise provided by paragraph (d) of Section 2.12, bear the legend regarding transfer restrictions applicable to a Rule 144A Definitive Registered Security set forth in Exhibit A-1. Any Regulation S Definitive Registered Security delivered in exchange for an interest in the Regulation S Global Bonds pursuant to paragraph (c) of this Section 2.10 shall, except as otherwise provided by paragraph (d) of Section 2.12, bear the legend regarding transfer restrictions applicable to the Regulation S Definitive Registered Security set forth in Exhibit A-3.

(e) All Definitive Registered Bonds issued upon any exchange of beneficial interests in the Rule 144A Global Bond or the Regulation S Global Bond shall be valid obligations of the Company, evidencing the same debt, and entitled to the same benefits under this Indenture, as the Bonds evidenced by such Global Bond surrendered upon such exchange.

SECTION 2.11. Book-entry Provisions for Global Bonds. (a) Any beneficial interest in one of the Global Bonds that is transferred to a person who takes delivery in the form of an interest in another Global Bond will, upon transfer, cease to be an interest in such Global Bond and become an interest in such other Global Bond and, accordingly, will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to beneficial interests in such other Global Bond for as long as it remains such an interest.

(b) The Holder of a Global Bond may grant proxies and otherwise authorize any person to take any action which a Holder is entitled to take under this Indenture or the Bonds.

SECTION 2.12. Special Transfer Provisions. Unless and until a Security is registered under the Securities Act, the following provisions shall apply:

(a) Transfers to U.S. Persons. The following provisions shall apply with respect to any proposed transfer of a Security to a U.S. Person (excluding Non-U.S. Persons):

(i) If the Bond to be transferred consists of (A) either Rule 144A Definitive Registered Bonds or Regulation S Definitive Registered Bonds prior to the removal of the Private Placement Legend, the transferor must

advise the Company and the Trustee in writing that the sale has been made in compliance with the provisions of Rule 144A to a transferee who has advised the Company and the Trustee in writing that it is purchasing the Security for its own account or an account with respect to which it exercises sole investment discretion and that it and any such account is a QIB within the meaning of Rule 144A and is aware that the sale to it is being made in reliance on Rule 144A and acknowledges that it has received such information regarding the Company as it has requested pursuant to Rule 144A or has determined not to request such information and that it is aware that the transferor is relying upon its foregoing representations in order to claim the exemption from registration provided by Rule 144A or (B) an interest in a Rule 144A Global Bond, the transfer of such interest may be effected only through the book-entry system maintained by the Depository.

(ii) If the Security to be transferred consists of a Rule 144A Definitive Registered Bond, upon receipt by the Trustee of the documents referred to in paragraph (i) above and instructions given in accordance with the relevant Depository's procedures, the New York Registrar shall adjust the register relating to the Rule 144A Global Bond to reflect an increase in the principal amount at maturity of Rule 144A Global Bonds in an amount equal to the principal amount at maturity of the Rule 144A Definitive Registered Bonds to be transferred, and the Trustee shall cancel the Rule 144A Definitive Registered Bonds so transferred.

(b) Transfers of Interests in the Regulation S Global Bonds or Regulation S Definitive Registered Bonds. The following provisions shall apply with respect to any transfer of interests in Regulation S Global Bonds or Regulation S Definitive Registered Bonds:

(i) prior to the removal of the Private Placement Legend from the Regulation S Global Bonds or Regulation S Definitive Registered Bonds, such transfer must comply with paragraph (a) or (c) of this Section 2.12, as the case may be, and

(ii) after such removal, transfers of any such Bond may be made without provision of any additional certification.

(c) Transfers to Non-U.S. Persons at Any Time. The following provisions shall apply with respect to any transfer of a Security to a Non-U.S. Person:

(i) any proposed transfer to any Non-U.S. Person of a Rule 144A Definitive Registered Security or an interest in a Rule 144A Global Bond may be made upon receipt by the Trustee of a certificate substantially in the form of Exhibit C hereto from the proposed transferor.

(ii) (a) If the proposed transferor holds a beneficial interest in a Rule 144A Global Bond, upon receipt by the Trustee of the documents, if any, required by paragraph (i), the New York Registrar and the Dutch Registrar shall perform the actions described in the last paragraph of Section 2.02.

(d) Private Placement Legend. Upon the transfer, exchange or replacement of Securities not bearing the Private Placement Legend, the Trustee shall deliver Securities that do not bear the Private Placement Legend. Upon the transfer, exchange or replacement of Bonds bearing the Private Placement Legend, the Trustee shall deliver only Bonds that bear the Private Placement Legend unless (i) the Private Placement Legend is no longer required by Section 2.09, or (ii) if the time period referred to in Rule 144(k) has expired and there is delivered to the Trustee an Opinion of Counsel reasonably satisfactory to the Company and the Trustee to the effect that neither such legend nor the related restrictions on transfer are required in order to maintain compliance with the provisions of the Securities Act.

(e) General. By its acceptance of any Security bearing the Private Placement Legend, each Holder of such a Security acknowledges the restrictions on transfer of such Security set forth in this Indenture and in the Private Placement Legend and agrees that it will transfer such Security only as provided in this Indenture. In connection with any transfer of Securities, each Holder agrees by its acceptance of the Securities to furnish the Trustee or the Company such certifications, legal opinions or other information as either of them may reasonably require to confirm that such transfer is being made pursuant to an exemption from, or a transaction not subject to, the registration requirements of the Securities Act; provided that the Trustee shall not be required to determine (but may conclusively rely on a determination made by the Company with respect to) the sufficiency of any such certifications, legal opinions or other information.

The Trustee shall retain copies of all letters, notices and other written communications received pursuant to Section 2.11 or this Section 2.12 in accordance with its customary record retention procedures. The Company shall have the right to inspect and make copies of all such letters, notices or other written communications at any reasonable time upon the giving of reasonable written notice to the Trustee.

SECTION 2.13. CUSIP and ISIN Numbers. The Company in issuing the Securities may use "CUSIP" and/or "ISIN" numbers (if then generally in use), and, if so, the Trustee shall use "CUSIP" and/or "ISIN" numbers in notices of redemption as a convenience to Holders; provided that any such notice may state that no representation is made as to the correctness of such numbers either as printed on the Securities or as contained in any notice of a redemption and that reliance may be placed only on the other identification numbers printed on the Securities, and any such redemption shall not be affected by any defect in or omission of such numbers. The Company will promptly notify the Trustee of any change in the "CUSIP" or "ISIN" numbers.

SECTION 2.14. Restrictions Upon Conversion of Restricted Securities. Any purchaser of Securities, other than a foreign purchaser outside the U.S., shall, upon conversion of any Securities, if at the time of conversion such Securities are "restricted securities" within the meaning of Rule 144 under the Securities Act, be required to sign a letter addressed to the Company agreeing that:

(a) if it should offer, resell or otherwise transfer any common shares issued upon conversion of its beneficial interests in the Securities within the time period referred to in Rule 144(k) under the Securities Act after the original issuance of the Securities, it will do so only:

(i) to the Company or any Subsidiary thereof,

(ii) outside the United States in compliance with Rule 903 or 904 under the Securities Act (and not in a pre-arranged transaction resulting in the resale of such interests in the Securities into the U.S.), or

(iii) pursuant to the exemption from registration provided by Rule 144A (if available); and

(b) the Common Shares received upon conversion of the Securities may not be registered as New York Shares for so long as such Common Shares are "restricted securities" (within the meaning of Rule 144(a)(3)) that are not eligible for sale pursuant to Rule 144(k) under the Securities Act.

### ARTICLE 3 REDEMPTION AND PURCHASES

SECTION 3.01. Right to Redeem; Notices to Trustee. The Company, at its option, may redeem the Securities for cash in accordance with the provisions set forth in paragraphs 5 and 7 of the Securities; provided, however, that the Securities may not be redeemed prior to November 16, 2003 except as provided



for in the last two paragraphs of paragraph 5 of the Securities. If the Company elects to redeem Securities pursuant to paragraph 5 of the Securities, it shall notify the Trustee in writing of the Redemption Date, the Principal Amount of Securities to be redeemed and the Redemption Price.

The Company shall give the notice to the Trustee provided for in this Section 3.01 at least 45 days but not more than 60 days before the Redemption Date (unless a shorter notice shall be satisfactory to the Trustee). If fewer than all the Securities are to be redeemed, the record date relating to such redemption shall be selected by the Company and given to the Trustee, which record date shall not be less than ten days after the date of notice to the Trustee.

SECTION 3.02. Selection of Securities to Be Redeemed. If less than all the Securities are to be redeemed, the Trustee shall select the Securities to be redeemed pro rata or by lot or by any other method the Trustee considers fair and appropriate (so long as such method is not prohibited by the rules of any stock exchange on which the Securities are then listed). The Trustee shall make the selection at least 30 but not more than 60 days before the Redemption Date from outstanding Securities not previously called for redemption. The Trustee may select for redemption portions of the Principal Amount of Securities that have denominations larger than \$1,000. Securities and portions of them the Trustee selects shall be in Principal Amounts of \$1,000 or an integral multiple of \$1,000. Provisions of this Indenture that apply to Securities called for redemption also apply to portions of Securities called for redemption. The Trustee shall notify the Company promptly of the Securities or portions of Securities to be redeemed.

If any Security selected for partial redemption is thereafter surrendered for conversion in part before termination of the conversion right with respect to the portion of the Security so selected and prior to such redemption, the converted portion of such Security shall be deemed (so far as may be), solely for purposes of determining the aggregate Principal Amount of Securities to be redeemed by the Company, to be the portion selected for redemption. Securities that have been converted during a selection of Securities to be redeemed may be treated by the Trustee as outstanding for the purpose of such selection. Nothing in this Section 3.02 shall affect the right of any Holder to convert any Security pursuant to Article 10 before the termination of the conversion right with respect thereto.

SECTION 3.03. Notice of Redemption. At least 30 days but not more than 60 days before a Redemption Date, the Company shall mail a notice of redemption by first-class mail to each Holder of Securities to be redeemed in the manner provided in Section 11.02.

The notice shall identify the Securities to be redeemed and shall state:

(1) the Redemption Date;

(2) the Redemption Price;

(3) the Conversion Rate;

(4) the name and address of each Paying Agent and Conversion Agent and of the offices or agencies referred to in Section 4.05;

(5) that Securities called for redemption may be converted at any time before the close of business on the Redemption Date;

(6) that Holders who want to convert Securities must satisfy the requirements set forth in paragraph 8 of the Securities;

(7) that Securities called for redemption must be surrendered to any Paying Agent or at any applicable office or agency referred to in Section 4.05 to collect the Redemption Price;

(8) the CUSIP, ISIN, SICOVAM or other certificate number, if any, of the Securities;

(9) if fewer than all the outstanding Securities are to be redeemed, the certificate numbers, if any, and Principal Amounts of the particular Securities to be redeemed; and

(10) that, unless the Company defaults in payment of the Redemption Price, Original Issue Discount on Securities called for redemption and interest, if any, will cease to accrue on and after the Redemption Date.

Wherever mentioned herein, the "close of business" on any day shall mean the close of business in Amsterdam, any Place of Conversion or any Place of Payment, as the case may be.

At the Company's written request, the Trustee shall give the notice of redemption in the Company's name and at the Company's expense.

SECTION 3.04. Effect of Notice of Redemption. Once notice of redemption is given, Securities called for redemption become due and payable on the Redemption Date stated in the notice and at the Redemption Price therefor except for Securities that are converted in accordance with the terms of this Indenture. Upon the later of the Redemption Date and the date such Securities are surrendered to any Paying Agent or at any applicable office or agency referred to

in Section 4.05, such Securities called for redemption shall be paid at the Redemption Price therefor. Notice of redemption shall be deemed to be given when mailed, whether or not the Holder receives such notice.

SECTION 3.05. Deposit of Redemption Price. Prior to the Redemption Date, the Company shall deposit or cause to be deposited with any Paying Agent (or if the Company or a Subsidiary or an Affiliate of either of them is a Paying Agent, shall segregate and hold in trust) money sufficient to pay the Redemption Price of all Securities to be redeemed on that date other than Securities or portions of Securities called for redemption which prior thereto have been delivered by the Company to the Trustee for cancellation. Each Paying Agent shall as promptly as practicable return to the Company any money, with interest, if any, thereon (subject to the provisions of Section 7.02(f)), not required for that purpose because of conversion of Securities pursuant to Article 10. If such money is then held by the Company or a Subsidiary or an Affiliate of the Company in trust and is not required for such purpose it shall be discharged from such trust.

SECTION 3.06. Securities Redeemed in Part. Upon surrender of a Security that is redeemed in part, the Company shall execute, and the Trustee shall authenticate and deliver to the Holder, a new Security in an authorized denomination equal in Principal Amount to the unredeemed portion of the Security surrendered.

SECTION 3.07. Conversion Arrangement on Call for Redemption. In connection with any redemption of Securities, the Company may arrange for the purchase and conversion of any Securities called for redemption by an agreement with one or more investment bankers or other purchasers to purchase all or a portion of such Securities by paying to the Trustee in trust for the Holders whose Securities are to be so purchased, before the close of business on the Redemption Date, an amount that, together with any amounts deposited with the Trustee by the Company for redemption of such Securities, is not less than the Redemption Price, together with interest, if any, accrued to the Redemption Date, of such Securities. Notwithstanding anything to the contrary contained in this Article 3, the obligation of the Company to pay the Redemption Price of such Securities, including all accrued interest, if any, shall be deemed to be satisfied and discharged to the extent such amount is so paid by such purchasers but no such agreement shall relieve the Company of its obligation to pay such Redemption Price and interest, if any. If such an agreement is entered into, any Securities not duly surrendered for conversion by the Holders thereof may, at the option of the Company, be deemed, to the fullest extent permitted by law, acquired by such purchasers from such Holders and (notwithstanding anything to the contrary contained in Article 10) surrendered by such purchasers for conversion, all as of immediately prior to the close of business on the Redemption Date, subject to

payment of the above amount as aforesaid. The Trustee shall hold and pay to the Holders whose Securities are selected for redemption any such amount paid to it for purchase and conversion in the same manner as it would moneys deposited with it by the Company for the redemption of Securities. Without the Trustee's prior written consent, no arrangement between the Company and such purchasers for the purchase and conversion of any Securities shall increase or otherwise affect any of the powers, duties, responsibilities or obligations of the Trustee as set forth in this Indenture, and the Company agrees to fully indemnify the Trustee from, and hold it harmless against, any and all loss, liability or expense (including taxes other than taxes based on the income of the Trustee) arising out of or in connection with any such arrangement for the purchase and conversion of any Securities between the Company and such purchasers, including the costs and expenses incurred by the Trustee in the defense of any claim (whether asserted by the Company, any Holder or any other Person) or liability arising out of or in connection with the exercise or performance of any of its powers, duties, responsibilities or obligations under this Indenture other than resulting from the Trustee's gross negligence or willful misconduct.

SECTION 3.08. Purchase of Securities at the Option of the Holder. (a) General. Securities shall be purchased by the Company pursuant to paragraph 6 of the Securities as of January 17, 2005 (the "Purchase Date"), at the purchase price specified therein (the "Purchase Price"), at the option of the Holder thereof, upon:

(i) delivery to any Paying Agent or to any applicable office or agency referred to in Section 4.05 by the Holder of a written notice of purchase (the "Purchase Notice") at any time from the opening of business on the date that is 20 Business Days prior to the Purchase Date until the close of business on the Purchase Date stating:

(A) the certificate number, if any, of the Security that the Holder will deliver to be purchased;

(B) the portion of the Principal Amount of the Security which the Holder will deliver to be purchased, which portion must be \$1,000 or an integral multiple thereof; and

(C) that such Security shall be purchased on the Purchase Date pursuant to the terms and conditions specified in this Indenture and in paragraph 6 of the Securities.

(ii) delivery of such Security prior to, on or after the Purchase Date (together with all necessary endorsements) to any Paying Agent at

any office of such Paying Agent or to any applicable office or agency referred to in Section 4.05, such delivery being a condition to receipt by the Holder of the Purchase Price therefor; provided, however, that the Purchase Price shall be so paid pursuant to this Section 3.08 only if the Security so delivered conforms in all material respects to the description thereof in the related Purchase Notice.

The Company shall purchase from the Holder thereof, pursuant to this Section 3.08, a portion of a Security if the Principal Amount of such portion is \$1,000 or an integral multiple of \$1,000. Provisions of this Indenture that apply to the purchase of all of a Security also apply to the purchase of such portion of such Security.

Any purchase by the Company contemplated pursuant to the provisions hereof shall be consummated by the delivery of the consideration to be received by the Holder promptly following the later of the Business Day following the Purchase Date and the time of delivery of the Security.

Notwithstanding anything herein to the contrary, any Holder delivering to any Paying Agent or any applicable office or agency referred to in Section 4.05 the Purchase Notice contemplated by this Section 3.08(a) shall have the right to withdraw at any time prior to the close of business on the Purchase Date such Purchase Notice by delivery of a written notice of withdrawal to such Paying Agent or such office or agency in accordance with Section 3.10.

Holders may surrender a Security for purchase by the Company by means of book entry delivery in accordance with the provisions set forth herein and the regulations of the applicable book entry facility. For the purposes of this Section 3.08, a Security shall be deemed to have been surrendered to a Paying Agent upon receipt by such Paying Agent of a copy of an irrevocable notice given by any book entry facility to the relevant Registrar or any custodian for such Registrar instructing it to deliver the certificate corresponding to such Security to such Registrar for cancellation.

Each Paying Agent shall promptly notify the Company of the receipt by it of any Purchase Notice or written notice of withdrawal thereof.

At least five Business Days before the Company Notice Date (as defined below), the Company shall deliver an Officers' Certificate to the Trustee specifying:

- (i) the information required by Section 3.08(c); and

(ii) whether the Company desires the Trustee to give the notice required by Section 3.08(c).

(b) Purchase. On the Purchase Date the Principal Amount of the Securities in respect of which the Purchase Notice pursuant to Section 3.08(a) has been given, or a specified percentage thereof, may be purchased by the Company with cash equal to the aggregate Purchase Price of such Securities.

(c) Notice of Election. The Company shall send notices (the "Company Notice") to the Holders (and to beneficial owners as required by applicable law) in the manner provided in Section 11.02, on a date not less than 20 Business Days prior to the Purchase Date (such date not less than 20 Business Days prior to the Purchase Date being herein referred to as the "Company Notice Date"). Such notices shall include a form of Purchase Notice to be completed by the Securityholder and shall state:

(i) the Purchase Price and Conversion Rate;

(ii) the name and address of each Paying Agent and Conversion Agent and of the offices or agencies referred to in Section 4.05;

(iii) that Securities as to which the Purchase Notice has been given may be converted into Common Shares at any time prior to the close of business on the applicable Purchase Date only if the applicable Purchase Notice has been withdrawn in accordance with the terms of this Indenture;

(iv) that Securities must be surrendered to any Paying Agent or to any applicable office or agency referred to in Section 4.05 to collect payment;

(v) that the Purchase Price for any security as to which the Purchase Notice has been given and not withdrawn will be paid promptly following the later of the Purchase Date and the time of surrender of such Security as described in (iii);

(vi) the procedures the Holder must follow to exercise rights under Section 3.08 and a brief description of those rights;

(vii) briefly, the conversion rights of the Securities and that Holders who want to convert Securities must satisfy the requirements set forth in paragraph 8 of the Securities; and

(viii) the procedures for withdrawing the Purchase Notice.

At the Company's written request, the Trustee shall give such notice in the Company's name and at the Company's expense; provided, however, that, in all cases, the text of such notice shall be prepared by the Company.

