STMICROELECTRONICS NV
Form 6-K
March 23, 2004

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

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

Report on Form 6-K dated March 23, 2004

STMicroelectronics N.V.
(Name of Registrant)

39, Chemin du Champ-des-Filles
1228 Plan-les-Ouates, Geneva, Switzerland

(Address of Principal Executive Offices)

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

Form 20-F X   Form 40-F
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Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Yes   No X
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Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes   No X
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If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82- __________

Enclosures: Shareholder materials for STMicroelectronics' Annual General Meeting of Shareholders ("AGM") of April 23, 2004, including: (i) Agenda for AGM; (ii) Report of the Managing Board; (iii) Report of the Supervisory Board; (iv) Annual Accounts for 2003; (v) AGM Proposed Resolutions; (vi) Proposed New Supervisory Board Member Data Forms; (vii) Deed of Amendment to the Articles of Association; (viii) Corporate Governance Charter; (ix) Proxy Appointment and Voting Instruction Card.

[GRAPHICS OMITTED]

Annual General Meeting 2004

Agenda

Annual General Meeting of Shareholders of STMicroelectronics N.V., established in Amsterdam, the Netherlands to be held on April 23, 2004 at 10:00 a.m. in Amsterdam, the Netherlands(1)

1. Call to order and opening

2. Report of the Managing Board on the 2003 financial year

3. Report of the Supervisory Board on the 2003 financial year

4. Adoption of the annual accounts for the 2003 financial year

5. Discharge of the sole member of the Managing Board

6. Discharge of the members of the Supervisory Board

7. Adoption of a dividend of $0.12 per common share

8. Proposal of appointment of Gerald Arbola as a new member of the Supervisory Board as successor to, and to complete the three-year term (to expire at our 2005 AGM) of, Jean-Pierre Noblanc

9. Proposal of appointment of Didier Lombard as a new member of the Supervisory Board as successor to, and to complete the three-year term (to expire at our 2005 AGM) of, Remy Dullieux

10. Approval of the compensation of the members of the Supervisory Board

11. Approval of the new employee stock purchase plan

12. Delegation to the Supervisory Board for five years of the authority to issue new shares, to grant rights to subscribe for new shares and to limit and/or exclude existing shareholders' pre-emptive rights

13. Approval of the change in the quorum for the general meeting of shareholders from one-third of the issued share capital to 15% of the issued share capital

14. Authorization of the amendment of the articles of association relating to the items mentioned under item 13

15. Approval of our Corporate Governance Policy

16. Question time

17. Close

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(1) Location to be communicated shortly

Copies of the annual accounts, the report of the Supervisory Board, the report of the Managing Board, the draft deed of amendment to the articles of association (as well as an unofficial English translation thereof), the personal data of the proposed members of the Supervisory Board as referred to in Section 2:142, subsection 3 of the Dutch Civil Code, the proposed Corporate Governance Charter and other information included pursuant to law and the proposed resolutions will be deposited for inspection by the shareholders and other persons entitled to attend the meeting at the offices of Netherlands Management Company B.V. (Locatellikade 1, 1076 AZ Amsterdam, the Netherlands), at the offices of Credit Agricole Investor Services Corporate Trust S.N.C. (14, Rouget de Lisle, 92862 Issy-les-Moulineaux, Cedex 09), at the offices of the Company in New York (Corporate Information Office, 780 Third Avenue, 9th Floor, New York, New York 10017, United States of America) and at the offices of Banca Intesa S.p.A. (Centro Amministrativo Elettronico, Via Langhirano 1, CAP 43100 Parma, Italy) as of March 19, 2004 up to and including the date of the meeting. The documents are also available on the Company's internet site www.st.com and in print at the Company's registered offices.

[GRAPHIC OMITTED]

REPORT FROM OUR MANAGING BOARD TO OUR SHAREHOLDERS

ST achieved progressive revenue gains throughout 2003, posting 14.6% growth over the prior year. Net revenues surpassed $7.2 billion, reflecting solid year-over-year increases in all major product groups and targeted market segments. In 2003, revenues from differentiated products exceeded $5 billion and accounted for 69.3% of the Company's net revenues.