(d) Procedure Upon Purchase. The Company shall deposit cash at the time and in the manner as provided in Section 3.10, sufficient to pay the aggregate Purchase Price of all Securities to be purchased pursuant to this Section 3.08. As soon as practicable after the later of the Business Day following the Purchase Date and the date such Securities are surrendered to any Paying Agent or at any applicable office or agency referred to in Section 4.05, the Company shall deliver to each Holder entitled to receive payment of the Purchase Price, cash in payment of such Purchase Price.

SECTION 3.09. Purchase of Securities at the Option of the Holder Upon Change in Control. (a) If after November 6, 2000 there shall have occurred a Change in Control, Securities shall be purchased, at the option of the Holder thereof, by the Company at the purchase price specified in paragraph 6 of the Securities (the "Change in Control Purchase Price"), on the date that is 35 Business Days after the occurrence of the Change in Control (the "Change in Control Purchase Date"), subject to satisfaction by or on behalf of the Holder of the requirements set forth in Section 3.09(c).

A "Change in Control" shall be deemed to have occurred at such time as any of the following events shall occur:

(i) Any person (for the purposes of this Section 3.09 only, the term "person" shall include a "person" within the meaning of Section 13(d)(3) or Section 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") or any successor provision to either of the foregoing) (other than the Company, any Subsidiary, any employee benefit plan of either the Company or any Subsidiary, or any entity the majority of whose voting stock is owned directly or indirectly by one or both of the governments of the Republic of France or the Republic of Italy or any Principal Shareholder of the Company) has become the beneficial owner (as the term "beneficial owner" is defined under Rule 13d-3 or any successor rule or regulation promulgated under the Exchange Act) of 50% or more of the total voting power in the aggregate of all classes of Capital Stock of the Company then outstanding normally entitled to vote in elections of Managing Directors; provided, however, that a person shall not be deemed beneficial owner of, or to own beneficially, (A) any securities tendered pursuant to a tender or exchange offer made by or on

behalf of such person or any of such person's Affiliates or Associates until such tendered securities are accepted for purchase or exchange thereunder, or (B) any securities if such beneficial ownership (1) arises solely as a result of a revocable proxy delivered in response to a proxy or consent solicitation made pursuant to, and in accordance with, the applicable rules and regulations under the Exchange Act, and (2) is not also then reportable on Schedule 13D (or any successor schedule, form or report) under the Exchange Act. For the avoidance of doubt, a Change in Control will not be deemed to have occurred upon the occurrence alone of a decrease to below any particular percentage of STMicroelectronics Holding II B.V.'s percentage ownership in the Company;

(ii) There shall be consummated any consolidation or merger of the Company pursuant to which the Common Shares would be converted into cash, securities or other property, in each case other than a consolidation or merger of the Company in which the holders of Common Shares immediately prior to the consolidation or merger have, directly or indirectly, at least a majority of the total voting power in the aggregate of all classes of capital stock of the continuing or surviving corporation immediately after such consolidation or merger; or

(iii) There shall be consummated a transfer of all or substantially all of the assets of the Company, as an entirety, to any person (as the term "person" is used in Section 13(d)(3) or Section 14(d)(2) of the Exchange Act), other than any Subsidiary, any employee benefit plan of either the Company or any Subsidiary, or any entity the majority of whose voting stock is owned directly or indirectly by one or both of the governments of the Republic of France or the Republic of Italy or any Principal Shareholder of the Company.

"Associate" shall have the meaning ascribed to such term in Rule 12b-2 of the General Rules and Regulations under the Exchange Act, as in effect on the date hereof.

"Principal Shareholders" means France Telecom, CEA Industrie and Finmeccanica S.p.A.

(b) Within 15 Business Days after the occurrence of a Change in Control, (i) the Company shall mail a written notice of such Change in Control by first-class mail to the Trustee and to each Holder (and to beneficial owners if required by applicable law) and (ii) the Company shall cause a copy of such notice to be published in The Wall Street Journal or another daily newspaper of national circulation, the Financial Times and Les Echos or La Tribune. The notice sent to



the Trustee and to each Holder shall include a form of Change in Control Purchase Notice to be completed by the Securityholder and shall state:

- (1) briefly, the events causing a Change in Control, and the date such Change in Control is deemed to have occurred for purposes of this Section 3.09;
- (2) the date by which the Change in Control Purchase Notice pursuant to this Section 3.09 must be given;
- (3) the Change in Control Purchase Date;
- (4) the Change in Control Purchase Price;
- (5) the name and address of each Paying Agent and Conversion Agent and the offices or agencies referred to in Section 4.05;
- (6) the Conversion Rate and any adjustments thereto;
- (7) that Securities as to which a Change in Control Purchase Notice has been given may be converted into Common Shares at any time prior to the close of business on the Change in Control Purchase Date only if the Change in Control Purchase Notice has been withdrawn in accordance with the terms of this Indenture;
- (8) that Securities must be surrendered to a Paying Agent or any applicable office or agency referred to in Section 4.05 to collect payment;
- (9) that the Change in Control Purchase Price for any Security as to which the Purchase Notice has been duly given and not withdrawn will be paid promptly following the later of the Change in Control Purchase Date and the time of surrender of such Security as described in clause (8) above;
- (10) the procedures the Holder must follow to exercise rights under this Section 3.09 and a brief description of those rights;
- (11) briefly, the conversion rights of the Securities;
- (12) that Holders who want to convert Securities must satisfy the requirements set forth in paragraph 8 of the Securities; and
- (13) the procedures for withdrawing a Change in Control Purchase Notice.

(c) A Holder may exercise its rights specified in Section 3.09(a) upon delivery of a written notice of purchase (a "Change in Control Purchase Notice") to any Paying Agent or to any applicable office or agency referred to in Section 4.05 at any time prior to the close of business on the Change in Control Purchase Date, stating:

(1) the certificate number, if any, of the Security which the Holder will deliver to be purchased;

(2) the portion of the Principal Amount of the Security which the Holder will deliver to be purchased, which portion must be \$1,000 or an integral multiple thereof; and

(3) that such Security shall be purchased on the Change in Control Purchase Date as specified in Section 3.10 and pursuant to the terms and conditions specified in paragraph 6 of the Securities.

Receipt of the Security by any Paying Agent prior to, on or after the Change in Control Purchase Date (together with all necessary endorsements), at any office of such Paying Agent or to any applicable office or agency referred to in Section 4.05 shall be a condition to the receipt by the Holder of the Change in Control Purchase Price therefor; provided, however, that such Change in Control Purchase Price shall be so paid pursuant to this Section 3.09 only if the Security so delivered to such Paying Agent or such office or agency shall conform in all material respects to the description thereof set forth in the related Change in Control Purchase Notice.

The Company shall purchase from the Holder thereof, pursuant to this Section 3.09, a portion of a Security if the Principal Amount of such portion is \$1,000 or an integral multiple of \$1,000. Provisions of this Indenture that apply to the purchase of all of a Security also apply to the purchase of such portion of such Security.

Any purchase by the Company contemplated pursuant to the provisions of this Section 3.09 shall be consummated by the delivery of the consideration to be received by the Holder promptly following the later of the Business Day following the Change in Control Purchase Date and the date such Securities are surrendered to any Paying Agent or at any applicable office or agency referred to in Section 4.05.

Notwithstanding anything herein to the contrary, any Holder delivering to a Paying Agent or to any applicable office or agency referred to in Section 4.05 the Change in Control Purchase Notice contemplated by this Section 3.09(c) shall

have the right to withdraw such Change in Control Purchase Notice at any time prior to the close of business on the Change in Control Purchase Date by delivery of a written notice of withdrawal to such Paying Agent or to such office or agency in accordance with Section 3.10.

Holders may surrender a Security for purchase by the Company by means of book entry delivery in accordance with the provisions set forth herein and the regulations of the applicable book entry facility. For the purposes of this Section 3.09, a Security shall be deemed to have been surrendered to a Paying Agent upon receipt by such Paying Agent of a copy of an irrevocable notice given by any book entry facility to the holder of the certificate corresponding to such Security instructing it to deliver such certificate to the relevant Registrar for cancellation.

Each Paying Agent shall promptly notify the Company of the receipt by it of any Change in Control Purchase Notice or written withdrawal thereof.

SECTION 3.10. Effect of Purchase Notice or Change in Control Purchase Notice. Upon receipt by any Paying Agent of the Purchase Notice or Change in Control Purchase Notice specified in Section 3.08(a) or Section 3.09(c), as applicable, the Holder of the Security in respect of which such Purchase Notice or Change in Control Purchase Notice, as the case may be, was given shall (unless such Purchase Notice or Change in Control Purchase Notice is withdrawn as specified in the following two paragraphs) thereafter be entitled to receive solely the Purchase Price or Change in Control Purchase Price, as the case may be, with respect to such Security. The Purchase Price or Change in Control Purchase Price shall be paid to such Holder promptly following the later of (x) the Business Day following the Purchase Date or the Change in Control Purchase Date, as the case may be, with respect to such Security (provided the conditions in Section 3.08(a) or Section 3.09(c), as applicable, have been satisfied) and (y) the time of delivery of such Security to any Paying Agent or to any applicable office or agency referred to in Section 4.05 by the Holder thereof in the manner required by Section 3.08(a) and (d) or Section 3.09(c), as applicable. Securities in respect of which the Purchase Notice or Change in Control Purchase Notice, as the case may be, has been given by the Holder thereof may not be converted into Common Shares on or after the date of the delivery of such Purchase Notice or Change in Control Purchase Notice, as the case may be, unless such Purchase Notice or Change in Control Purchase Notice, as the case may be, has first been validly withdrawn as specified in the following two paragraphs.

The Purchase Notice or Change in Control Purchase Notice, as the case may be, may be withdrawn by means of a written notice of withdrawal delivered to any office of any Paying Agent or to any applicable office or agency referred to

in Section 4.05 at any time on or prior to the close of business on the Purchase Date or the Change in Control Purchase Date, as the case may be, specifying:

(1) the certificate number, if any, of the Security in respect of which such notice of withdrawal is being submitted;

(2) the Principal Amount of the Security with respect to which such notice of withdrawal is being submitted; and

(3) the Principal Amount, if any, of such Security which remains subject to the original Purchase Notice or Change in Control Purchase Notice, as the case may be, and which has been or will be delivered for purchase by the Company.

There shall be no purchase of any Securities pursuant to Sections 3.08 or 3.09 if there has occurred (prior to, on or after, as the case may be, the giving, by the Holders of such Securities, of the required Purchase Notice or Change in Control Purchase Notice, as the case may be) and is continuing an Event of Default (other than a default in the payment of the Purchase Price or Change in Control Purchase Price, as the case may be, with respect to such Securities). Each Paying Agent will promptly return to the respective Holders thereof any Securities (x) with respect to which the Purchase Notice or Change in Control Purchase Notice, as the case may be, has been withdrawn in compliance with this Indenture, or (y) held by it during the continuance of an Event of Default (other than a default in the payment of the Purchase Price or Change in Control Purchase Price, as the case may be, with respect to such Securities).

SECTION 3.11. Deposit of Purchase Price or Change in Control Purchase Price. Prior to 3:00 p.m. (New York) on the Business Day following the Purchase Date or the Change in Control Purchase Date, as the case may be, the Company shall deposit or cause to be deposited with the Trustee or with a Paying Agent (or, if the Company or a Subsidiary or an Affiliate of either of them is acting as Paying Agent, shall segregate and hold in trust as provided in Section 2.04) an amount of cash in immediately available funds, sufficient to pay the aggregate Purchase Price or Change in Control Purchase Price, as the case may be, of all the Securities or portions thereof which are to be purchased.

SECTION 3.12. Securities Purchased in Part. Any Security which is to be purchased only in part shall be surrendered at any office of any Paying Agent or any applicable office or agency referred to in Section 4.05 (with, if the Company or the Trustee so requires, due endorsement, or a written instrument of transfer in form satisfactory to the Company and the Trustee executed by the Holder or such Holder's attorney duly authorized in writing) and the Company shall execute and

the Trustee shall authenticate and deliver to the Holder of such Security, without service charge, a new Security or Securities, of any authorized denomination as requested by such Holder in aggregate Principal Amount equal to, and in exchange for, the portion of the Principal Amount of the Security so surrendered which is not purchased.

Holders may surrender a Security for purchase in part by the Company by means of book entry delivery in accordance with the provisions set forth herein and the regulations of the applicable book entry facility. For the purposes of this Section 3.12, a Security shall be deemed to have been surrendered to a Paying Agent upon receipt by such Paying Agent of a copy of an irrevocable notice given by any book entry facility to the holder of the certificate corresponding to such Security instructing it to deliver such certificate to the relevant Registrar for cancellation.

SECTION 3.13. Covenant to Comply with Securities Laws Upon Purchase of Securities. In connection with any offer to purchase or purchase of Securities under Section 3.08 or 3.09 hereof, the Company shall (i) comply with Rule 13e-4, Rule 14e-1 and any other tender offer rules under the Exchange Act, if applicable, (ii) file the related Schedule 13E-4 (or any successor schedule, form or report) or any other required schedule under the Exchange Act, if applicable, and (iii) otherwise comply with all U.S. Federal and state and other applicable securities laws and regulations, including any applicable securities laws outside the United States, regulating the offer and delivery of Common Shares upon purchase of the Securities (including positions of the SEC under applicable no-action letters) so as to permit the rights and obligations under Sections 3.08 and 3.09 to be exercised in the time and in the manner specified in Sections 3.08 and 3.09.

SECTION 3.14. Repayment to the Company. The Trustee and each Paying Agent shall return to the Company, upon request of the Company, any cash together with interest on such cash, if any, held by them for the payment of the Purchase Price or Change in Control Purchase Price, as the case may be, of the Securities that remain unclaimed as provided in paragraph 12 of the Securities; provided, however, that to the extent that the aggregate amount of cash deposited by the Company pursuant to Section 3.11 exceeds the aggregate Purchase Price or Change in Control Purchase Price, as the case may be, of the Securities or portions thereof to be purchased, then promptly after the Business Day following the Purchase Date or Change in Control Purchase Date, as the case may be, the Trustee shall return any such excess to the Company together with interest, if any, thereon.

ARTICLE 4  
COVENANTS

SECTION 4.01. Payment of Securities. The Company shall promptly make all payments in respect of the Securities on the dates and in the manner provided in the Securities or pursuant to this Indenture. Principal Amount, Issue Price, accrued Original Issue Discount, Redemption Price, Purchase Price, Change in Control Purchase Price and interest, if any, shall be considered paid on the applicable date due if on such date the Trustee or any Paying Agent holds, in accordance with this Indenture, cash or securities, if expressly permitted hereunder, sufficient to pay all such amounts then due. The Company will pay cash amounts in money of The United States of America that at the time of payment is legal tender for payment of public and private debts. However, the Company may make such cash payments by check payable in such money.

The Company shall, to the extent permitted by law, pay interest on overdue amounts at the per annum rate of interest set forth in paragraph 1 of the Securities, compounded semi-annually, which interest on overdue amounts (to the extent payment of such interest shall be legally enforceable) shall accrue from the date such overdue amounts were originally due and payable. The Company will pay any transfer taxes, stamp taxes, capital contributions or other similar taxes upon (i) issue of the Securities or (ii) delivery of the Common Shares upon conversion of the Securities, except that a holder of the Securities will be required to pay any such tax which may be payable in respect of any transfer involved in the issue or delivery of the Common Shares in a name other than such holder's name.

SECTION 4.02. SEC Reports. The Company shall file with the Trustee, within 15 days after it files such annual and quarterly reports, information, documents and other reports with the SEC, copies of its annual and quarterly reports and of the information, documents and other reports (or copies of such portions of any of the foregoing as the SEC may by rules and regulations prescribe) which the Company is required to file with the SEC pursuant to Section 13 or 15(d) of the Exchange Act (or any such successor provisions thereto). In the event the Company is at any time no longer subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act (or any such successor provisions), it shall continue to provide the Trustee with reports containing substantially the same information as would have been required to be filed with the SEC had the Company continued to have been subject to such reporting requirements, and the Trustee shall make any such reports available to Securityholders upon request. In such event, such reports shall be provided at the times the Company would have been required to provide reports had it continued to have been subject to such

reporting requirements. The Company also shall comply with the other provisions of TIA Section 314(a), to the extent such provisions are applicable.

Delivery of such reports, information and documents to the Trustee is for informational purposes only and the Trustee's receipt of such shall not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Company's compliance with any of its covenants hereunder (as to which the Trustee is entitled to rely exclusively on Officers' Certificates).

SECTION 4.03. Compliance Certificate; Notice of Defaults. (a) The Company shall deliver to the Trustee within 120 days after the end of each fiscal year of the Company a certificate of the principal executive officer, the principal financial officer or the principal accounting officer of the Company stating whether or not, to the knowledge of the signer, the Company has complied with all conditions and covenants on its part contained in this Indenture and, if the signer has obtained knowledge of any default by the Company in the performance, observance or fulfillment of any such condition or covenant, specifying each such default and the nature thereof. For the purpose of this Section 4.03, compliance shall be determined without regard to any grace period or requirement of notice provided pursuant to the terms of this Indenture.

(b) The Company shall file with the Trustee written notice of the occurrence of any Default or Event of Default within 10 Business Days of its becoming aware of such Default or Event of Default.

SECTION 4.04. Further Instruments and Acts. Upon request of the Trustee, the Company will execute and deliver such further instruments and do such further acts as may be reasonably necessary or proper to carry out more effectively the purposes of this Indenture.

SECTION 4.05. Maintenance of Office or Agency. The Company will maintain in the Borough of Manhattan, The City of New York, and such other locations as may be required by, or necessary under, the rules of any securities exchange or quotation system on which the Securities may from time to time be listed, an office or agency where Securities may be presented or surrendered for payment, where Securities may be surrendered for registration of transfer, exchange, purchase, redemption or conversion and where notices and demands to or upon the Company in respect of the Securities and this Indenture may be served. The Company will maintain in Paris, France, an office or agency where Securities may be presented or surrendered for payment, where Securities may be surrendered pursuant to any purchase, redemption or conversion and where notices and demands to or upon the Company in respect of the Securities and this

Indenture may be served. The Company will maintain in Amsterdam, The Netherlands, an office or agency where Securities may be surrendered for registration of transfer and exchange. The office of (a) the Trustee in The City of New York, which office on the date hereof is located at The Bank of New York, 101 Barclay Street, Floor 21 West, New York, New York 10286, Attention: Corporate Trust Trustee Administration; (b) the Paris Conversion Agent and the Paris Paying Agent in Paris, France, which office on the date hereof is located at BNP Paribas, 16 boulevard des Italiens, 75009 Paris, France, and (c) the Dutch Registrar in Amsterdam, The Netherlands, which office on the date hereof is located at Netherlands Management Company B.V. Herengracht 320, 1016 CE Amsterdam, The Netherlands, shall be such office or agency for the respective purposes described above, unless the Company shall maintain some other office or agency for such purposes and shall give prompt written notice to the Trustee of the location, and any change of location, of such other office or agency. If at any time the Company shall fail to maintain any such required office or agency or shall fail to furnish the Trustee with the address thereof, such presentations, surrenders, notices and demands may be made or served at the address of the Trustee set forth in Section 11.02.

The Company may also from time to time designate one or more other offices or agencies where the Securities may be presented or surrendered for any or all such purposes and may from time to time rescind such designations; provided, however, that no such designation or rescission shall in any manner relieve the Company of its obligation to maintain an office or agency in each of The City of New York, Paris and Amsterdam for the purposes described in the preceding paragraph.

SECTION 4.06. Additional Amounts. The Company will pay the holder of the Securities such amounts (the "Additional Amounts") as may be necessary in order that every net payment of the Principal Amount, Issue Price, accrued Original Issue Discount, Redemption Price, Purchase Price, Change in Control Purchase Price or interest, if any, in respect of any Security by the Company, after deduction or withholding for or on account of any present or future tax, assessment or other governmental charge imposed upon or as a result of such payment by The Netherlands or any Successor Jurisdiction or any political subdivision or taxing authority thereof or therein ("Taxes") will not be less than the amount provided for in such Security to be then due and payable; provided, however, that the foregoing obligation to pay Additional Amounts will not apply (a) with respect to any Security presented for payment by, or on behalf of, a holder who is liable to such taxes or duties in respect of such Security by reason of his having some connection with The Netherlands or any Successor Jurisdiction other than the mere holding of such Security, (b) more than 30 days after the Relevant Date except to the extent that the holder of such Security would have been entitled



to such Additional Amounts on presenting the same for payment on such thirtieth day (where such presentation is required), or (c) any tax, assessment or other governmental charge which would not have been imposed but for the failure to comply, following a request by the Company to the holder, with any certification, identification or other reporting requirements concerning the nationality, residence, identity, or connection with The Netherlands or any Successor Jurisdiction or any political subdivision thereof of the holder of the Security, if compliance is required by statute or by regulation of The Netherlands or any Successor Jurisdiction or any political subdivision or taxing authority thereof as a precondition to exemption from such tax, assessment or other governmental charge.

"Relevant Date" means the date which is the later of (i) the date on which such net payment first becomes due and (ii) if the full amount of the moneys payable has not been received by the Trustee on or prior to such date, the date 21 days after the date on which the full amount of such moneys having been so received, notice to this effect shall have been given to the holders in accordance with this Indenture.

Whenever in this Indenture there is mentioned, in any context, the payment of the Principal Amount, Issue Price, accrued Original Issue Discount, Redemption Price, Purchase Price, Change in Control Purchase Price in respect of, or interest on, any Security, such mention shall be deemed to include mention of the payment of Additional Amounts provided for in this Section to the extent that, in such context, additional amounts are, were or would be payable in respect thereof pursuant to the provisions of this Section and express mention of the payment of Additional Amounts (if applicable) in any provisions hereof shall not be construed as excluding Additional Amounts in those provisions hereto where such express mention is not made.

At least 10 days prior to the first day on which payment of the Principal Amount, Issue Price, accrued Original Issue Discount, Redemption Price, Purchase Price, Change in Control Purchase Price or interest, if any, in respect of any Security by the Company is made and at least 10 days prior to each date of such payment if there has been any change with respect to the matters set forth in the below-mentioned Officers' Certificate, the Company will furnish the Trustee and each Paying Agent, if other than the Trustee, with an Officers' Certificate instructing the Trustee and such Paying Agent whether such payment with respect to the Securities shall be made to Holders of Securities without withholding for or on account of any Taxes. If any such withholding shall be required, then such Officers' Certificate shall specify by country the amount if any, required to be withheld on such payments to such holders and the Company will pay to the Trustee or any Paying Agent the Additional Amounts required by this Section.

The Company covenants to fully indemnify the Trustee and any Paying Agent for, and to hold them harmless against, any and all loss, liability or expense (including taxes other than taxes based on the income of the Trustee) reasonably incurred without negligence or wilful misconduct on their part arising out of or in connection with actions taken or omitted by any of them in reliance on any Officers' Certificate furnished pursuant to this Section.

SECTION 4.07. Calculation of Original Issue Discount. The Company shall file with the Trustee promptly at the end of each calendar year (i) a written notice specifying the amount of Original Issue Discount (including daily rates and accrual periods) accrued on outstanding Securities as of the end of such year and (ii) such other specific information relating to such Original Issue Discount as may then be relevant under the Internal Revenue Code of 1986, as amended from time to time.

SECTION 4.08. Limitation on Liens. The Company may not allow any Lien securing the Company's Capital Market Indebtedness, or securing a guaranty or indemnity provided by the Company in respect of the Capital Market Indebtedness of its Subsidiaries or of any other person, to exist on any of its property or assets, which includes capital stock, unless the Lien secures the Securities equally and ratably with or prior to, any other indebtedness secured by such Lien. The foregoing provision shall not apply to secured Capital Market Indebtedness which the Company may issue, assume, guarantee or permit to exist up to 5% of the consolidated net tangible assets as shown on the Company's most recent consolidated balance sheet at the time. This limitation will not apply to:

(a) Liens existing at the date hereof;

(b) Liens on property that exist when the Company acquires the property and Liens that secure payment of the purchase price of the property;

(c) Liens on shares or stock of any entity that exists when the Company or any Subsidiary acquires such shares or stock;

(d) Liens on property to secure debt incurred for development or improvement of the property;

(e) Liens securing (i) nondelinquent performance of bids or contracts, other than for borrowed money, obtaining of advances or credit or the securing of debt, (ii) contingent obligations on surety and appeal bonds and (iii) other similar nondelinquent obligations, in each case incurred in the ordinary course of business;

(f) Liens securing capital lease obligations, provided that (i) any such Lien attaches to the property within 270 days after the acquisition thereof and (ii) such lien attaches solely to the property so acquired;

(g) Liens arising solely by virtue of any statutory or common law provision relating to banker's Liens, rights of set-off or similar rights and remedies as to deposit account or other funds, provided that such deposit account is not a dedicated cash collateral account and is not subject to restrictions against our access in excess of those set forth by regulations promulgated by the European Central Bank, the Central Bank of The Netherlands or the Federal Reserve Board and such deposit account is not intended by the Company to provide collateral to the depository institution;

(h) pledges or deposits under worker's compensation laws, unemployment insurance laws or similar legislation;

(i) statutory and tax Liens for sums not yet due or delinquent or which are being contested or appealed in good faith by appropriate proceedings;

(j) Liens arising solely by operation of law and in the ordinary course of business, such as mechanics', materialmen's, warehousemen's and carriers' Liens and Liens of landlords or of mortgages of landlords on fixtures and movable property located on premises leased in the ordinary course of business;

(k) Liens on personal property, (other than shares or debt of the Company's Subsidiaries) securing loans with an initial maturity of not more than one year or on accounts receivables in connection with a receivables financing program; or

(l) extensions, renewals or replacement of any of the Liens described above, if limited to all or any part of the same property securing the original Lien.

If the Company takes any action that would require the Securities to be secured by any Lien then the Company shall notify the Trustee and shall provide the Trustee with evidence that the Securities are secured by such Lien.

SECTION 4.09. 144 Information Requirement. The Company shall use its reasonable efforts to file the reports required to be filed by it under the Securities Act and the Exchange Act in a timely manner and, if at any time it is not required to file such reports but in the past had been required to or did file such reports, it will, upon the request of any holder of the Securities, make available other information as required by, and so long as necessary to permit, sales of its Securities pursuant to Rules 144 and 144A under the Securities Act or, in each case, any similar rule or regulation hereafter adopted by the SEC as a replacement

thereto having substantially the same effect as such rule. Notwithstanding the foregoing, nothing in this Section 4.09 shall be deemed to require the Company to register any of its securities pursuant to the Exchange Act

ARTICLE 5  
SUCCESSOR CORPORATION

SECTION 5.01. When Company May Merge or Transfer Assets. The Company, in a single transaction or through a series of related transactions, may, without the consent of any Holders of outstanding Securities, consolidate with or merge with or into or transfer (by assignment, sale or otherwise) or lease its assets substantially as an entirety to any person, and any person may consolidate with or merge into or transfer or lease its assets substantially as an entirety to the Company, provided that:

(a) the person (if other than the Company) formed by such consolidation or into which the Company is merged or the person which acquires or leases the assets of the Company substantially as an entirety (1) shall be a corporation, partnership or trust organized and existing under the laws of any European Union member state or any state of the United States ( the "Successor Jurisdiction") and (2) shall expressly assume, by an indenture supplemental hereto, executed and delivered to the Trustee, in form satisfactory to the Trustee, all of the obligations of the Company under the Securities and this Indenture;

(b) immediately after giving effect to such transaction, and the assumption contemplated by clause (a) above, no Default or Event of Default shall have occurred and be continuing; and

(c) the Company shall have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation, merger or transfer and, if a supplemental indenture is required in connection with such transaction, such supplemental indenture, comply with this Article and that all conditions precedent herein provided for relating to such transaction have been satisfied.

For purposes of the foregoing, the transfer (by assignment, sale or otherwise) or lease of the properties and assets of one or more Subsidiaries (other than to the Company or another wholly owned Subsidiary), which, if such assets were owned by the Company, would constitute all or substantially all of the properties and assets of the Company, shall be deemed to be the transfer of the assets, substantially as an entirety, of the Company.

The successor person formed by such consolidation or into which the Company is merged or the successor person to which such conveyance, transfer or lease is made shall succeed to, and be substituted for, and may exercise every right and power of, the Company under this Indenture with the same effect as if such successor had been named as the Company herein; and thereafter, except in the case of (i) a lease of its properties and assets substantially as an entirety and (ii) obligations the Company may have under a supplemental indenture pursuant to Section 10.15, the Company shall be discharged and released from all obligations and covenants under this Indenture and the Securities. Subject to Section 9.05, the Trustee shall enter into a supplemental indenture to evidence the succession and substitution of such successor person and such discharge and release of the Company.

ARTICLE 6  
DEFAULTS AND REMEDIES

SECTION 6.01. Events of Default. An "Event of Default" occurs if:

(a) the Company defaults in the payment of the Principal Amount, Issue Price, accrued Original Issue Discount, Redemption Price, Purchase Price or Change in Control Purchase Price on any Security when the same becomes due and payable at its Stated Maturity, upon redemption, upon declaration, when due for purchase by the Company or otherwise, whether or not such payment shall be prohibited by this Indenture;

(b) the Company fails to comply with any of its agreements in the Securities or this Indenture (other than those referred to in clause (a) above and clause (c) below) and such failure continues for 60 days after receipt by the Company of a Notice of Default;

(c) the Company fails to deliver Common Shares (or pay cash in lieu of fractional Common Shares) in accordance with the terms hereof when such Common Shares (or cash in lieu of fractional Common Shares) are required to be delivered, upon conversion of a Security and such failure is not remedied for a period of 10 days; or

(d) a default shall occur under any mortgage (including any pledge, lien, deed of trust, security interest or other similar encumbrance), indenture, or instrument under which there may be issued or by which there may be secured or evidenced any indebtedness for money borrowed by the Company or any Consolidated Subsidiary, whether such indebtedness now exists or shall hereafter be created, which default shall have resulted in such indebtedness, in an aggregate

principal amount exceeding \$10 million becoming or being declared due and payable prior to the date on which it would otherwise have become due and payable, without such indebtedness having been discharged, such acceleration having been rescinded or annulled or there having been deposited in trust a sum of money sufficient to discharge in full such indebtedness within a period of 20 days after there shall have been given, by registered or certified mail, to the Company by the Trustee or to the Company and the Trustee by the Holders of at least 25% in Principal Amount of the Securities, a written notice specifying such default and requiring the Company to cause such indebtedness to be discharged, to cause such acceleration to be rescinded or annulled or to cause there to be deposited in trust a sum sufficient to discharge in full such indebtedness and stating that such notice is a "Notice of Default" hereunder.

(e) the Company pursuant to or within the meaning of any Bankruptcy Law:

(i) commences a voluntary case or proceeding;

(ii) consents to the entry of an order for relief against it in an involuntary case or proceeding or the commencement of any case against it;

(iii) consents to the appointment of a Custodian of it or for any substantial part of its property;

(iv) makes a general assignment for the benefit of its creditors;

(v) files a petition in bankruptcy or answer or consent seeking reorganization or relief; or

(vi) consents to the filing of such petition or the appointment of or taking possession by a Custodian;

(f) a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that:

(i) is for relief against the Company in an involuntary case or proceeding, or adjudicates the Company insolvent or bankrupt;

(ii) appoints a Custodian of the Company or for any substantial part of its property; or

(iii) orders the winding up or liquidation of the Company;

and the order or decree remains unstayed and in effect for 60 days;

"Bankruptcy Law" means any applicable bankruptcy law, insolvency law, or any similar law for the relief of debtors, of The Netherlands or any successor jurisdiction in which the Company (or any successor) is incorporated.

"Custodian" means any receiver, trustee, assignee, liquidator, custodian or similar official under any Bankruptcy Law.

A Default under clause (b) above is not an Event of Default until the Trustee notifies the Company, or the Holders of at least 25% in aggregate Principal Amount of the Securities at the time outstanding notify the Company and the Trustee, of the Default and the Company does not cure such Default within the time specified in clause (b) above after receipt of such notice. Any such notice must specify the Default, demand that it be remedied and state that such notice is a "Notice of Default."

The Company shall deliver to the Trustee, within 30 days after it becomes aware of the occurrence thereof, written notice of any event which with the giving of notice and the lapse of time or both would become an Event of Default under clause (b) or clause (d), its status and what action the Company is taking or proposes to take with respect thereto.

SECTION 6.02. Acceleration. If an Event of Default (other than an Event of Default specified in Section 6.01(e) or (f)) occurs and is continuing, unless the Principal Amount of all the Securities shall have already become due and payable, either the Trustee by notice to the Company, or the Holders of at least 25% in aggregate Principal Amount of the Securities at the time outstanding by notice to the Company and the Trustee, may declare the Issue Price and accrued Original Issue Discount to the date of declaration on all the Securities to be immediately due and payable, whereupon such Issue Price and accrued Original Issue Discount shall be due and payable immediately; provided that, if an Event of Default specified in Section 6.01(e) or (f) occurs and is continuing, the Issue Price and accrued Original Issue Discount on all the Securities to the date of the occurrence of such Event of Default shall become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Security holders. The Holders of a majority in aggregate Principal Amount of the Securities at the time outstanding, by notice to the Trustee (and without notice to any other Securityholder) may rescind an acceleration and its consequences if the rescission would not conflict with any judgment or decree and if all existing Events of Default have been cured or waived except nonpayment of the Issue Price and accrued Original Issue Discount that have become due solely as a result of acceleration and if all amounts due to the Trustee under Section 7.06 have been

paid. No such rescission shall affect any subsequent Default or impair any right consequent thereto.

SECTION 6.03. Other Remedies. If an Event of Default occurs and is continuing, the Trustee may pursue any available remedy to collect the payment of the Issue Price and accrued Original Issue Discount on the Securities or to enforce the performance of any provision of the Securities or this Indenture.

The Trustee may maintain a proceeding even if the Trustee does not possess any of the Securities or does not produce any of the Securities in the proceeding. A delay or omission by the Trustee or any Securityholder in exercising any right or remedy accruing upon an Event of Default shall not impair the right or remedy or constitute a waiver of, or acquiescence in, the Event of Default. No remedy is exclusive of any other remedy. All available remedies are cumulative.

SECTION 6.04. Waiver of past Defaults. The Holders of not less than a majority in aggregate Principal Amount of the Securities at the time outstanding, by notice to the Trustee (and without notice to any other Securityholder), may waive an existing Default and its consequences except (a) an Event of Default described in Section 6.01(a), (b) a Default in respect of a provision that under Section 9.02 cannot be amended without the consent of each Securityholder affected or (c) a Default under Article 10. When a Default is waived, it is deemed cured and shall cease to exist, but no such waiver shall extend to any subsequent or other Default or impair any consequent right.

SECTION 6.05. Control by Majority. The Holders of a majority in aggregate Principal Amount of the Securities at the time outstanding may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any trust or power conferred on the Trustee. However, the Trustee may refuse to follow any direction that conflicts with law or this Indenture or that the Trustee determines in good faith is unduly prejudicial to the rights of other Securityholders or would involve the Trustee in personal liability unless the Trustee shall have been provided with security or indemnity against such liability satisfactory to the Trustee.

SECTION 6.06. Limitation on Suit. A Securityholder may not pursue any remedy with respect to this Indenture or the Securities unless:

(1) the Holder gives to the Trustee written notice stating that an Event of Default is continuing;



(2) the Holders of at least 25% in aggregate Principal Amount of the Securities at the time outstanding make a written request to the Trustee to pursue the remedy;

(3) such Holder or Holders offer to the Trustee security or indemnity against any loss, liability or expense satisfactory to the Trustee;

(4) the Trustee does not comply with the request within 60 days after receipt of the notice, the request and the offer of security or indemnity; and

(5) the Holders of a majority in aggregate Principal Amount of the Securities at the time outstanding do not give the Trustee a direction inconsistent with the request during such 60-day period.

A Securityholder may not use this Indenture to prejudice the rights of any other Securityholder or to obtain a preference or priority over any other Securityholder.

SECTION 6.07. Rights of Holders to Receive Payment. Notwithstanding any other provision of this Indenture, the right of any Holder to receive payment of the Principal Amount, Issue Price, accrued Original Issue Discount, Redemption Price, Purchase Price, Change in Control Purchase Price or interest, if any, in respect of the Securities held by such Holder, on or after the respective due dates expressed in the Securities or any Redemption Date, and to convert the Securities in accordance with Article 10 or to bring suit for the enforcement of any such payment on or after such respective dates or the right to convert, shall not be impaired or affected adversely without the consent of each such Holder.

SECTION 6.08. Collection Suit by Trustee. If an Event of Default described in Section 6.01(a) occurs and is continuing, the Trustee may recover judgment in its own name and as trustee of an express trust against the Company for the whole amount of the Principal Amount, Issue Price, accrued Original Issue Discount, Redemption Price, Purchase Price, Change in Control Purchase Price or interest, if any, owing with respect to the Securities and the amounts provided for in Section 7.06.

SECTION 6.09. Trustee May File Proofs of Claim. In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding relative to the Company or any other obligor upon the Securities or the property of the Company or of such other obligor or their creditors, the Trustee (irrespective of whether the Principal Amount, Issue Price, accrued Original Issue Discount, Redemption Price, Purchase Price, Change in Control Purchase Price or interest, if any, in respect of the Securities shall then be due and payable as therein expressed or by

declaration or otherwise and irrespective of whether the Trustee shall have made any demand on the Company for the payment of any such amount) shall be entitled and empowered, by intervention in such proceeding or otherwise:

(a) to file and prove a claim for the whole amount of the Principal Amount, Issue Price, accrued Original Issue Discount, Redemption Price, Purchase Price, Change in Control Purchase Price or interest, if any, owing and unpaid on the Securities, as applicable, and to file such other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel) and of the Holders allowed in such judicial proceeding; and

(b) to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same;

and any Custodian, receiver, assignee, trustee, liquidator, sequestrator or similar official in any such judicial proceeding is hereby authorized by each Holder to make such payments to the Trustee and, in the event that the Trustee shall consent to the making of such payments directly to the Holders, to pay the Trustee any amount due it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due the Trustee under Section 7.06.

Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment or composition affecting the Securities or the rights of any Holder thereof, or to authorize the Trustee to vote in respect of the claim of any Holder in any such proceeding.

SECTION 6.10. Priorities. If the Trustee collects any money pursuant to this Article 6, it shall pay out the money in the following order:

FIRST: to the Trustee for amounts due under Section 7.06;

SECOND: to Securityholders for amounts due and unpaid on the Securities for the Principal Amount, Issue Price, accrued Original Issue Discount, Redemption Price, Purchase Price, Change in Control Purchase Price or interest, if any, as the case may be, ratably, without preference or priority of any kind, according to such amounts due and payable on the Securities; and

THIRD: the balance, if any, to the Company.