Based upon currently-available industry data, ST's growth for the period was basically in line with that of the markets we serve, enabling the Company to maintain leading positions in a number of key areas, including sales of Analog ICs, Application Specific ICs and Application Specific Standard Products.

ST's four major product groups continued to work together in 2003 to provide products and solutions for a number of high-growth applications. For example, in 2003 our revenues for wireless applications approximated $1.75 billion, 18% growth over the prior year, and revenues to digital consumer and automotive products each exceeded $1 billion, increasing 27% and 22%, respectively, from 2002 levels.

ST's twelve strategic customers with whom we have formal alliances represented approximately 43% of our total net revenues in 2003. At the same time, our company-wide initiative to offer ST products to an expanded customer base fueled incremental, progressive revenue growth throughout the year. The Company has committed significant resources to ensure the longterm success of this accelerated marketing program, by creating new regional competence centers that focus on specific applications, increasing design activities in advanced products with multiple applications and launching a new generation of e-tools for customer support.

Our top-line growth in 2003 was driven primarily by unit demand, as the industry-wide overcapacity, that persisted during the year caused much of our product portfolio to be under significant price pressure. This situation was exacerbated by product mix, particularly the 27% year-over-year growth in Flash memory product sales and the increase in sales of multi-socket products to a broader customer universe. These factors, among others including currency fluctuations, restricted our ability to generate operating leverage at the gross margin line. Gross profit, while up 11.7% to $2.57 billion on a yearover-year-basis, stood at 35.5% of 2003 net revenues, compared to 36.4% in 2003.

Operating income was penalized by the approximate 20% decline in the value of the u.s. dollar against the Euro and several other currencies in 2003.

This decline significantly increased ST's reported research and development and selling, general and administrative costs, which together account for the majority of our operating expenses. In addition, we incurred impairment, restructuring, and other related charges in 2003, which amounted to $139 million on an after-tax basis, in connection with a detailed restructuring plan developed to safeguard and increase ST's manufacturing cost competitiveness and to enhance capacity.

In 2003, we repurchased approximately 78% of the amount originally issued of our Zero-Coupon Senior Convertible Notes due 2010 and completed an Offering of Senior Zero-Coupon Convertible Bonds due 2013. Repurchases of higher-cost convertible debt to reduce interest expense and lengthen maturities resulted in a non-operating, after-tax charge of $38 million in 2003.

The above-mentioned factors are the primary reasons that ST's reported net income was $253 million, or $0.27 per diluted share for 2003, as compared to $429 million, or $0.48 per diluted share in 2002.

It is noteworthy that at year-end 2003, our balance sheet was stronger than it was at the end of 2000, when the semiconductor industry had reached a record high sales level. At December 31, 2003, cash, cash equivalents, and marketable securities totaled $3 billion. Total debt was $3.10 billion, of which $2.94 billion was long term, comprised mostly of convertible bonds; shareholders' equity totaled $8.10 billion; and the net debt to shareholders' equity ratio was a modest 0.012. Throughout the period, we maintained our emphasis on cash generation, reporting net operating cash flow for 2003 of $477 million.(1)

Importantly, we were able to blend sound financial management with solid strategic initiatives and investments in 2003, which we believe have the potential to provide significant returns in the periods ahead.

The Crolles2 Research and Development Alliance facility was formally inaugurated early in 2003, and by the end of the year, ST and our partners, Philips and Motorola, were producing research lots of 90-nanometer feature-size silicon. ST's agreement with Hynix Semiconductor to jointly develop NAND Flash products is also proceeding apace, with ST having already delivered samples of 512 megabit and 1 gigabit memories to key customers.

Our agreement with Texas Instruments and Nokia to jointly develop and sell a CDMA chipset was announced in May 2003, and customer response has been encouraging. As part of ST's joint venture with Dai Nippon, a mask-making facility in which ST owns 19%, was opened adjacent to our fab in

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(1) Net operating cash flow is defined as cash flow from operating activities net of payments for purchases of tangible, intangible and financial assets, and for acquisitions.