The Trustee may fix a record date and payment date for any payment to Securityholders pursuant to this Section 6.10. At least 15 days before such record date, the Company shall mail to each Securityholder and the Trustee a notice that states the record date, the payment date and amount to be paid.

SECTION 6.11. Undertaking for Costs. In any suit for the enforcement of any right or remedy under this Indenture or in any suit against the Trustee for any action taken or omitted by it as Trustee, a court in its discretion may require the filing by any party litigant (other than the Trustee) in the suit of an undertaking to pay the costs of the suit, and the court in its discretion may assess reasonable costs, including reasonable attorneys' fees and expenses, against any party litigant in the suit, having due regard to the merits and good faith of the claims or defenses made by the party litigant. This Section 6.11 does not apply to a suit initiated by the Trustee, a suit by a Holder pursuant to Section 6.07 or a suit by Holders of more than 10% in aggregate Principal Amount of the Securities at the time outstanding.

SECTION 6.12. Notice of Defaults. The Trustee shall, within 90 days after the occurrence of any Default, mail to all Holders of Securities, as the names and addresses of such Holders appear on the books of registry of the Company, notice of all Defaults of which a Trust Officer of the Trustee shall be actually aware, unless such Defaults shall have been cured or waived before the giving of such notice; provided that, except in the case of a Default described in Section 6.01(a), the Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee, or a trust committee of directors or Trust Officers of the Trustee in good faith determines that the withholding of such notice is in the interests of the Holders of Securities.

SECTION 6.13. Waiver of Stay, Extension or Usury Laws. The Company covenants (to the extent it may lawfully do so) that it shall not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law or any usury or other law, wherever enacted, now or at any time hereafter in force, that would prohibit or forgive the Company from paying all or any portion of the Principal Amount, Issue Price, accrued Original Issue Discount, Redemption Price, Purchase Price or Change in Control Purchase Price in respect of the Securities, or any interest on any such amounts, as contemplated herein, or that may affect the covenants or the performance of this Indenture or the Securities; and the Company (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law, and covenants that it will not hinder, delay or impede the execution of any power herein granted to the Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

ARTICLE 7  
TRUSTEE

SECTION 7.01. Duties and Responsibilities of the Trustee; During Default; Prior to Default. The Trustee, prior to the occurrence of an Event of Default and after the curing or waiving of all Events of Default which may have occurred, undertakes to perform such duties and only such duties as are specifically set forth in this Indenture. In case an Event of Default has occurred (which has not been cured or waived) the Trustee shall exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

No provision of this Indenture shall be construed to relieve the Trustee from liability for its own negligent action, its own negligent failure to act or its own wilful misconduct, except that

(a) prior to the occurrence of an Event of Default and after the curing or waiving of all such Events of Default which may have occurred:

(i) the duties and obligations of the Trustee shall be determined solely by the express provisions of this Indenture, and the Trustee shall not be liable except for the performance of such duties and obligations as are specifically set forth in this Indenture, and no implied covenants or obligations shall be read into this Indenture against the Trustee; and

(ii) in the absence of bad faith on the part of the Trustee, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon any statements, certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture; but in the case of any such statements, certificates or opinions which by any provision hereof are specifically required to be furnished to the Trustee, the Trustee shall be under a duty to examine the same to determine whether or not they conform to the requirements of this Indenture (but need not confirm or investigate the accuracy of any mathematical calculations or other facts stated therein);

(b) the Trustee shall not be liable for any error of judgment made in good faith by a Trust Officer or Trust Officers of the Trustee, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts; and

(c) the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the holders of not less than a majority in principal amount of the Securities at the time

outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, under this Indenture.

None of the provisions contained in this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur personal financial liability in the performance of any of its duties or in the exercise of any of its rights or powers, if there shall be reasonable ground for believing that the repayment of such funds or adequate indemnity against such liability is not reasonably assured to it.

This Section 7.01 is in furtherance of and subject to Sections 315 and 316 of the TIA.

SECTION 7.02. Rights of Trustee. Subject to the provisions of Section 7.01:

(a) The Trustee may conclusively rely and shall be fully protected in acting or refraining from acting upon any resolution, Officers' Certificate or any other certificate, statement, instrument, opinion, report, notice, request, consent, order, bond, debenture, note, coupon, security or other paper or document (whether in its original or facsimile form) believed by it to be genuine and to have been signed or presented by the proper party or parties.

(b) Before the Trustee acts or refrains from acting, it may require an Officers' Certificate or an Opinion of Counsel. The Trustee shall not be liable for any action it takes or omits to take in good faith in reliance on such Officers' Certificate or Opinion of Counsel.

(c) The Trustee may act through agents or attorneys and shall not be responsible for the misconduct or negligence of any agent or attorney appointed with due care.

(d) The Trustee shall not be liable for any action it takes or omits to take in good faith which it believes to be authorized or within its rights or powers.

(e) The Trustee may refuse to perform any duty or exercise any right or power or extend or risk its own funds or otherwise incur any financial liability unless it receives indemnity satisfactory to it against any loss, liability or expense.

(f) Money held by the Trustee in trust hereunder need not be segregated from other funds except to the extent required by law. The Trustee (acting in any

capacity hereunder) shall be under no liability for interest on any money received by it hereunder except as otherwise agreed with the Company.

(g) The Trustee shall not be deemed to have notice of any Default or Event of Default unless a Trust Officer of the Trustee has actual knowledge thereof or unless written notice of any event which is in fact such a default is received by a Trust Officer of the Trustee at its office set forth in Section 11.02.

(h) The Trustee may consult with counsel of its selection and the advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon.

(i) The Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of the Company, personally or by agent or attorney at the sole cost of the Company and shall incur no liability or additional liability of any kind by reason of such inquiry or investigation.

(j) The Trustee may request that the Company deliver an Officers' Certificate setting forth the names of individuals and/or titles of officers authorized at such time to take specified actions pursuant to this Indenture, which Officers' Certificate may be signed by any person authorized to sign an Officers' Certificate, including any person specified as so authorized in any such certificate previously delivered and not superceded.

SECTION 7.03. Trustee's Disclaimer. The Trustee in its individual or any other capacity may become the owner or pledgee of Securities and may otherwise deal with the Company or its Affiliates with the same rights it would have if it were not Trustee. Any Paying Agent, Registrar, Conversion Agent or co-registrar may do the same with like rights. However, the Trustee must comply with Sections 7.09 and 7.10. The Trustee makes no representation as to the validity or adequacy of this Indenture or the Securities, it shall not be accountable for the Company's use of the proceeds from the Securities, it shall not be responsible for any statement in the registration statement for the Securities under the Securities Act of 1933 (the "Securities Act") or in this Indenture or the Securities (other than its certificate of authentication), or the determination as to which beneficial owners are entitled to receive any notices hereunder.

SECTION 7.04. Notice of Defaults. The Trustee shall, within 90 days after the occurrence of any Default, mail to all Holders of Securities notice of all Defaults of which a Trust Officer of the Trustee shall have actual knowledge or has received written notice, as and to the extent provided by the TIA, unless such Defaults shall have been cured or waived before the giving of such notice; provided that, except in the case of a Default described in Section 6.01(a), the Trustee shall be fully protected in withholding such notice if and so long as the board of directors, the executive committee, or a trust committee of directors or Trust Officers of the Trustee in good faith determines that the withholding of such notice is in the interests of the Holders of Securities.

SECTION 7.05. Reports by Trustee to Holders. Within 60 days after each March 15 beginning with the March 15 following the date of this Indenture, the Trustee shall mail to each Securityholder a brief report dated as of such March 15 that complies with TIA Section 313(a), if required by said Section. The Trustee also shall comply with TIA Sections 313(b) and (c).

A copy of each report at the time of its mailing to Securityholders shall be provided to the Company and shall be submitted to the SEC and each stock exchange on which the Securities are listed. The Company agrees promptly to notify the Trustee whenever the Securities become listed on any stock exchange and of any delisting thereof.

SECTION 7.06. Compensation and Indemnity. The Company agrees:

(a) to pay to the Trustee from time to time as agreed upon in writing such compensation for all services rendered by it hereunder (which compensation shall not (to the extent permitted by law) be limited by any provision of law in regard to the compensation of a trustee of an express trust);

(b) to reimburse the Trustee upon its request and, if requested in writing by the Company, submission of reasonable documentation for all reasonable expenses, disbursements and advances incurred or made by the Trustee in accordance with any provision of this Indenture (including the reasonable compensation and the expenses, advances and disbursements of its agents and counsel), except any such expense, disbursement or advance as may be attributable to its negligence or bad faith; and

(c) to indemnify each of the Trustee, its officers, directors, employees and agents, or any predecessor Trustee, in any of its capacities hereunder, for, and to hold it harmless against, any and all loss, liability, damage, claim or expense, including taxes (other than taxes based upon, measured or determined by the

income of the Trustee), incurred without negligence or bad faith on its part, arising out of or in connection with the acceptance or administration of this trust or the exercise or performance of any of its powers or duties in each of its capacities hereunder, including the reasonable costs and expenses of defending itself against any claim (whether asserted by the Company, any Holder or any other Person) or liability in connection with the exercise or performance of any of its powers or duties hereunder.

The Trustee shall give the Company notice of any claim or liability for which the Trustee might be entitled to indemnification under subparagraph (c) of this Section 7.06, within a reasonable amount of time after a Trust Officer of the Trustee becomes aware of such claim or liability. To secure the Company's payment obligations in this Section 7.06, the Trustee shall have a lien prior to the Securities on all money or property held or collected by the Trustee.

The Company's payment obligations pursuant to this Section 7.06 shall survive the discharge of this Indenture. When the Trustee incurs expenses after the occurrence of a Default specified in Section 6.01(e) or (f), the expenses are intended to constitute expenses of administration under the Bankruptcy Law. The provisions of this Section shall survive the termination of this Indenture and the resignation or removal of the Trustee.

SECTION 7.07. Replacement of Trustee. The Trustee may resign by so notifying the Company; provided, however, no such resignation shall be effective until a successor Trustee has accepted its appointment pursuant to this Section 7.07. The Holders of a majority in aggregate Principal Amount of the Securities at the time outstanding may remove the Trustee by so notifying the Trustee and may appoint a successor Trustee (subject to the consent of the Company, such consent not to be unreasonably withheld). The Company shall remove the Trustee if:

- (1) the Trustee fails to comply with Section 7.09;
- (2) the Trustee is adjudged bankrupt or insolvent;
- (3) a receiver or other public officer takes charge of the Trustee or its property; or
- (4) the Trustee otherwise becomes incapable of acting.



If the Trustee resigns or is removed or if a vacancy exists in the office of Trustee for any reason, the Company shall promptly appoint, by resolution of its Board, a successor Trustee.

A successor Trustee shall deliver a written acceptance of its appointment to the retiring Trustee and to the Company. Thereupon the resignation or removal of the retiring Trustee shall become effective, and the successor Trustee shall have all the rights, powers and duties of the Trustee under this Indenture. The successor Trustee shall mail a notice of its succession to Securityholders. The retiring Trustee shall promptly transfer all property held by it as Trustee to the successor Trustee, subject to the lien provided for in Section 7.06.

If a successor Trustee does not take office within 30 days after the retiring Trustee resigns or is removed, the retiring Trustee, the Company or the Holders of a majority in aggregate Principal Amount of the Securities at the time outstanding may petition any court of competent jurisdiction, at the Company's expense, for the appointment of a successor Trustee.

If the Trustee fails to comply with Section 7.09, any Securityholder may petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor Trustee.

SECTION 7.08. Successor Trustee by Merger. If the Trustee consolidates with, merges or converts into, or transfers all or substantially all its corporate trust business or assets to, another corporation, the resulting, surviving or transferee corporation without any further act shall be the successor Trustee.

SECTION 7.09. Eligibility; Disqualification. The Trustee shall at all times satisfy the requirements of TIA Sections 310(a) and (b). The Trustee shall have a combined capital and surplus of at least \$50,000,000 as set forth in its most recent published annual report of condition. In determining whether the Trustee has conflicting interests as defined in TIA Section 310(b)(1), the provisions contained in the proviso to TIA Section 310(b)(1) shall be deemed incorporated herein.

SECTION 7.10. Preferential Collection of Claims Against Company. The Trustee shall comply with TIA Section 311(a), excluding any creditor relationship listed in TIA Section 311(b). A Trustee who has resigned or been removed shall be subject to TIA Section 311(a) to the extent indicated therein.

SECTION 7.11. Appointment of Authenticating Agent. The Trustee may appoint an Authenticating Agent or Agents with respect to the Securities that shall be authorized to act on behalf of the Trustee to authenticate Securities issued upon

original issue and upon exchange, registration of transfer or partial redemption thereof or pursuant to Section 2.06, and Securities so authenticated shall be entitled to the benefits of this Indenture and shall be valid and obligatory for all purposes as if authenticated by the Trustee hereunder. Wherever reference is made in this Indenture to the authentication and delivery of Securities by the Trustee or the Trustee's certificate of authentication, such reference shall be deemed to include authentication and delivery on behalf of the Trustee by an Authenticating Agent and a certificate of authentication executed on behalf of the Trustee by an Authenticating Agent. Each Authenticating Agent shall be acceptable to the Company and shall at all times be a corporation authorized under the laws of its jurisdiction to act as an Authenticating Agent, having a combined capital and surplus of not less than \$50,000,000 and subject to supervision or examination by a government authority. If such Authenticating Agent publishes reports of condition at least annually, pursuant to law or to the requirements of said supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such Authenticating Agent shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time an Authenticating Agent shall cease to be eligible in accordance with the provisions of this Section, such Authenticating Agent shall resign immediately in the manner and with the effect specified in this Section.

Any corporation into which an Authenticating Agent may be merged or converted or into which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which such Authenticating Agent shall be a party, or any corporation succeeding to all or substantially all the corporate agency or corporate trust business of an Authenticating Agent, shall continue to be an Authenticating Agent, provided such corporation shall be otherwise eligible under this Section, without the execution or filing of any paper or any further act on the part of the Trustee or the Authenticating Agent.

An Authenticating Agent may resign at any time by giving written notice thereof to the Trustee and to the Company. The Trustee may at any time terminate the agency of an Authenticating Agent by giving written notice thereof to such Authenticating Agent and to the Company. Upon receiving such a notice of resignation or upon such a termination, or in case at any time such Authenticating Agent shall cease to be eligible in accordance with the provisions of this Section, the Trustee may appoint a successor Authenticating Agent that shall be acceptable to the Company and shall mail written notice of such appointment by first-class mail, postage prepaid, to all Holders of Securities as their names and addresses appear in the Security Register. Any successor Authenticating Agent upon acceptance of its appointment hereunder shall become vested with all the rights, powers and duties of its predecessor hereunder, with

like effect as if originally named as an Authenticating Agent shall be appointed unless eligible under the provisions of this Section.

The Company agrees to pay to each Authenticating Agent from time to time reasonable compensation for its services under this Section.

If an appointment is made pursuant to this Section, the Securities may have endorsed thereon an alternative certificate of authentication in the following form:

This is one of the Securities designated therein referred to in the within-mentioned Indenture.

The Bank of New York  
as Trustee

Dated: \_\_\_\_\_ By: \_\_\_\_\_  
As Authenticating Agent

By: \_\_\_\_\_  
Authorized Signatory

SECTION 7.12. Trustee's Application for Instructions from the Company. Any application by the Trustee for written instructions from the Company may, at the option of the Trustee, set forth in writing any action proposed to be taken or omitted by the Trustee under this Indenture and the date on and/or after which such action shall be taken or such omission shall be effective. The Trustee shall not be liable for any action taken by, or omission of, the Trustee in accordance with a proposal included in such application on or after the date specified in such application (which date shall not be less than three Business Days after the date any officer of the Company actually receives such application, unless any such officer shall have consented in writing to any earlier date) unless prior to taking any such action (or the effective date in the case of an omission), the Trustee shall have received written instructions in response to such application specifying the action to be taken or omitted.

ARTICLE 8  
DISCHARGE OF INDENTURE

SECTION 8.01. Discharge of Liability on Securities. When (i) the Company delivers to the Trustee all outstanding Securities (other than Securities replaced pursuant to Section 2.06) for cancellation or (ii) all outstanding Securities have become due and payable and the Company deposits with the Trustee cash or, if expressly permitted by the terms hereof, securities sufficient to pay at Stated Maturity the Principal Amount of all outstanding Securities (other than Securities replaced pursuant to Section 2.06), and if in either case the Company pays all other sums payable hereunder by the Company, then this Indenture shall, subject to Section 7.06, cease to be of further effect. The Trustee shall join in the execution of a document prepared by the Company acknowledging satisfaction and discharge of this Indenture on demand of the Company accompanied by an Officers' Certificate and Opinion of Counsel and at the cost and expense of the Company.

SECTION 8.02. Repayment to the Company. The Trustee and each Paying Agent shall return to the Company, upon request of the Company, any money or securities held by them for the payment of any amount with respect to the Securities that remains unclaimed for two years; provided, however, that the Trustee or such Paying Agent, before being required to make any such return, may, at the expense of the Company, cause to be published once in The Wall Street Journal or another daily newspaper of national circulation, The Financial Times and Les Echos or La Tribune or mail to each such Holder notice that such money or securities remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such mailing, any unclaimed money or securities then remaining will be returned to the Company. After return to the Company, Holders entitled to the money or securities must look to the Company for payment as general creditors unless an applicable abandoned property law designates another person, and the Trustee and each Paying Agent shall have no further liability with respect to such money or securities for that period commencing after the return thereof.

ARTICLE 9  
AMENDMENTS

SECTION 9.01. Without Consent of Holders. The Company and the Trustee may amend this Indenture or the Securities without the consent of any Securityholder:

(1) to cure any ambiguity, omission, defect or inconsistency; provided, however, that such amendment does not materially adversely affect the rights of any Securityholder;

(2) to comply with Article 5 or Section 10.15;

(3) to provide for uncertificated Securities in addition to or in place of certificated Securities so long as such uncertificated Securities are in registered form for purposes of the Internal Revenue Code of 1986, as amended;

(4) to make any change that does not adversely affect the rights of any Securityholder;

(5) to add to the covenants or obligations of the Company hereunder or to surrender any right, power or option herein conferred upon the Company.

SECTION 9.02. With Consent of Holders. With the written consent of the Holders of at least a majority in aggregate Principal Amount of the Securities at the time outstanding, the Company and the Trustee may amend this Indenture or the Securities. However, without the consent of each Securityholder affected, an amendment or supplement to this Indenture or the Securities may not:

(1) make any reduction in the Principal Amount of Securities whose Holders must consent to an amendment;

(2) make any change to the rate of accrual in connection with Original Issue Discount, reduce the rate of interest referred to in paragraph 1 of the Securities or extend the time for payment of accrued Original Issue Discount or interest, if any, on any Security;

(3) reduce the Principal Amount or the Issue Price of or extend the Stated Maturity of any Security;

(4) reduce the amount of cash payable in respect of conversion upon the Company's election to pay cash with respect thereto or reduce the Redemption

Price, Purchase Price or Change in Control Purchase Price of any Security or extend the date on which the Purchase Price or Change in Control Purchase Price of any Security is payable;

(5) make any Security payable in money or securities other than that stated in the Security;

(6) make any change in Section 6.04 or this Section 9.02, except to increase any percentage referred to therein, or make any change in Section 6.07;

(7) make any change that adversely affects the right to convert any Security (including the right to receive cash in lieu of Common Shares);

(8) make any change that adversely affects the right to require the Company to purchase the Securities in accordance with the terms thereof and this Indenture (including the right to receive cash if the Company has elected to pay cash upon such purchase);

(9) make any change to the provisions of this Indenture relating to the purchase of Securities at the option of the Holder pursuant to Section 3.08 or 3.09 which change would result in a violation of applicable U.S. federal or state securities laws (including positions of the SEC under applicable no-action letters) and other applicable securities laws and regulations (including any applicable securities laws outside the United States, whether as a result of the exercise or performance of any rights or obligations under such provisions or otherwise;

(10) modify the provisions of this Indenture relating to the ranking of the Securities in a manner adverse to the Holders of the Securities; or

(11) impair the right to institute suit for the enforcement of any payment with respect to, or conversion of, the Securities.

It shall not be necessary for the consent of the Holders under this Section 9.02 to approve the particular form of any proposed amendment, but it shall be sufficient if such consent approves the substance thereof.

After an amendment under this Section 9.02 becomes effective, the Company shall mail to each Holder a notice briefly describing the amendment.

SECTION 9.03. Revocation and Effect of Consent, Waivers and Actions. Until an amendment or waiver becomes effective, a consent to it or any other action by a Holder of a Security hereunder is a continuing consent by the Holder

and every subsequent Holder of that Security or portion of the Security that evidences the same obligation as the consenting Holder's Security, even if notation of the consent, waiver or action is not made on the Security. However, any such Holder or subsequent Holder may revoke the consent, waiver or action as to such Holder's Security or portion of the Security if the Trustee receives the notice of revocation before the date the amendment, waiver or action becomes effective. After an amendment, waiver or action becomes effective, it shall bind every Securityholder, except as provided in Section 9.02.

SECTION 9.04. Notation on or Exchange of Securities. Securities authenticated and delivered after the execution of any supplemental indenture pursuant to this Article may, and shall if required by the Trustee, bear a notation in form approved by the Trustee as to any matter provided for in such supplemental indenture. If the Company shall so determine, new Securities so modified as to conform, in the opinion of the Trustee and the Company, to any such supplemental indenture may be prepared and executed by the Company and authenticated and delivered by the Trustee in exchange for outstanding Securities.

SECTION 9.05. Trustee to Sign Supplemental Indentures. The Trustee shall sign any supplemental indenture authorized pursuant to this Article 9 if the amendment does not adversely affect the rights, duties, liabilities or immunities of the Trustee. If it does, the Trustee may, but need not, sign it. In signing such amendment the Trustee shall be entitled to receive, and (subject to the provisions of Section 7.01) shall be fully protected in relying upon, an Officers' Certificate and an Opinion of Counsel stating that such amendment is authorized or permitted by this Indenture.

SECTION 9.06. Effect of Supplemental Indentures. Upon the execution of any supplemental indenture under this Article, this Indenture shall be modified in accordance therewith, and such supplemental indenture shall form a part of this Indenture for all purposes; and every Holder of Securities theretofore or thereafter authenticated and delivered hereunder shall be bound thereby.

#### ARTICLE 10 CONVERSION

SECTION 10.01. Conversion Privilege. A Holder of a Security may convert such Security into Common Shares at any time during the period stated in paragraph 8 of the Securities. The number of such Common Shares issuable upon conversion of a Security per \$1,000 of Principal Amount thereof (the

"Conversion Rate") shall be that set forth in paragraph 8 in the Securities, subject to adjustment as herein set forth. A Holder may elect to take delivery of Common Shares in the form of either Dutch Shares or New York Shares; provided that (i) Holders or beneficial owners of Common Shares received upon conversion of all or a portion of the Rule 144A Global Bond or any Rule 144A Definitive Registered Bond and (ii) Holders or beneficial owners of Common Shares received upon conversion of all or a portion of the Regulation S Global Bond or any Regulation S Definitive Registered Bond during the 40-day period following the date hereof, may not elect to take delivery of Common Shares in the form of New York Shares but shall take delivery of any Common Shares in the form of Dutch Shares.

A Holder may convert a portion of the Principal Amount of a Security if the portion is \$1,000 or an integral multiple of \$1,000. Provisions of this Indenture that apply to conversion of all of a Security also apply to conversion of a portion of a Security.

"Average Sale Price" means (except as provided below with respect to Section 10.09) the average of the Sale Prices of the Common Shares for the shorter of:

(i) 30 consecutive Trading Days ending on the last full Trading Day prior to the Time of Determination with respect to the rights, options, warrants or distribution in respect of which the Average Sale Price is being calculated, or

(ii) the period (x) commencing on the date next succeeding the first public announcement of (a) the issuance of rights, options or warrants or (b) the distribution, in each case, in respect of which the Average Sale Price is being calculated and (y) proceeding through the last full Trading Day prior to the Time of Determination with respect to the rights, warrants or distribution in respect of which the Average Sale Price is being calculated, or

(iii) the period, if any, (x) commencing on the date next succeeding the Ex-Dividend Time with respect to the next preceding (a) issuance of rights, warrants, or options or (b) distribution, in each case, for which an adjustment is required by the provisions of Section 10.06(4), 10.07, 10.08 or 10.09 and (y) proceeding through the last full Trading Day prior to the Time of Determination with respect to the rights, warrants, or options or distribution in respect of which the Average Sale Price is being calculated.



If the Ex-Dividend Time (or in the case of a subdivision, combination or reclassification, the effective date with respect thereto) with respect to a dividend, subdivision, combination or reclassification to which Section 10.06(1), (2), (3) or (5) applies occurs during the period applicable for calculating "Average Sale Price" pursuant to the definition in the preceding sentence, "Average Sale Price" shall be calculated for such period in a manner determined by the Board to reflect the impact of such dividend, subdivision, combination or reclassification on the Sale Price of the Common Shares during such period.

"Average Sale Price" as used in Section 10.09 shall mean the average of the Sale Prices of the Common Shares for the 10 consecutive Trading Days beginning on the 20th Trading Day preceding the date of announcement of the terms of any issue requiring an adjustment pursuant to Section 10.09.

"Time of Determination" means the time and date of the earlier of (i) the determination of stockholders entitled to receive rights, warrants, or options or a distribution, in each case, to which Sections 10.07 and 10.08 apply and (ii) the time ("Ex-Dividend Time") immediately prior to the commencement of "ex-dividend" trading for such rights, options, warrants or distribution on the New York Stock Exchange or such other national or regional exchange or market on which the Common Shares are then listed or quoted.

SECTION 10.02. Conversion Procedure. To convert a Security a Holder must satisfy the requirements in paragraph 8 of the Securities. The date on which the Holder satisfies all those requirements is the conversion date (the "Conversion Date"). The Company shall deliver to the Holder no later than the seventh Business Day following the Conversion Date a certificate for the number of full Dutch Shares or New York Shares, as the case may be, issuable upon the conversion and cash in lieu of any fractional share determined pursuant to Section 10.03.

The person in whose name the certificate is registered shall be treated as a stockholder of record on and after the Conversion Date; provided, however, that no surrender of a Security on any date when the stock transfer books of the Company shall be closed shall be effective to constitute the person or persons entitled to receive the Common Shares upon such conversion as the record holder or holders of such Common Shares on such date, but such surrender shall be effective to constitute the person or persons entitled to receive such Common Shares as the record holder or holders thereof for all purposes at the close of business on the next succeeding day on which such stock transfer books are open; provided, further, that such conversion shall be at the Conversion Rate in effect on

the date that such Security shall have been surrendered for conversion, as if the stock transfer books of the Company had not been closed. Upon conversion of a Security, such person shall no longer be a Holder of such Security.

Holders may surrender a Security for conversion by means of book entry delivery in accordance with paragraph 8 of the Securities and the regulations of the applicable book entry facility. Upon conversion of a Security, the Company shall on the Conversion Date redeem any Security delivered for conversion at a Redemption Price equal to the sum of the Issue Price of the Security plus accrued Original Issue Discount from the Issue Date to the Conversion Date and the Company shall pay such redemption monies into an account in the name of the Trustee (on behalf of the relevant Holder). When the redemption monies are paid into such an account in the name of the Trustee, the Trustee shall, on behalf of the relevant Holder, immediately transfer such redemption monies to the Company in exchange for the Dutch Shares or New York Shares, as the case may be, deliverable upon conversion to the relevant Holder. Such Holder shall be deemed to have consented to such transfer.

No payment or adjustment will be made for dividends on any Common Shares except as provided in this Article 10. On conversion of a Security, that portion of accrued Original Issue Discount attributable to the period from the Issue Date of the Security to the Conversion Date with respect to the converted Security shall not be cancelled, extinguished or forfeited, but rather shall be deemed to be paid in full to the Holder thereof through delivery of the Dutch Shares or New York Shares, as the case may be, (together with the cash payment, if any, in lieu of any fractional Common Shares) in exchange for the Security being converted pursuant to the provisions hereof.

If the Holder converts more than one Security at the same time, the number of Common Shares issuable upon the conversion shall be computed based on the total Principal Amount of the Securities converted.

Upon surrender of a Security that is converted in part, the Company shall execute, and the Trustee shall authenticate and deliver to the Holder, a new Security in an authorized denomination equal in Principal Amount to the unconverted portion of the Security surrendered.

If the last day on which a Security may be converted is a Legal Holiday in a place where any Conversion Agent is located, the Security may be surrendered to such Conversion Agent on the next succeeding day that is not a Legal Holiday.

SECTION 10.03. Fractional Shares. The Company will not issue a fractional Common Share upon conversion of a Security. Instead, the Company will deliver cash for the current market value of any such fractional share. The current market value of a fractional share shall be determined to the nearest 1/1000th of a share by multiplying the Sale Price, on the last Trading Day prior to the Conversion Date, of a full share by the fractional amount and rounding the product to the nearest whole cent. In the event that conversion of all of the Securities at the initial Conversion Rate established upon issuance would result in the issuance of more than 20,000,000 Common Shares (and in any event not more than 20,000,003 Common Shares), such Common Shares that are issuable in excess of 20,000,000 Common Shares shall be treated as fractional shares. The foregoing sentence shall cease to apply subsequent to the adjustment of the Conversion Rate, even if such adjustment results in more than 20,000,000 Common Shares being required to be issued.

SECTION 10.04. Taxes on Conversion. If a Holder converts a Security, the Company shall pay any documentary, stamp or similar issue or transfer tax or capital tax due on the issue of Common Shares upon such conversion. However, the Holder shall pay any such tax which is due because the Holder requests the Common Shares to be issued in a name other than the Holder's name. Each Conversion Agent may refuse to deliver any certificates representing the Common Shares being issued in a name other than the Holder's name until such Conversion Agent receives a sum sufficient to pay any tax which will be due because the Common Shares are to be issued in a name other than the Holder's name. Nothing herein shall preclude any tax withholding required by law or regulations.

SECTION 10.05. Company to Provide Stock. The Company shall, prior to issuance of any Securities hereunder, and from time to time as may be necessary, reserve out of its authorized but unissued Common Shares a sufficient number of Common Shares to permit the conversion of the Securities for Common Shares.

All Common Shares delivered upon conversion of the Securities shall be newly issued Common Shares or treasury shares, shall be duly and validly issued and fully paid and nonassessable and shall be free from preemptive rights and free of any lien or adverse claim.

The Company will endeavor promptly to comply with all U.S. federal, state and other applicable securities laws and regulations (including any applicable securities laws outside the United States) regulating the offer and delivery of Common Shares upon conversion of Securities, if any, that are applicable to the Securities and such Common Shares assuming compliance with the transfer restrictions set forth in this Indenture and will list or cause to have quoted such

Common Shares on each securities exchange or in the over-the-counter market or such other market on which the Common Shares are then listed or quoted.

SECTION 10.06. Adjustments for Change in Capital Stock. If, after the Issue Date, the Company:

(1) pays a dividend or makes a distribution on its Common Shares in shares of its Common Shares;

(2) subdivides its outstanding Common Shares into a greater number of shares;

(3) combines its outstanding Common Shares into a smaller number of shares;

(4) pays a dividend or makes a distribution on its Common Shares in shares of its Capital Stock (other than Common Shares or rights, warrants or options for its Capital Stock); or

(5) issues by reclassification of its Common Shares any shares of its Capital Stock (other than rights, warrants or options for its Capital Stock),

then the conversion privilege and the Conversion Rate in effect immediately prior to such action shall be adjusted so that the Holder of a Security thereafter converted may receive the number of Common Shares or other units of Capital Stock of the Company which such Holder would have owned immediately following such action if such Holder had converted the Security immediately prior to such action.

The adjustment shall become effective immediately after the record date in the case of a dividend or distribution and immediately after the effective date in the case of a subdivision, combination or reclassification.

If after an adjustment a Holder of a Security upon conversion of such Security may receive shares or other units of two or more classes or series of Capital Stock of the Company (including Common Shares), the Conversion Rate shall thereafter be subject to adjustment upon the occurrence of an action taken with respect to any such class or series of Capital Stock as is contemplated by this Article 10 with respect to the Common Shares, on terms comparable to those applicable to Common Shares in this Article 10.

SECTION 10.07. Adjustment for Rights Issue. If, after the Issue Date, the Company distributes any rights, warrants or options to all holders of its Common Shares entitling them, for a period expiring within 60 days after the record date for such distribution, to subscribe for or purchase Common Shares at a price per share less than the Sale Price as of the Time of Determination, the Conversion Rate shall be adjusted in accordance with the following formula:

$$R' = R \times \frac{(O + N)}{O + N \times P - M}$$

where:

- R' = the adjusted Conversion Rate.
- R = the current Conversion Rate.
- O = the number of Common Shares outstanding on the record date for the distribution.
- N = the number of additional Common Shares offered pursuant to the distribution.
- P = the subscription or purchase price per share of such additional Common Shares.
- M = the Average Sale Price, minus, in the case of (i) a distribution to which Section 10.06(4) applies or (ii) a distribution to which Section 10.08 applies, for which, in each case, (x) the record date shall occur on or before the record date for the distribution to which this Section 10.07 applies and (y) the Ex-Dividend Time shall occur on or after the date of the Time of Determination for the distribution to which this Section 10.07 applies, the fair market value (on the record date for the distribution to which this Section 10.07 applies) of:

(1) the Capital Stock of the Company distributed in respect of each Common Share in such Section 10.06(4) distribution, and

(2) the assets of the Company or debt securities or any rights, warrants or options to purchase securities of the Company

distributed in respect of each Common Share in such Section 10.08 distribution.

The Board shall determine fair market values for the purposes of this Section 10.07.

The adjustment shall become effective immediately after the record date for the determination of shareholders entitled to receive the rights, warrants or options to which this Section 10.07 applies.

No adjustment shall be made under this Section 10.07 if the application of the formula stated above in this Section 10.07 would result in a value of R' that is equal to or less than the value of R.

SECTION 10.08. Adjustment for Other Distributions. If, after the Issue Date, the Company distributes to all holders of its Common Shares any of its assets or debt securities or any rights, warrants or options to purchase securities of the Company (including securities or cash, but excluding (x) distributions of Capital Stock referred to in Section 10.06 and distributions of rights, warrants or options referred to in Section 10.07 and (y) cash dividends or other cash distributions that are paid out of consolidated current net earnings or earnings retained in the business as shown on the books of the Company except to the extent such cash dividends or other cash distributions constitute Extraordinary Cash Dividends (as defined below) from consolidated current net earnings or earned surplus), the Conversion Rate shall be adjusted, subject to the provisions of the last paragraph of this Section 10.08, in accordance with the formula:

$$R' = R \times \frac{M}{M - F}$$

where:

R' = the adjusted Conversion Rate.

R = the current Conversion Rate.

M = the Average Sale Price, minus, in the case of a distribution to which Section 10.06(4) applies for which (i) the record date shall occur on or before the record date for the distribution to which this Section 10.08 applies and (ii) the Ex-Dividend Time shall occur on or after the date of the Time of Determination for the distribution to which this Section 10.08 applies, the fair market value (on the

record date for the distribution to which this Section 10.08 applies) of any Capital Stock of the Company distributed in respect of each Common Share in such Section 10.06(4) distribution.

F = the fair market value (on the record date for the distribution to which this Section 10.08 applies) of the assets, securities, rights, warrants or options to be distributed in respect of each Common Share in the distribution to which this Section 10.08 is being applied (including, in the case of cash dividends or other cash distributions giving rise to an adjustment, all such cash distributed concurrently).

The Board shall determine fair market values for the purpose of this Section 10.08.

The adjustment shall become effective immediately after the record date for the determination of shareholders entitled to receive the distribution to which this Section 10.08 applies.

For purposes of this Section 10.08, the term "Extraordinary Cash Dividend" shall mean, in respect of each twelve month period ending after November 16, 2000, the dividend in respect of any common share in such period which, when aggregated with the amount of all other cash dividends in respect of such common share, exceeds the relevant percentage set out below of U.S. \$0.15.

Calendar year	Percentage
-----	-----
November 16, 2000 to November 15, 2001.....	125.00%
November 16, 2001 to November 15, 2002.....	156.25%
November 16, 2002 to November 15, 2003.....	195.31%
November 16, 2003 to November 15, 2004.....	244.14%
November 16, 2004 to November 15, 2005.....	305.18%
November 16, 2005 to November 15, 2006.....	381.47%
November 16, 2006 to November 15, 2007.....	476.84%
November 16, 2007 to November 15, 2008.....	596.05%
November 16, 2008 to November 15, 2009.....	745.06%
November 16, 2009 to November 15, 2010.....	931.32%

In the event of a dispute as to whether, and the extent to which, any dividend constitutes an extraordinary cash dividend, such dispute shall be determined by an independent investment bank of international repute selected by the Company.

SECTION 10.09. Adjustment for Certain Other Issuances. (a) If, after the Issue Date, the Company shall issue (but excluding issuances of Common Shares for cash referred to in Sections 10.07 and 10.08) wholly for cash any Common Shares (other than Common Shares issued on the conversion of the Securities or on the exercise of any other rights of conversion into, or exchange or subscription for, Common Shares) or options, warrants or other rights to subscribe or purchase Common Shares at a price per Common Share which is less than 95% of the current Sale Price on the Trading Day immediately preceding the date of announcement of the terms of such issue, other than shares issued pursuant to the Company's 2000-2003 employee share purchase plan and upon the exercise of options to purchase up to 33,000,000 common shares granted pursuant to existing option plans, then in each such case the Conversion Rate shall be adjusted in accordance with the following formula:

$$R' = R \times \frac{(O + N)}{O + N \times P \div M}$$

where:

R' = the adjusted Conversion Rate.

R = the current Conversion Rate.

O = the number of Common Shares outstanding on the date of announcement of the terms of the issue.

N = the number of additional Common Shares offered pursuant to such issuance.

P = the subscription or purchase price per Common Share of such additional Common Shares.

M = the Average Sale Price, minus, in the case of (i) a distribution to which Section 10.06(4) applies or (ii) a distribution to which Section 10.08 applies, for which, in each case, (x) the record date shall occur on or before the announcement of the issuance of the Common Shares and (y) the Ex-Dividend Time shall occur on or after the announcement of the issuance of the Common Shares to which this Section 10.09(a) applies, the fair market value (on the date of announcement of the issuance of the Common Shares to which this Section 10.09(a) applies) of:



(1) the Capital Stock of the Company distributed in respect of each Common Share in such Section 10.06(4) distribution, and

(2) the assets of the Company or debt securities or any rights, warrants or options to purchase securities of the Company distributed in respect of each Common Share in such Section 10.08 distribution.

The Board shall determine fair market values for the purposes of this Section 10.09(a).

Such adjustment shall be made and shall become effective on the Issue Date of such additional Common Shares.