Agrate, Italy in July, 2003. We expect this facility to be fully operational by mid-2004.

We made two smartcard-related acquisitions in 2003, both of which have given ST the ability to leverage its silicon know-how in order to offer customers a broader array of products and solutions based upon their individual requirements. And, we added to our broadband access portfolio and expertise through the December 2003 acquisition of Synad, a UK-based wireless-LAN company.

Industry analysts currently forecast that 2004 will be a year of substantial growth for the semiconductor industry, characterized by a combination of higher unit demand and price increases. As noted in the Outlook section of our 2003 fourth quarter/full-year earnings release, ST has entered this recovery period with a solid order backlog and strong fundamental demand for products serving key high-growth applications.

We intend to take full advantage of our leadership position in those market segments and product families that are projected to drive the industry's growth in 2004 and beyond, moving, as appropriate, from a provider of components and Systems-on-Chip technology to a provider of platform solutions in those segments that we target.

We are also determined to continue accelerating and strengthening our commitment to our programs in corporate social responsibility. These programs are in line with our leadership as one of the first signatories to the Global Compact, which is the U.N. initiative that promotes responsible corporate citizenship. We reiterate the Company's longstanding belief that those corporations which pay special attention to their social responsibility and to their behavior as good corporate citizens in the communities in which they operate not only fulfill their ethical obligations but also maximize returns to their shareholders. Our position is recognized by a number of financial indexes on which ST's shares are included, such as: FTSE 4good; Dow Jones Sustainability Indexes, Advanced Sustainable Performance Index, the Ethical Sustainability Index and the Ethical Index Europe.

In addition, ST, with its unwavering commitment to sustainable development emphasizing environmental protection, provides excellent proof of the validity of these concepts. As an example, our energy-saving program, which cut per unit energy consumption by an average of 6.3% per year since 1994, reduced our electricity bill by approximately $80 million in 2003. At the same time, our energy-conservation efforts have saved our planet the burden of another 150MW power plant, with all its related polluting emissions.

In 2003, ST was also one of the world's first companies to be awarded OHSAS 18001 health and safety management certification for all of its plants. Through OHSAS 18001, ST has committed to achieve continuous progress in several areas, including Occupational Health and Safety, Risk Management, Property Conservation and Business Continuity.

Finally, 2003 marked the beginning of the deployment of the Company's program to help bridge the "digital divide", the gap that separates those having access to modern information and communication technologies and those without such access. Our program is based on providing education through specially-designed courses and on offering access to personal computers and to the Internet in countries such as Morocco, Malaysia and India, which are currently the primary targets for our initiative. Our goal is to reach at least one million people in a decade, thus enhancing the social and economic development of the communities where we operate, while also being recognized as an excellent corporate citizen and as the employer of choice in those communities.

On December 9, 2003, the final version of the Dutch Corporate Governance Code, often referred to as the Tabaksblat Code, was published. The Code recommends that companies communicate to shareholders in 2004 how they intend to comply with the Code and we have determined that ST already largely complies with the Code. It should be noted, however, that ST is a global company, with its shares listed on the New York Stock Exchange, Euronext Paris, and Borsa Italiana, and therefore certain of our policies may be reflective of practices in those jurisdictions and in some cases may not be consistent with all Dutch "Best Practice" recommendations contained in the Code. In light of this, we are submitting our policies on Corporate Governance for approval at our 2004 Annual General Meeting of Shareholders to be held in Amsterdam on April 23, 2004. Our current corporate governance policies, as enumerated in our Charter on Corporate Governance, will be updated and expanded whenever necessary or advisable. As recommended by the Code, we will inform our shareholders of any significant changes in our corporate governance policies and practices. Our Corporate Governance Charter will be posted on our website www.st.com and will be available in print to any shareholder who requests it.