(b) If, after the Issue Date, the Company (otherwise than as mentioned in Sections 10.07, 10.08 and 10.09(a) above) or (pursuant to a legally binding agreement with the Company) any other company, person or entity shall issue wholly for cash any securities (other than the Common Shares issuable on conversion thereof) which by their terms carry rights of conversion into, or exchange or subscription for, Common Shares to be issued by the Company upon conversion, exchange or subscription at a price per Common Share which is less than 95% of the current Sale Price on the Trading Day immediately preceding the date of announcement of the terms of issue of such securities, then in each case the Conversion Rate shall be adjusted in accordance with the following formula:

$$R' = R \times \frac{(O + N)}{O + N \times P}$$

-----  
M

where:

R' = the adjusted Conversion Rate.

R = the current Conversion Rate.

O = the number of Common Shares outstanding on the date of announcement of the terms of the issue.

N = the maximum number of additional Common Shares issuable upon any conversion, exchange or exercise of rights of subscription

attaching thereto at the initial conversion, exchange or subscription price or rate.

P = the subscription or purchase price per Common Share based on the consideration receivable by the Company per Common Share upon initial conversion, exchange or exercise of rights of subscription.

M = the Average Sale Price, minus, in the case of (i) a distribution to which Section 10.06(4) applies or (ii) a distribution to which Section 10.08 applies, for which, in each case, (x) the record date shall occur on or before the announcement of the issuance of the Common Shares and (y) the Ex-Dividend Time shall occur on or after the announcement of the issuance of the Common Shares to which this Section 10.09(b) applies, the fair market value (on the date of announcement of the issuance of the Common Shares to which this Section 10.09(b) applies) of:

(1) the Capital Stock of the Company distributed in respect of each Common Share in such Section 10.06(4) distribution, and

(2) the assets of the Company or debt securities or any rights, warrants or options to purchase securities of the Company distributed in respect of each Common Share in such Section 10.08 distribution.

The Board shall determine fair market values for the purposes of this Section 10.09(b).

Such adjustment shall become effective on the Issue Date of such securities.

In case there shall be any modification of the rights of conversion, exchange or subscription attaching to any such securities (other than in accordance with the terms applicable to such securities) so that the consideration per Common Share is less than 95% of the current Sale Price on the last trading day preceding the date of announcement of the proposals for such modification, then in each such case the Conversion Rate shall be adjusted in accordance with the above formula except that O, N and P shall be determined as of the date of announcement of the modified terms and in accordance with the modified conversion, exchange or subscription price or rates and M shall be determined as above, except that if the Average Sale Price as so determined is higher than the

existing conversion, exchange or subscription price, then such lower price shall be used for M.

Such adjustment shall become effective on the date of modification of the rights of conversion, exchange or subscription attaching to such securities.

(c) For the purpose of any calculation of the consideration receivable pursuant to (a) and (b) above, the following provisions shall apply:

(i) the consideration receivable per Common Share issued for cash shall be the amount of such cash provided that in no case shall any deduction be made for any commission or any expenses paid or incurred by the Company for any underwriting of the issue or otherwise in connection therewith; and

(ii) (x) the consideration receivable per Common Share to be issued upon the conversion or exchange of any securities shall be deemed to be the consideration received or receivable by the Company for any such securities and (y) the consideration receivable per Common Share to be issued upon the exercise of rights of subscription attached to any securities which shall be deemed to be that part of the consideration received or receivable by the Company for such securities which is attributed by the Company to such rights of subscription or, if no part of such consideration is so attributed or the Trustee so requires by notice in writing to the Company, the fair market value of such rights of subscription as at the date of the announcement of the terms of issue of such securities (as determined in good faith by a reputable independent investment bank selected by the Company and approved by the Trustee), plus in the case of each of (x) and (y) above, the additional minimum consideration (if any) to be received by the Company upon the conversion or exchange of such securities, or upon the exercise of such rights of subscription attached thereto (the consideration in all such cases to be determined subject to the proviso in subclause (i) of this subsection).

No adjustment shall be made under this Section 10.09 if the application of any formula stated above in this Section 10.09 would result in a value of R' that is equal to or less than the value of R.

SECTION 10.10. When Adjustment May Be Deferred. No adjustment in the Conversion Rate need be made unless the adjustment would require an increase or decrease of at least 1% (e.g., if the Conversion Rate is 4, an increase or decrease of .04 (1% of 4)) in the Conversion Rate. Any adjustments that are not

made shall be carried forward and taken into account in any subsequent adjustment.

All calculations under this Article 10 shall be made to the nearest cent or to the nearest 1/1,000th of a share, as the case may be, with one-half of a cent and 5/10,000ths of a share being rounded upwards.

SECTION 10.11. When No Adjustment Required. No adjustment need be made for a transaction referred to in Sections 10.06, 10.07, 10.08, 10.09 or 10.15 if Securityholders are to participate in the transaction on a basis and with notice that the Board determines to be fair and appropriate in light of the basis and notice on which holders of Common Shares participate in the transaction.

No adjustment need be made for rights to purchase Common Shares pursuant to a Company plan for reinvestment of dividends or interest.

No adjustment need be made for a change in the nominal value of the Common Shares.

To the extent the Securities become convertible into cash pursuant to the terms of Section 10.15, no adjustment need be made thereafter as to the cash. Interest will not accrue on the cash.

Notwithstanding any provision to the contrary in this Indenture, no adjustment shall be made in the Conversion Rate to the extent, but only to the extent, such adjustment results in the following quotient being less than the nominal value of the Common Shares: (i) the Issue Price plus accrued Original Issue Discount as of the date such adjustment would otherwise be effective divided by (ii) the Conversion Rate as so adjusted.

SECTION 10.12. Notice of Adjustment. Whenever the Conversion Rate is adjusted, the Company shall file with the Trustee and each Conversion Agent a notice of such adjustment and a certificate from the Company's independent public accountants briefly stating the facts requiring the adjustment and the manner of computing it. The Trustee will promptly mail such notice to Securityholders at the Company's expense. The certificate shall be conclusive evidence that the adjustment is correct. Neither the Trustee nor any Conversion Agent shall be under any duty or responsibility with respect to any such certificate except to exhibit the same to any Holder desiring inspection thereof.

SECTION 10.13. Voluntary Increase. The Company from time to time may increase the Conversion Rate by any amount and for any period of time

(provided, that such period is not less than 20 Business Days). Whenever the Conversion Rate is increased, the Company shall mail to Securityholders and file with the Trustee and each Conversion Agent a notice of the increase. The Company shall mail the notice at least 15 days before the date the increased Conversion Rate takes effect. The notice shall state the increased Conversion Rate and the period it will be in effect.

A voluntary increase of the Conversion Rate does not change or adjust the Conversion Rate otherwise in effect for purposes of Sections 10.06, 10.07, 10.08 or 10.09.

SECTION 10.14. Notice of Certain Transactions. If:

(1) the Company takes any action that would require an adjustment in the Conversion Rate pursuant to Section 10.06, 10.07 or 10.08 (unless no adjustment is to occur pursuant to Section 10.11); or

(2) the Company takes any action that would require a supplemental indenture pursuant to Section 10.15 or

(3) there is a liquidation or dissolution of the Company;

then the Company shall mail to Securityholders and file with the Trustee and each Conversion Agent a notice stating the proposed record date for a dividend or distribution of the proposed effective date of a subdivision, combination, reclassification, consolidation, merger, binding share exchange, transfer, liquidation or dissolution. If the Company takes an action as described in Clause (1) above, it shall deliver to the Trustee an Officers' Certificate stating that a sufficient number of Common Shares have been authorized by the Company to allow for the conversion of all the outstanding Securities under the adjusted Conversion Rate. The Company shall file and mail such notice or Officer's Certificate at least 15 days before such date. Failure to file or mail the notice or Officers' Certificate or any defect in it shall not affect the validity of the transaction.

SECTION 10.15. Reorganization of Company; Special Distributions. If the Company is a party to a transaction subject to Section 5.01 (other than a sale of all or substantially all of the assets of the Company in a transaction in which the holders of Common Shares immediately prior to such transaction do not receive securities, cash or other assets of the Company or any other person) or a merger or binding share exchange which reclassifies or changes its outstanding Common Shares, the person obligated to deliver securities, cash or other assets upon

conversion of Securities shall enter into a supplemental indenture. If the issuer of securities deliverable upon conversion of Securities is an Affiliate of the successor Company, that issuer shall join in the supplemental indenture.

The supplemental indenture shall provide that the Holder of a Security may convert it into the kind and amount of securities, cash or other assets which such Holder would have received immediately after the consolidation, merger, binding share exchange or transfer if such Holder had converted the Security immediately before the effective date of the transaction, assuming (to the extent applicable) that such Holder (i) was not a constituent person or an Affiliate of a constituent person to such transaction; (ii) made no election with respect thereto; and (iii) was treated alike with the plurality of non-electing Holders. The supplemental indenture shall provide for adjustments which shall be as nearly equivalent as may be practical to the adjustments provided for in this Article 10. The successor Company shall mail to Securityholders a notice briefly describing the supplemental indenture.

If this Section applies, neither Section 10.06 nor 10.07 applies.

If the Company makes a distribution to all holders of its Common Shares of any of its assets, or debt securities or any rights, warrants or options to purchase securities of the Company that, but for the provisions of the last paragraph of Section 10.08, would otherwise result in an adjustment in the Conversion Rate pursuant to the provisions of Section 10.08, then, from and after the record date for determining the holders of Common Shares entitled to receive the distribution, a Holder of a Security that converts such Security in accordance with the provisions of this Indenture shall upon such conversion be entitled to receive, in addition to the Common Shares into which the Security is convertible, the kind and amount of securities, cash or other assets comprising the distribution that such Holder would have received if such Holder had converted the Security immediately prior to the record date for determining the holders of Common Shares entitled to receive the distribution.

SECTION 10.16. Company Determination Final. Any determination that the Company or the Board must make pursuant to this Article 10 is conclusive.

SECTION 10.17. Trustee's Adjustment Disclaimer. The Trustee has no duty to determine when an adjustment under this Article 10 should be made, how it should be made or what it should be. The Trustee has no duty to determine whether a supplemental indenture under Section 10.15 need be entered into or whether any provisions of any supplemental indenture are correct. The Trustee shall not be accountable for and makes no representation as to the validity or

value of any securities or assets issued upon conversion of Securities. The Trustee shall not be responsible for the Company's failure to comply with this Article 10. Each Conversion Agent (other than the Company or an Affiliate of the Company) shall have the same protection under this Section 10.17 as the Trustee.

SECTION 10.18. Simultaneous Adjustments. If this Article 10 requires adjustments to the Conversion Rate under more than one of Sections 10.06(4), 10.07, 10.08 or 10.09, and the record dates or the dates of announcement for the distributions or issuances giving rise to such adjustments shall occur on the same date, then such adjustments shall be made by applying, first, the provisions of Section 10.06, second, the provisions of Section 10.08, third, the provisions of Section 10.07 and, fourth, the provisions of Section 10.09.

SECTION 10.19. Successive Adjustments. After an adjustment to the Conversion Rate under this Article 10, any subsequent event requiring an adjustment under this Article 10 shall cause an adjustment to the Conversion Rate as so adjusted.

#### ARTICLE 11 MISCELLANEOUS

SECTION 11.01. Trust Indenture Act Controls. If any provision of this Indenture limits, qualifies or conflicts with another provision which is required to be included in this Indenture by the TIA, the required provision shall control.

SECTION 11.02. Notices. Any notice or communication shall be in English and in writing and delivered in person or mailed by first-class mail, postage prepaid, and shall be deemed effective when actually received if addressed as follows:

if to the Company:

STMicroelectronics N.V.  
Technoparc du Pays de Gex-B.P. 112  
165, rue Edouard Branly  
01630 Saint Genis Pouilly  
France  
Attention: Corporate Vice President; Chief Financial Officer,  
with a copy to each of the Corporate Vice President,

Treasurer and the Group Vice President, Corporate  
Legal Affairs and Intellectual Property

if to the Trustee:

The Bank of New York  
101 Barclay Street  
Floor 21 West  
New York, New York 10286  
Attention: Corporate Trust Administration Global Finance Unit

The Company or the Trustee by notice to the other may designate additional or different addresses for subsequent notices or communications.

Any notice or communication given to a Securityholder shall be mailed by first-class mail to the Securityholder at the Securityholder's address as it appears on the registration books of the Registrar and shall be sufficiently given if so mailed within the time prescribed.

Failure to mail a notice or communication to a Securityholder or any defect in it shall not affect its sufficiency with respect to other Securityholders.

If the Company mails a notice or communication to the Securityholders, it shall mail a copy to the Trustee and each Registrar, Paying Agent, Conversion Agent or co-registrar.

SECTION 11.03. Certificate and Opinion to Conditions Precedent. Upon any request or application by the Company to the Trustee to take any action under this Indenture, the Company shall furnish to the Trustee:

(1) an Officers' Certificate stating that, in the opinion of the signers, all conditions precedent, if any, provided for in this Indenture relating to the proposed action have been complied with; and

(2) an Opinion of Counsel stating that, in the opinion of such counsel, all such conditions precedent have been complied with.

SECTION 11.04. Statements Required in Certificate or Opinion. Each Officers' Certificate or Opinion of Counsel with respect to compliance with a covenant or condition provided for in this Indenture shall include:



(1) a statement that each person making such Officers' Certificate or Opinion of Counsel has read such covenant or condition;

(2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such Officers' Certificate or Opinion of Counsel are based;

(3) a statement that, in the opinion of each such person, he has made such examination or investigation as is necessary to enable such person to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(4) a statement that, in the opinion of such person, such covenant or condition has been complied with.

SECTION 11.05. Separability Clause. In case any provision in this Indenture or in the Securities shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

SECTION 11.06. Rules by Trustee, Paying Agents, Conversion Agent and Registrar. The Trustee may make reasonable rules for action by or a meeting of the Securityholders. Each Registrar, Conversion Agent and Paying Agent may make reasonable rules for their functions.

SECTION 11.07. Legal Holiday. A "Legal Holiday" is any day other than a Business Day. If any specified date (including a date for giving notice) is a Legal Holiday, the action shall be taken on the next succeeding day that is not a Legal Holiday, and to the extent applicable no Original Issue Discount or interest, if any, shall accrue for the intervening period.

SECTION 11.08. Governing Law. THIS INDENTURE AND THE SECURITIES SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, AS APPLIED TO CONTRACTS MADE AND PERFORMED WITHIN THE STATE OF NEW YORK, WITHOUT REGARD TO PRINCIPLES OF CONFLICT OF LAWS.

SECTION 11.09. Submission to Jurisdiction; Appointment of Agent for Service. The Company agrees and covenants as follows:

The Company irrevocably agrees that any legal suit, action or proceeding against it arising out of or based upon this Indenture, the Securities or the transactions contemplated hereby may be, but is not required to be, instituted in any United States Federal or State Court in the Borough of Manhattan, The City of New York, State of New York, and irrevocably waives any objection which it may now or hereafter have to the laying of venue of any such proceeding and irrevocably submits to the non-exclusive jurisdiction of such courts in any such suit, action or proceeding. The Company irrevocably waives any immunity to jurisdiction to which it may otherwise be entitled or become entitled (including immunity to prejudgment attachment and execution) in any legal suit, action or proceeding against it arising out of this Indenture, the Securities or the transactions contemplated hereby which is instituted in any United States Federal or state court in the Borough of Manhattan, The City of New York, State of New York, or in any foreign court. To the extent permitted by law, the Company hereby waives any objection to the enforcement by any competent foreign court of any jurisdiction validly obtained in any such proceeding. The Company has appointed CT Corporation Systems, 1633 Broadway, New York, New York 10019, as its authorized agent (the "Authorized Agent") upon which process may be served in any such action arising out of or based on this Indenture, the Securities or the transactions contemplated hereby which may be instituted in any United States Federal or state court in the Borough of Manhattan, The City of New York, State of New York, expressly consents to the jurisdiction of any such court in respect of any such action and waives any other requirements of or objections to personal jurisdiction with respect thereto. Such appointments shall be irrevocable. The Company represents and warrants that the Authorized Agent has agreed to act as said agent for service of process and it agrees to take any and all action, including the filing of any and all documents and instruments, that may be necessary to continue such appointment in full force and effect as aforesaid. Service of process upon the Authorized Agent and written notice of such service of process to the Company shall be deemed, in every respect, effective service of process upon the Company. Notwithstanding the foregoing, any action based on this Indenture and the Securities or the transactions contemplated hereby may be instituted by any party hereto, subject to the limitations set forth in Article 6 hereof, by the Holder of any Security in any competent foreign court.

SECTION 11.10. Successors. All agreements of the Company in this Indenture and the Securities shall bind its successor. All agreements of the Trustee in this Indenture shall bind its successor.

SECTION 11.11. Acts of Holders. (a) Any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be given or taken by Holders may be embodied in and evidenced by one or more

instruments of substantially similar tenor signed by such Holders in person or by agent duly appointed in writing; and, except as herein otherwise expressly provided, such action shall become effective when such instrument or instruments are delivered to the Trustee and, where it is hereby expressly required, to the Company. Proof of execution of any such instrument or of a writing appointing any such agent shall be sufficient for any purpose of this Indenture and conclusive in favor of the Trustee and the Company, if made in the manner provided in this Section.

(b) The fact and date of the execution by any person of any such instrument or writing may be proved by the affidavit of a witness of such execution or by a certificate of a notary public or other officer authorized by law to take acknowledgments of deeds, certifying that the individual signing such instrument or writing acknowledged to him the execution thereof. Where such execution is by a signer acting in a capacity other than his individual capacity, such certificate or affidavit shall also constitute sufficient proof of his authority. The fact and date of the execution of any such instrument or writing, or the authority of the person executing the same, may also be proved in any other manner which the Trustee deems sufficient.

(c) The ownership of the Securities shall be proved by the Security register or by a certificate of the registrar thereof.

SECTION 11.12. Waiver of Jury Trial. Each of the Company, Trustee, New York Registrar, Dutch Registrar, New York Paying Agent, Paris Paying Agent, New York Conversion Agent, and Paris Conversion Agent hereby irrevocably waives, to the fullest extent permitted by applicable law, any and all right to trial by jury in any legal proceeding arising out of or relating to this Indenture, the Securities or the transactions contemplated hereby.

SECTION 11.13. Multiple Originals. The parties may sign any number of copies of this Indenture. Each signed copy shall be an original, but all of them together represent the same agreement. One signed copy is enough to prove this Indenture.

IN WITNESS WHEREOF, the undersigned, being duly authorized, have executed this Indenture on behalf of the respective parties hereto as of the date first above written.

STMICROELECTRONICS N.V.

By: -----  
Name:  
Title:

THE BANK OF NEW YORK

By: -----

Name:

Title:

## [FORM OF FACE OF RULE 144A GLOBAL BOND]

FOR PURPOSES OF SECTIONS 1273 AND 1275 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED, THE AMOUNT OF ORIGINAL ISSUE DISCOUNT WITH RESPECT TO EACH \$1,000 OF PRINCIPAL AMOUNT OF THIS SECURITY IS \$310.32, THE ISSUE DATE IS NOVEMBER 16, 2000, AND THE YIELD TO MATURITY IS 3.75% PER ANNUM.

Unless this certificate is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to STMicroelectronics N.V. or its agent for registration of transfer, exchange, or payment, and any certificate issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

STMICROELECTRONICS N.V.