March 10, 2004

/s/ Pasquale Pistorio

P. Pistorio

Sole member of the Managing Board

Report of the Supervisory Board of
STMicroelectronics
Monday, March 15, 2004

Annual Results

In 2003, the semiconductor market improved markedly in comparison to 2002. During 2003, ST produced annual revenues of almost $7.24 billion, driven primarily by unit demand from ST's strategic customers, as well as from a growing group of key customers, up 14.6% from the $6,318 million reported in 2002. ST remained solidly profitable for the year, as ST had during the severe industry downturns of 2001 and 2002. Net operating cash flow(1) increased to $477 million in 2003 from $342 million in 2002. However, profitability levels were significantly limited by a number of factors, including industry-wide overcapacity, pricing pressures and rapid currency fluctuations. Currency fluctuations affected ST's reported operating expenses for 2003, thus negatively impacting its bottom-line results in 2003 compared to 2002.

Proposed Dividend

Considering ST's results in 2003, and upon the proposal of the Managing Board, the Supervisory Board recommends to the Annual General Meeting of Shareholders (AGM) the adoption of the annual accounts for the financial year 2003 and the distribution, out of ST's profits realized during 2003, of a cash dividend of $0.12 per share.

Supervisory Board and ST Corporate Governance

The management of ST 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 as well as the general course of ST's affairs and business.

Since early 2003, the Supervisory Board has monitored corporate governance initiatives in the various markets in which ST is listed and incorporated, particularly implementing rules of the Sarbanes-Oxley Act of 2002 and final corporate governance standards of the New York Stock Exchange. The Supervisory Board formed an Ad-Hoc Committee to analyze ST's corporate governance policies and structure.

On December 9, 2003, the Dutch Corporate Governance Committee issued a Corporate Governance Code (the "Code") effective January 1, 2004 for all publicly listed companies incorporated in The Netherlands, including ST. Management, under the supervision of the Ad-Hoc Committee, developed a Corporate Governance Charter. On the recommendation of the Ad-Hoc Committee, ST is submitting its policy on corporate governance for approval to the AGM. As ST is listed on the New York Stock Exchange, Euronext Paris and Milano Borsa and not in The Netherlands, ST's policies and practices are not consistent with all Dutch "Best Practice" recommendations contained in the Code. ST's current corporate governance policies, as enumerated in the Corporate Governance Charter, will be updated and expanded whenever

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(1) Net operating cash flow is defined as cash flow from operating activities net of payments for purchases of tangible, intangible and financial assets, and for acquisitions.

necessary or advisable. As recommended by the Code, ST will inform shareholders at its AGM of any significant changes in corporate governance policies and practices. ST's Corporate Governance Charter will be posted on the website and will be available in print to any shareholder who may request it. The Supervisory Board recommends to shareholders adoption of ST's corporate governance policy, as currently reflected in the ST Corporate Governance Charter.

In fulfilling their duties under Dutch law, the members of the Supervisory Board serve the best interests of all of ST's stakeholders and of ST's business. In addition, as required by Dutch law, all of the members of the Supervisory Board, however originally selected, act independently in their supervision of ST's management. The Supervisory Board has adopted criteria to evaluate the independence of its members in accordance with corporate governance listing standards of the New York Stock Exchange. The Supervisory Board evaluated the members and determined that all members are independent from ST's management.

Biographies of current Supervisory Board members' are annexed to this Report and will be available on ST's website.

Proposed Supervisory Board Appointments

The Supervisory Board announced the passing of former Vice-Chairman Jean-Pierre Noblanc last summer and announces the resignation of Supervisory Board member Mr. Remy Dullieux. Mr. Noblanc had been a member of the Supervisory Board since 1994, serving as Chairman from 1994-1996 and 1999-2002, and as Vice-Chairman from 1996-1999 and 2002 through his passing in 2003. Mr. Dullieux was a member of the Supervisory Board since 1993, serving as Audit Committee chair from 1996-1999.

The Supervisory Board recommends the respective appointments of Gerald Arbola and Didier Lombard as successors to fulfil the remaining period of the terms of Messrs. Noblanc and Dullieux, to expire at the 2005 AGM. Biographies of proposed Supervisory Board nominees Messrs. Arbola and Lombard annexed to this Report and will be available on ST's website.