Zero Coupon Senior Convertible Bonds due 2010

THIS CONVERTIBLE BOND HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (1) REPRESENTS THAT IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT), OR (B) IT IS NOT A U.S. PERSON AND IS ACQUIRING THIS CONVERTIBLE BOND IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH REGULATIONS UNDER THE SECURITIES ACT (2) AGREES THAT IT WILL NOT, WITHIN THE TIME PERIOD REFERRED TO UNDER RULE 144(k) UNDER THE SECURITIES ACT AS IN EFFECT ON THE DATE OF TRANSFER OF THIS CONVERTIBLE BOND, RESELL OR OTHERWISE TRANSFER THIS CONVERTIBLE BOND EXCEPT (A) TO STMICROELECTRONICS N.V. OR ANY SUBSIDIARY THEREOF, (B) TO A QUALIFIED INSTITUTIONAL

BUYER IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT, (C) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH RULE 903 OR 904 UNDER THE SECURITIES ACT, (D) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), IN EACH CASE IN COMPLIANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES OR ANY OTHER JURISDICTION, AND (3) AGREES THAT IT WILL DELIVER TO EACH U.S. PERSON TO WHOM THIS CONVERTIBLE BOND IS TRANSFERRED WITHIN THE PERIOD REFERRED TO IN RULE 144(k) A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. IN CONNECTION WITH ANY TRANSFER OF THIS CONVERTIBLE BOND WITHIN THE TIME PERIOD REFERRED TO ABOVE, THE HOLDER MUST CHECK THE APPROPRIATE BOX SET FORTH ON THE REVERSE HEREOF RELATING TO THE MANNER OF SUCH TRANSFER AND SUBMIT THIS CERTIFICATE TO THE TRUSTEE. AS USED HEREIN, THE TERMS "OFFSHORE TRANSACTION", "UNITED STATES" AND "U.S. PERSON" HAVE THE MEANINGS GIVEN TO THEM BY REGULATIONS UNDER THE SECURITIES ACT. THE INDENTURE CONTAINS A PROVISION REQUIRING THE TRUSTEE TO REFUSE TO REGISTER (AS APPLICABLE) ANY TRANSFER OF THIS CONVERTIBLE BOND IN VIOLATION OF THE FOREGOING RESTRICTIONS.

THE HOLDER OR BENEFICIAL OWNER OF SHARES RECEIVED UPON CONVERSION OF THIS CONVERTIBLE BOND MAY NOT REGISTER SUCH SHARES OR CAUSE SUCH SHARES TO BE REGISTERED WITH STMICROELECTRONICS N.V.'S NEW YORK SHARE REGISTER FOR SO LONG AS SUCH SHARES ARE "RESTRICTED SECURITIES"(WITHIN THE MEANING OF RULE 144(a)(3)) THAT ARE NOT ELIGIBLE FOR SALE PURSUANT TO RULE 144(k) UNDER THE SECURITIES ACT.

No.

Issue Date: November 16, 2000  
Issue Price: \$689.68 per \$1,000 Principal Amount  
Original Issue Discount: \$310.32  
(for each \$1,000 Principal amount)

STMicroelectronics N.V., (the "Company") a company incorporated under the law of The Netherlands, with its corporate seat in Amsterdam, The Netherlands promises to pay to Cede & Co. or registered assigns, the Principal

Amount set forth on the register of the New York Registrar on November 16, 2010.

This Security shall not bear interest except as specified on the other side of this Security. Original Issue Discount will accrue as specified on the other side of this Security. This Security is convertible into common shares of the Company as specified on the other side of this Security. All capitalized terms used herein without definition shall have the respective meanings assigned thereto in the Indenture referred to on the other side of this Security.

Additional provisions of this Security are set forth on the other side of this Security.

STMICROELECTRONICS N.V.

By: \_\_\_\_\_

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

The Bank of New York as Trustee, certifies that this Security is one of the Securities referred to in the within-mentioned Indenture.

By: \_\_\_\_\_  
Authorized Signatory

Date: \_\_\_\_\_



[FORM OF FACE OF REGULATION S GLOBAL BOND]

FOR PURPOSES OF SECTIONS 1273 AND 1275 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED, THE AMOUNT OF ORIGINAL ISSUE DISCOUNT WITH RESPECT TO EACH \$1,000 OF PRINCIPAL AMOUNT OF THIS SECURITY IS \$310.32, THE ISSUE DATE IS NOVEMBER 16, 2000, AND THE YIELD TO MATURITY IS 3.75% PER ANNUM.

STMICROELECTRONICS N.V.

Zero Coupon Senior Convertible Bonds due 2010

[1 THIS CONVERTIBLE BOND HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (1) REPRESENTS THAT IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT), OR (B) IT IS NOT A U.S. PERSON AND IS ACQUIRING THIS CONVERTIBLE BOND IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH REGULATION S UNDER THE SECURITIES ACT (2) AGREES THAT IT WILL NOT, WITHIN THE TIME PERIOD REFERRED TO UNDER RULE 144(k) UNDER THE SECURITIES ACT AS IN EFFECT ON THE DATE OF TRANSFER OF THIS CONVERTIBLE BOND, RESELL OR OTHERWISE TRANSFER THIS CONVERTIBLE BOND EXCEPT (A) TO STMICROELECTRONICS N.V. OR ANY SUBSIDIARY THEREOF, (B) TO A QUALIFIED INSTITUTIONAL BUYER IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT, (C) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH RULE 903 OR 904 UNDER THE SECURITIES ACT, (D) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT

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1 This legend may not be removed until the 41st day after November 16, 2000.

(IF AVAILABLE), IN EACH CASE IN COMPLIANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES OR ANY OTHER JURISDICTION, AND (3) AGREES THAT IT WILL DELIVER TO EACH U.S. PERSON TO WHOM THIS CONVERTIBLE BOND IS TRANSFERRED WITHIN THE PERIOD REFERRED TO IN RULE 144(k) A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. IN CONNECTION WITH ANY TRANSFER OF THIS CONVERTIBLE BOND WITHIN THE TIME PERIOD REFERRED TO ABOVE, THE HOLDER MUST CHECK THE APPROPRIATE BOX SET FORTH ON THE REVERSE HEREOF RELATING TO THE MANNER OF SUCH TRANSFER AND SUBMIT THIS CERTIFICATE TO THE TRUSTEE. AS USED HEREIN, THE TERMS "OFFSHORE TRANSACTION", "UNITED STATES" AND "U.S. PERSON" HAVE THE MEANINGS GIVEN TO THEM BY REGULATIONS UNDER THE SECURITIES ACT. THE INDENTURE CONTAINS A PROVISION REQUIRING THE TRUSTEE TO REFUSE TO REGISTER (AS APPLICABLE) ANY TRANSFER OF THIS CONVERTIBLE BOND IN VIOLATION OF THE FOREGOING RESTRICTIONS.

THE HOLDER OR BENEFICIAL OWNER OF SHARES RECEIVED UPON CONVERSION OF THIS CONVERTIBLE BOND MAY NOT REGISTER SUCH SHARES OR CAUSE SUCH SHARES TO BE REGISTERED WITH STMICROELECTRONICS N.V.'S NEW YORK SHARE REGISTER FOR SO LONG AS SUCH SHARES ARE "RESTRICTED SECURITIES"(WITHIN THE MEANING OF RULE 144(a)(3)) THAT ARE NOT ELIGIBLE FOR SALE PURSUANT TO RULE 144(k) UNDER THE SECURITIES ACT.]

No.

Issue Date: November 16, 2000  
Issue Price: \$689.68 per \$1,000 Principal Amount  
Original Issue Discount: \$310.32  
(for each \$1,000 Principal amount)

STMICROELECTRONICS N.V., a company incorporated under the law of The Netherlands with its corporate seat, in Amsterdam, The Netherlands, promises to pay to SICOVAM, or registered assigns, the Principal Amount set forth on the register of SICOVAM on November 16, 2010.

This Security shall not bear interest except as specified on the other side of this Security. Original Issue Discount will accrue as specified on the other side of this Security. This Security is convertible into Common Shares of the Company as specified on the other side of this Security. All capitalized terms used herein

without definition shall have the respective meanings assigned thereto in the Indenture referred to on the other side of this Security.

Additional provisions of this Security are set forth on the other side of this Security.

STMICROELECTRONICS N.V.

By: \_\_\_\_\_

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

The Bank of New York as Trustee, certifies that this Security is one of the Securities referred to in the within-mentioned Indenture.

By: \_\_\_\_\_  
Authorized Signatory

Date: \_\_\_\_\_

[FORM OF FACE OF DEFINITIVE REGISTERED BOND]

FOR PURPOSES OF SECTIONS 1273 AND 1275 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED, THE AMOUNT OF ORIGINAL ISSUE DISCOUNT WITH RESPECT TO EACH \$1,000 OF PRINCIPAL AMOUNT OF THIS SECURITY IS \$310.32, THE ISSUE DATE IS NOVEMBER 16, 2000, AND THE YIELD TO MATURITY IS 3.75% PER ANNUM.

STMICROELECTRONICS N.V.

Zero Coupon Senior Convertible Bonds due 2010

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1 In the case of a Regulation S Definitive Registered Bond only, this legend may be removed after the 41st day after November 16, 2000.

REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), IN EACH CASE IN COMPLIANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES OR ANY OTHER JURISDICTION, AND (3) AGREES THAT IT WILL DELIVER TO EACH U.S. PERSON TO WHOM THIS CONVERTIBLE BOND IS TRANSFERRED WITHIN THE PERIOD REFERRED TO IN RULE 144(k) A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. IN CONNECTION WITH ANY TRANSFER OF THIS CONVERTIBLE BOND WITHIN THE TIME PERIOD REFERRED TO ABOVE, THE HOLDER MUST CHECK THE APPROPRIATE BOX SET FORTH ON THE REVERSE HEREOF RELATING TO THE MANNER OF SUCH TRANSFER AND SUBMIT THIS CERTIFICATE TO THE TRUSTEE. AS USED HEREIN, THE TERMS "OFFSHORE TRANSACTION", "UNITED STATES" AND "U.S. PERSON" HAVE THE MEANINGS GIVEN TO THEM BY REGULATIONS UNDER THE SECURITIES ACT. THE INDENTURE CONTAINS A PROVISION REQUIRING THE TRUSTEE TO REFUSE TO REGISTER (AS APPLICABLE) ANY TRANSFER OF THIS CONVERTIBLE BOND IN VIOLATION OF THE FOREGOING RESTRICTIONS.

THE HOLDER OR BENEFICIAL OWNER OF SHARES RECEIVED UPON CONVERSION OF THIS CONVERTIBLE BOND MAY NOT REGISTER SUCH SHARES OR CAUSE SUCH SHARES TO BE REGISTERED WITH STMICROELECTRONICS N.V.'S NEW YORK SHARE REGISTER FOR SO LONG AS SUCH SHARES ARE "RESTRICTED SECURITIES"(WITHIN THE MEANING OF RULE 144(a)(3)) THAT ARE NOT ELIGIBLE FOR SALE PURSUANT TO RULE 144(k) UNDER THE SECURITIES ACT.

No.

Issue Date: November 16, 2000  
Issue Price: \$689.68 per \$1,000 Principal Amount  
Original Issue Discount: \$310.32  
(for each \$1,000 Principal amount)

STMicroelectronics N.V., a company incorporated under the laws of The Netherlands, with its corporate seat in Amsterdam, The Netherlands, promises to pay to \_\_\_\_\_, or registered assigns, the Principal Amount of \_\_\_\_\_ Dollars (\$ \_\_\_\_\_) on November 16, 2010.

This Security shall not bear interest except as specified on the other side of this Security. Original Issue Discount will accrue as specified on the other side of

this Security. This Security is convertible into Common Shares of the Company as specified on the other side of this Security. All capitalized terms used herein without definition shall have the respective meanings assigned thereto in the Indenture referred to on the other side of this Security.

Additional provisions of this Security are set forth on the other side of this Security.

STMICROELECTRONICS N.V.

By: \_\_\_\_\_

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

The Bank of New York as Trustee, certifies that this Security is one of the Securities referred to in the within-mentioned Indenture.

By: \_\_\_\_\_  
Authorized Signatory

Date: \_\_\_\_\_

## [FORM OF REVERSE SIDE OF BOND]

## Zero Coupon Senior Convertible Bonds due 2010

## 1. Interest

This Security shall not bear interest, except that if the Principal Amount hereof or any portion of such Principal Amount is not paid when due (whether upon acceleration pursuant to Section 6.02 of the Indenture, upon the date set for payment of the Redemption Price pursuant to paragraph 5 hereof, upon the date set for payment of the Purchase Price or Change in Control Purchase Price pursuant to paragraph 6 hereof or upon the Stated Maturity of this Security) or if Common Shares (or cash in lieu of fractional Common Shares) in respect of a conversion of this Security in accordance with the terms of Article 10 of the Indenture is not delivered when due, then in each such case the overdue amount shall bear interest at the rate of 3.75% per annum, compounded semiannually (to the extent that the payment of such interest shall be legally enforceable), which interest shall accrue from the date such overdue amount was due to the date payment of such amount, including interest thereon, has been made or duly provided for. All such interest shall be payable on demand.

Original Issue Discount (the difference between the Issue Price and the Principal Amount of the Security), in the period during which a Security remains outstanding, shall accrue at 3.75% per annum, on a semiannual bond equivalent basis using a 360-day year composed of twelve 30-day months, commencing on the Issue Date of this Security, and cease to accrue on the earlier of (a) the date on which the Principal Amount hereof or any portion of such Principal Amount becomes due and payable and (b) any Redemption Date, Conversion Date, Change in Control Purchase Date, Purchase Date or other date on which such Original Issue Discount shall cease to accrue in accordance with Section 2.07 of the Indenture.

## 2. Method of Payment

Subject to the terms and conditions of the Indenture, STMicroelectronics N.V. (the "Company") will make payments in respect of the Securities to the persons who are registered Holders of Securities at the close of business on the Business Day preceding the Redemption Date or Stated Maturity, as the case may be, or at the close of business on the Purchase Date, Change in Control Purchase Date or Conversion Date, as the case may be. Holders must surrender Securities

to a Paying Agent to collect such payments in respect of the Securities. The Company will pay cash amounts in money of The United States of America that at the time of payment is legal tender for payment of public and private debts. However, the Company may make such cash payments by check payable in such money.

### 3. Paying Agent, Conversion Agent and Registrar

Initially, The Bank of New York, a New York banking corporation, will act as New York Conversion Agent, New York Paying Agent and New York Registrar. Initially, BNP Paribas, a societe anonyme organized under the laws of the French Republic, will act as Paris Conversion Agent and Paris Paying Agent, and Netherlands Management Company B.V., a company incorporated under the laws of The Netherlands, will act as Dutch Registrar. The Company may appoint and change any Paying Agent, Conversion Agent, Registrar or co-registrar, upon notice to the Trustee and the Holders. The Company or any of its Subsidiaries or any of their Affiliates may act as Paying Agent, Conversion Agent, Registrar or co-registrar.

### 4. Indenture

The Company issued the Securities under an Indenture, dated as of November 16, 2000 (the "Indenture"), between the Company and the Trustee. The terms of the Securities include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939, as amended by the Trust Indenture Reform Act of 1990, and, as in effect on the date of the Indenture (the "TIA"). Capitalized terms used herein or on the face hereof and not defined herein have the meanings ascribed thereto in the Indenture. The Securities are subject to all such terms, and Securityholders are referred to the Indenture and the TIA for a statement of those terms.

The Securities are general unsecured obligations of the Company limited to the aggregate Principal Amount specified in Section 2.02 of the Indenture (subject to Section 2.06 of the Indenture). The Indenture does not limit other indebtedness of the Company.

### 5. Redemption at the Option of the Company

No sinking fund is provided for the Securities. Prior to November 16, 2003, the Securities will not be redeemable at the option of the Company, except as provided in the last two paragraphs of this paragraph 5. During the period from November 16, 2003 until the close of business on November 15, 2005, the



Company may only redeem the Securities for cash as a whole at the end of any period of 30 consecutive Trading Days during which the Average Sale Price on each of the 30 Trading Days is equal to or greater than 130% of the Conversion Price then in effect. The Company must provide notice of redemption of the Securities within a maximum of five Trading Days following the last day of the said 30 days' Trading Period, whereupon the Trustee shall promptly publish the notice of redemption in the Wall Street Journal or another daily newspaper of national circulation, The Financial Times and Les Echos or La Tribune. During the period from November 16, 2003 until the close of business on November 15, 2005, the Company may only redeem the Securities as described above upon not less than 30 days' nor more than 60 days' notice of redemption given by publication in the Wall Street Journal or another daily newspaper of national circulation, the Financial Times and Les Echos or La Tribune.

On and after November 16, 2005, the Company may redeem the Securities for cash at any time. The Securities may be redeemed, in whole or in part, upon not less than 30 days' nor more than 60 days' notice of redemption given by mail to Holders of Securities (unless a shorter notice shall be satisfactory to the Trustee). Any such redemption must be in multiples of \$1,000 Principal Amount.

Any redemption pursuant to this paragraph 5 shall be at the Redemption Price on the relevant Redemption Date. The table below sets forth the Redemption Prices of a Security per \$1,000 Principal Amount upon redemption on November 16, 2003, at each November 16 thereafter prior to maturity, and at Stated Maturity, which prices reflect accrued Original Issue Discount calculated to each such date. The Redemption Price of a Security redeemed between such dates shall include an additional amount reflecting the additional Original Issue Discount accrued from and including the next preceding date in the table to, but excluding, the Redemption Date.

Redemption Date	(1) Security Issue Price	(2) Accrued Original Issue Discount at %	(3) Redemption Price = (1)+(2)
November 16, 2003.....	689.68	81.32	771.00
November 16, 2004.....	689.68	110.50	800.18
November 16, 2005.....	689.68	140.79	830.47
November 16, 2005.....	689.68	172.22	861.90
November 16, 2006.....	689.68	204.85	894.53
November 16, 2007.....	689.68	238.71	928.39
November 16, 2008.....	689.68	273.85	963.53

November 16, 2010..... 689.68 310.32 1,000.00

The Securities are also redeemable for cash at the Company's option prior to their maturity in the event of certain changes in the tax laws of The Netherlands (including any enactment of the Veegwet Wet inkomstenbelasting 2001 (the "Bill") in a form different from the version of the Bill submitted to the Parliament of The Netherlands on October 23, 2000, provided that any changes to the Bill as originally proposed result in the Bill applying to the Securities for Netherlands tax purposes) that occur after November 6, 2000, as specified below. If as a result of any change in, or amendment to, the laws or regulations of The Netherlands or any political subdivision or taxing authority thereof or therein, which change or amendment is proposed and becomes effective on or after November 6, 2000 (including any enactment of the Bill in a form different from the version submitted to the Parliament of the Netherlands on October 23, 2000, provided that any changes to the Bill as originally proposed result in the Bill applying to the Securities for Netherlands Tax Purposes), the Company is obligated to pay to the holder of any Security Additional Amounts, and such obligations cannot be avoided by the Company taking reasonable measures available to it, then the Company may, at its option, redeem the Securities as a whole but not in part, upon not less than 30 nor more than 60 days' notice given as provided in the Indenture, at the then applicable Redemption Price but without reduction for applicable Netherlands withholding taxes except that (i) no such notice of redemption may be given earlier than 60 days prior to the earliest date on which the Company would be obligated to pay any such Additional Amounts were a payment in respect of the Securities then due, and (ii) at the time such notice is given, such obligation to pay such Additional Amounts remains in effect. Prior to the giving of any such notice of redemption, the Company must deliver to the Trustee (a) a certificate stating that the Company is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Company so to redeem have occurred and (b) an opinion of independent counsel or an independent accountant of recognized standing acceptable to the Trustee to the effect that the Company has or will become obligated to pay such Additional Amounts as a result of such change or amendment. The Company's right to redeem the Securities shall continue as long as the Company is obligated to pay such Additional Amounts, notwithstanding that the Company shall have made payments of Additional Amounts.

The Securities may be also redeemed for cash at the Company's option before maturity, in whole but not in part, at any time that, as a consequence of the exercise of conversion rights, redemptions or purchases, 10 per cent or less of the original aggregate principal amount of the Securities remains outstanding. The Company's right to redeem under this provision is in addition to and is in no way

intended to limit other rights of the Company under the Indenture including its right to redeem the Securities in other circumstances. In the event the Company elects to redeem the Securities, it will do so at the then applicable redemption price, which will be equal to the original issue price plus the accrued Original Issue Discount calculated to the date of the redemption. The Company may only redeem the Securities in accordance with this paragraph if it has given at least 30 days' and not more than 60 days' notice of the redemption. The Trustee shall promptly publish the notice of redemption in The Wall Street Journal, the Financial Times, Les Echos or La Tribune.

#### 6. Purchase of Securities by the Company at the Option of the Holder

Subject to the terms and conditions of the Indenture, the Company shall become obligated to purchase, at the option of the Holder, the Securities held by such Holder on January 17, 2005 (the "Purchase Date") and at a purchase price of \$805.15 (the "Purchase Price") per \$1,000 Principal Amount of such Securities, upon delivery of the Purchase Notice containing the information set forth in the Indenture, at any time from the opening of business on the date that is 20 Business Days prior to the Purchase Date until the close of business on the Purchase Date and upon delivery of the Securities to any Paying Agent by the Holder as set forth in the Indenture. The Purchase Price shall be paid in cash.

Subject to the terms and conditions of the Indenture, if any Change in Control occurs after November 6, 2000, the Company shall, at the option of the Holders, purchase all Securities for which a Change in Control Purchase Notice shall have been delivered as provided in the Indenture and not withdrawn, on the date that is 35 Business Days after the occurrence of such Change in Control, for a Change in Control Purchase Price equal to the Issue Price plus accrued Original Issue Discount to the Change in Control Purchase Date, which Change in Control Purchase Price shall be paid in cash.

Holder's have the right to withdraw any Purchase Notice or Change in Control Purchase Notice, as the case may be, until the close of business on the Purchase Date or Change in Control Purchase Date, as the case may be, by delivering to any Paying Agent a written notice of withdrawal in accordance with the provisions of the Indenture.

If cash sufficient to pay the Purchase Price or Change in Control Purchase Price of all Securities or portions thereof to be purchased as of the Purchase Date or the Change in Control Purchase Date, as the case may be, is deposited with any Paying Agent on the Business Day following the Purchase Date or the Business Day following the Change in Control Purchase Date, as the case may be, Original

Issue Discount ceases to accrue on such Securities (or portions thereof) on and after such date, and the Holders thereof shall have no other rights as such (other than the right to receive the Purchase Price or Change in Control Purchase Price, as the case may be, upon surrender of such Security).

Holders may surrender a Security for purchase by the Company by means of book entry delivery in accordance with the provisions set forth herein and the regulations of the applicable book entry facility. For the purposes of this paragraph 6, a Security shall be deemed to have been surrendered to a Paying Agent upon receipt by such Paying Agent of a copy of an irrevocable notice given by any book entry facility to the holder of the certificate corresponding to such Security instructing it to deliver such certificate to the relevant Registrar for cancellation.

#### 7. Notice of Redemption

Notice of redemption will be mailed at least 30 days but not more than 60 days before the Redemption Date to each Holder of Securities to be redeemed at the Holder's registered address. If money sufficient to pay the Redemption Price of all Securities (or portions thereof) to be redeemed on the Redemption Date is deposited with any Paying Agent prior to or on the Redemption Date, on and after such date Original Issue Discount ceases to accrue on such Securities or portions thereof. Securities in denominations larger than \$1,000 of Principal Amount may be redeemed in part but only in integral multiples of \$1,000 of Principal Amount.

#### 8. Conversion

Subject to the next two succeeding sentences, a Holder of a Security may convert it into Common Shares of the Company at any time before the close of business on November 16, 2010 provided, however, that if a Security is called for redemption, the Holder may convert it at any time before the close of business on the Redemption Date. The number of Common Shares to be delivered upon conversion of a Security into Common Shares per \$1,000 of Principal Amount shall be equal to the Conversion Rate. A Security in respect of which a Holder has delivered the Purchase Notice or Change in Control Purchase Notice exercising the option of such Holder to require the Company to purchase such Security may be converted only if the notice of exercise is withdrawn in accordance with the terms of the Indenture. A Holder may elect to take delivery of Common Shares in the form of either Dutch Shares or New York Shares; provided that (i) Holders or beneficial owners of Common Shares received upon conversion of all or a portion of the Rule 144A Global Bond or any Rule 144A Definitive Registered Bond and (ii) Holders or beneficial owners of Common

Shares received upon conversion of all or a portion of the Regulation S Global Bond or any Regulation S Definitive Registered Bond during the 40-day period following the date hereof, may not elect to take delivery of Common Shares in the form of New York Shares but shall take delivery of any Common Shares in the form of Dutch Shares.

The initial Conversion Rate is 9.320 Common Shares per \$1,000 Principal Amount, subject to adjustment in certain events described in the Indenture. The Company will deliver cash or a check in lieu of any fractional Common Shares. In the event that conversion of all of the Securities at the initial Conversion Rate established upon issuance would result in the issuance of more than 20,000,000 Common Shares (and in any event not more than 20,000,003 Common Shares), such Common Shares that are issuable in excess of 20,000,000 Common Shares shall be treated as fractional shares. The foregoing sentence shall cease to apply subsequent to the adjustment of the Conversion Rate, even if such adjustment results in more than 20,000,000 Common Shares being required to be issued.

To convert a Security a Holder must (i) complete and manually sign the conversion notice on the back of the Security (or complete and manually sign a facsimile of such notice) and state in the conversion notice whether the Holder elects to receive Dutch Shares or New York Shares upon conversion and deliver such notice to a Conversion Agent (or any applicable office or agency referred to in Section 4.05 of the Indenture) or, if applicable, complete and deliver to the applicable book entry facility the appropriate instruction form for conversion pursuant to such book entry facility's book entry conversion program, (ii) surrender the Security to a Conversion Agent by physical or book entry delivery (if necessary under such book entry facility's book entry conversion program), (iii) furnish appropriate endorsements and transfer documents if required by any Conversion Agent, the Company or the Trustee and (iv) pay any transfer or similar tax, if required. Book entry delivery of a Security to any Conversion Agent may be made by any financial institution that is a participant in such book entry facility; conversion through such book entry facility's book entry conversion program is available for any security that is held in an account maintained at such book entry facility by any such participant.

Upon conversion of a Security, the Company shall, on the Conversion Date, redeem any Security delivered for conversion at a Redemption Price equal to the sum of the Issue Price of the Security plus accrued Original Issue Discount from the Issue Date to the Conversion Date and the Company shall pay such redemption monies into an account in the name of the Trustee (on behalf of the relevant Holder). When the redemption monies are paid into such an account in the name of the Trustee, the Trustee shall, on behalf of the relevant Holder,

immediately transfer such redemption monies to the Company in exchange for the Common Shares deliverable upon conversion to the relevant Holder. Such Holder shall be deemed to have consented to such transfer without any requirement that such Holder take any action or be notified of any such transfers.

A Holder may convert a portion of a Security if the Principal Amount of such portion is \$1,000 or an integral multiple of \$1,000. No payment or adjustment will be made for dividends on the Common Shares, other than payment of cash for fractional shares, and except as provided in the Indenture. On conversion of a Security, that portion of accrued Original Issue Discount attributable to the period from the Issue Date to the Conversion Date with respect to the converted Security shall not be cancelled, extinguished or forfeited, but rather shall be deemed paid in full to the Holder thereof through the delivery of the Common Shares (as per the procedures set forth in the preceding paragraph) in exchange for the Security being converted pursuant to the terms hereof.

The Conversion Rate will be adjusted for dividends or distributions on Common Shares payable in Common Shares or other Capital Stock; certain subdivisions, combinations or reclassifications of Common Shares or securities convertible into Common Shares; distributions to all holders of Common Shares of certain rights, warrants or options to purchase Common Shares or securities convertible into Common Shares for a period expiring within 60 days after the record date for such distribution at a price per share less than the Sale Price at the Time of Determination; distributions to holders of Common Shares of assets or debt securities of the Company or certain rights, warrants or options to purchase securities of the Company (excluding certain cash dividends or other cash distribution (except to the extent cash dividends or other cash distributions constitute Extraordinary Cash Dividends) from consolidated current net earnings or earned surplus or dividends payable in Common Shares; and the issuance by the Company for cash of Common Shares or options, warrants or other rights to subscribe or purchase Common Shares not otherwise described above at a price per Common Share which is less than 95% of the Sale Price on the Trading Day immediately preceding the announcement of such issuance other than shares issued pursuant to the 2000-2003 employee share purchase plan and upon the exercise of options to purchase up to 33,000,000 common shares granted pursuant to existing option plans, or (otherwise than as described above) the issuance of securities for cash which carry conversion, exchange or subscription rights at a consideration per Common Share which is less than 95% of the Sale Price on the Trading Day immediately preceding the announcement of such issuance. However, no adjustment need be made if Securityholders may participate in the transaction or in certain other cases. The Company from time to time may voluntarily increase the Conversion Rate.

If the Company is a party to a consolidation, merger or binding share exchange of the type specified in the Indenture, or certain transfers of all or substantially all of its assets to another person, or in certain other circumstances described in the Indenture, the right to convert a Security into Common Shares may be changed into a right to convert it into securities, cash or other assets of the Company or another person.

#### 9. Conversion Arrangement on Call for Redemption

Any Securities called for redemption, unless surrendered for conversion before the close of business on the Redemption Date, may be deemed to be purchased from the Holders of such Securities at an amount not less than the Redemption Price, by one or more investment bankers or other purchasers who may agree with the Company to purchase such Securities from the Holders and to make payment for such Securities to the Trustee in trust for such Holders.

#### 10. Denominations; Transfer; Exchange

The Securities are in fully registered form, without coupons, in denominations of \$1,000 of Principal Amount and integral multiples of \$1,000. A Holder may transfer or exchange Securities in accordance with the Indenture. A Registrar may require a Holder, among other things, to furnish appropriate endorsements and transfer documents and to pay any taxes and fees required by law or permitted by the Indenture. A Registrar need not transfer or exchange any Securities selected for redemption (except, in the case of a Security to be redeemed in part, the portion of the Security not to be redeemed) or any Securities in respect of which the Purchase Notice or Change in Control Purchase Notice has been given and not withdrawn (except, in the case of a Security to be purchased in part, the portion of the Security not to be purchased) or any Securities for a period of 15 days before a selection of Securities to be redeemed.

#### 11. Persons Deemed Owners

The registered Holder of this Security may be treated as the owner of this Security for all purposes.

#### 12. Unclaimed Money or Securities

The Trustee and each Paying Agent shall return to the Company any money or securities held by them for the payment of any amount with respect to the Securities that remains unclaimed for two years, provided, however, that the Trustee or such Paying Agent, before being required to make any such return, may

at the expense of the Company cause to be published once in The Wall Street Journal or another daily newspaper of national circulation, The Financial Times and Les Echos or La Tribune or mail to each such Holder notice that such money or securities remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such publication or mailing, any unclaimed money or securities then remaining will be returned to the Company. After return to the Company, Holders entitled to the money or securities must look to the Company for payment as general creditors unless an applicable abandoned property law designates another person, and the Trustee and each Paying Agent shall have no further liability with respect to such money or securities for that period commencing after the return thereof.

#### 13. Amendment; Waiver

Subject to certain exceptions set forth in the Indenture, (i) the Indenture or the Securities may be amended with the written consent of the Holders of at least a majority in aggregate Principal Amount of the Securities at the time outstanding and (ii) certain defaults or noncompliance with certain provisions may be waived with the written consent of the Holders of at least a majority in aggregate Principal Amount of the Securities at the time outstanding. Subject to certain exceptions set forth in the Indenture, without the consent of any Securityholder, the Company and the Trustee may amend the Indenture or the Securities to cure any ambiguity, defect or inconsistency, or to comply with Article 5 or Section 10.15 of the Indenture or to make any change that does not adversely affect the rights of any Securityholder.

#### 14. Defaults and Remedies

Under the Indenture, Events of Default include (i) default in payment of the Principal Amount, Issue Price, accrued Original Issue Discount, Redemption Price, Purchase Price or Change in Control Purchase Price, as the case may be, in respect of the Securities when the same becomes due and payable; (ii) failure either to deliver Common Shares (or cash in lieu of fractional Common Shares) in accordance with the terms of the Indenture when such Common Shares (or cash in lieu of fractional Common Shares) is required to be delivered following conversion of a Security and such failure is not remedied for a period of 10 days; (iii) failure by the Company to comply with other agreements in the Indenture or the Securities, subject to notice and lapse of time; (iv) default under any mortgage (including any pledge, lien, deed of trust, security interest or other similar encumbrance), indenture or instrument under which there may be issued or by which there may be secured or evidenced any indebtedness for money borrowed of the Company, which default shall have resulted in such indebtedness, in an



aggregate principal amount exceeding \$10 million becoming or being declared due and payable prior to the date on which it would otherwise have become due and payable without such indebtedness being discharged or such acceleration having been rescinded or annulled, or there having been deposited in trust a sum of money sufficient to discharge such indebtedness within a period of 20 days after the giving of a Notice of Default; or (v) certain events of bankruptcy or insolvency. If an Event of Default occurs and is continuing, the Trustee, or the Holders of at least 25% in aggregate Principal Amount of the Securities at the time outstanding, may declare all the Securities to be due and payable immediately. Certain events of bankruptcy or insolvency are Events of Default which will result in the Securities becoming due and payable immediately upon the occurrence of such Events of Default.

Securityholders may not enforce the Indenture or the Securities except as provided in the Indenture. The Trustee may refuse to enforce the Indenture or the Securities unless it receives reasonable indemnity or security. Subject to certain limitations, Holders of a majority in aggregate Principal Amount of the Securities at the time outstanding may direct the Trustee in its exercise of any trust or power. The Trustee may withhold from Securityholders notice of any continuing Default (except a Default in payment of amounts specified in clause (i) above) if it determines that withholding notice is in their interests.

#### 15. Trustee Dealings with the Company

Subject to certain limitations imposed by the TIA, the Trustee under the Indenture, in its individual or any other capacity, may become the owner or pledgee of Securities and may otherwise deal with and collect obligations owed to it by the Company or its Affiliates and may otherwise deal with the Company or its Affiliates with the same rights it would have if it were not Trustee.

#### 16. No Recourse Against Others

A director, member of the Board, officer, employee or stockholder, as such, of the Company shall not have any liability for any obligations of the Company under the Securities or the Indenture or for any claim based on, in respect of or by reason of such obligations or their creation. By accepting a Security, each Securityholder waives and releases all such liability. The waiver and release are part of the consideration for the issue of the Securities.

17. Authentication

This Security shall not be valid until an authorized officer of the Trustee or any Authenticating Agent manually signs the Certificate of Authentication on the other side of this Security.

18. Abbreviations

Customary abbreviations may be used in the name of a Securityholder or an assignee, such as TEN COM (=tenants in common), TEN ENT (=tenants by the entirety), JT TEN (=joint tenants with right of survivorship and not as tenants in common) and CUST (=custodian), and UNIF TRANS MIN ACT (=Uniform Transfers to Minors Act).

19. GOVERNING LAW

THE INDENTURE AND THIS SECURITY SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, AS APPLIED TO CONTRACTS MADE AND TO BE PERFORMED WITHIN THE STATE OF NEW YORK WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAWS.

ASSIGNMENT FORM

CONVERSION NOTICE

To assign this Security, fill in the form below:

To convert this Security into Common Shares of the Company, check the box: |\_|

I or we assign and transfer this Security to

To convert only part of this Security, state the Principal Amount to be converted(which must be \$1,000 or an integral multiple of \$1,000):

(Insert assignee's soc. sec. or tax ID no.)

\$ \_\_\_\_\_

(Print or type assignee's name, address and zip code)

If you want the stock certificate made out in another person's name, fill in the form below:

and irrevocably appoint \_\_\_\_\_ as agent to transfer this Security on the books of the Company. The agent may substitute another to act for him.

(Insert person's soc. sec. or tax ID no.)

To resell or transfer this Security check one of the boxes below:

(Print or type person's name, address and zip code)

|\_| I or we assign or transfer this security to STMicroelectronics N.V or its subsidiary \_\_\_\_\_ (print or type name of subsidiary)

The undersigned Holder elects to receive Common Shares as checked below:

|\_| I or we assign and transfer this security to a Qualified Institutional Buyer ("QIB") as defined in Rule 144A under the Securities Act

\_\_\_\_\_ Shares of Dutch Registry

|\_| I or we assign and transfer this security outside the United States in an offshore transaction in compliance with Rule 903 or 904 under the Securities Act

\_\_\_\_\_ Shares of New York Registry (Not available to holders or beneficial owners of shares received upon conversion of Rule 144A Bonds)

|\_| I or we assign and transfer this security pursuant to the exemption from registration provided by Rule 144 under the Securities Act

I or we hereby declare and represent that the assignment of this Security is made in compliance with all applicable securities laws of the states of the United States or any other jurisdiction.

Date: \_\_\_\_\_ Your Signature: \_\_\_\_\_

(Sign exactly as your name appears on the other side of this Security)

\* Signatures must be guaranteed by an "eligible guarantor institution" meeting the requirements of the Registrar, which requirements in the case of the New York Registrar include membership or participation in the Security Transfer Agent Medallion Program ("STAMP") or such other "signature guarantee program" as may be determined by the New York Registrar in addition to, or in substitution for, STAMP, all in accordance with the Securities Exchange Act of 1934, as amended.

FORM OF CERTIFICATE TO BE DELIVERED IN  
CONNECTION WITH TRANSFERS PURSUANT TO REGULATION S

\_\_\_\_\_ / \_\_\_\_\_  
The Bank of New York  
101 Barclay Street  
Floor 21 West  
New York, New York 10286  
Attention: Corporate Trust Administration

Re: STMICROELECTRONICS N.V.

Zero Coupon Senior Convertible Bonds due 2010

Ladies and Gentlemen:

In connection with our proposed sale of o \_\_\_\_\_ principal amount of the Convertible Bonds, we confirm that such sale has been effected pursuant to and in accordance with Regulation S under the Securities Act of 1933 and, accordingly, we represent that:

(1) the offer of the Convertible Bonds was not made to a person in United States;

(2) at the time the buy order was originated, the transferee was outside the United States or we and any person acting on our behalf reasonably believed that the transferee was outside the United States;

(3) no directed selling efforts have been made by us in the United States in contravention of the requirements of Rule 903(b) or Rule 904(b) of Regulation S, as applicable; and

(4) the transaction is not part of a plan or scheme to evade the registration requirements of the U.S. Securities Act of 1933.

You and the Company are entitled to rely upon this letter and are irrevocably authorized to produce this letter or a copy hereof to any interested party in any administrative or legal proceedings or official inquiry with respect to the matters covered hereby. Terms used in this certificate have the meanings set forth in Regulation S.

Very truly yours,

[Name of Transferor]

By \_\_\_\_\_  
Authorized Signature

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, No. 333-07226 and No. 333-12732) of STMicroelectronics N.V. of our reports dated February 1, 2001 relating to the financial statements and financial statement schedule, which appear in this Form 20-F.

PRICEWATERHOUSECOOPERS N.V.  
Amsterdam, The Netherlands  
May 14, 2001