Supervisory Board activity in 2003

During 2003, the Supervisory Board met eight times so as to closely monitor ST's operations, strategy and evolution. The Supervisory Board reviewed ST's results of operations, met with the corporate officers responsible for Research and Development, the Telecoms, Peripherals and Automotive ("TPA") and Memory Products businesses to monitor ST's projects, challenges, performance and prospects in an intensely competitive environment. In addition, the Supervisory Board supervised, oversaw and approved many ST corporate activities in 2003, including:

- ST's acquisitions of Smart card product manufacturer Incard (Italy), Smart card software company Proton (Belgium) and wireless-LAN designer Synad Ltd. (UK)
- Attribution of stock options to executives and key employees of ST under the 2001 and 2002 Stock Option Plans approved by shareholders
- Offerings of ST common shares to employees in May and November 2003 pursuant to ST's Employee Stock Purchase Plan approved by shareholders

- ST's issuance of $1.4 billion aggregate principal amount at issuance of negative yield zero coupon senior convertible bonds due 2013
- Several market repurchases of ST's zero coupon senior convertible bonds due 2010
- ST's six-inch fabrication facility reorganization project

The Supervisory Board's committees were also very active in 2003.

Compensation Committee

The Compensation Committee met four times in 2003, including one meeting outside the presence of management or the CEO. Among its main activities, the Compensation Committee defined the remuneration package of the CEO for the year 2003, determined CEO objectives and eligibility criteria to receive a bonus in 2004 (with reference to the market conditions in the semiconductor industry) and proposed to the Supervisory Board the CEO's total remuneration package, which approved it. Eligibility criteria for the CEO to receive a bonus relate to ST's revenue growth compared to that of its main competitors, its profitability, return on net assets, net cash flow, and market performance over the course of a fiscal year. In 2003, the Compensation Committee also reviewed the CEO's 2002 performance in light of objectives and bonus eligibility criteria and proposed adoption of the CEO's bonus to the Supervisory Board. Finally, the Compensation Committee made a recommendation regarding the number of stock options to be granted to the CEO.

The Compensation Committee approved the 2003 proposed allocation of stock options to ST's executive officers and key employees pursuant to ST's 2001 Stock Option Plan, based on the NYSE closing price of ST shares two days after the AGM date. The Compensation Committee also extended the allocation to eligible employees of acquired businesses. The Committee also reviewed the remuneration policy for the ST's Managing Board and senior executive officers as well as the Executive Incentive Program for all ST executives.

In 2003, the Compensation Committee confirmed the grant of stock options approved by ST's shareholders to members and professionals of the Supervisory Board pursuant to ST's 2002 Stock Option Plan, based on the NYSE closing price of ST shares two days after the AGM date.

The Compensation Committee also monitored the results of the last two tranches of ST's Employees Stock Purchase Plan, which were implemented in 2003. The Compensation Committee reviewed and proposed to the Supervisory Board a new Employee Stock Purchase Plan for the years 2004-2007, the principal terms and conditions of which are being submitted to our April 23, 2004 AGM for approval.

Strategic Committee

The Strategic Committee met six times in 2003, in the presence of the CEO, the Director of Strategic Planning and the CFO. Among its main activities, the Strategic Committee reviewed the Company's long-term plans and prospects and various possible scenarios and opportunities to meet the challenges of the semiconductor market, which included the increasing costs of R&D and of capital investments in advanced production technologies.

The Strategic Committee was fully briefed prior to and during the negotiation processes concerning the acquisition of Incard, a manufacturer of various Smart card products, Proton

World International (PWI), a leading Smart card software company specializing in high-security payment and identification Smart card systems, and Synad Ltd., the wireless-LAN chip developer.

Audit Committee

The Audit Committee met eleven times during 2003. At many of these meetings, the Audit Committee received presentations on current financial and accounting issues and had the opportunity to interview ST's CEO, CFO, General Counsel, external and internal auditors. On several occasions, the Audit Committee met with outside U.S. legal counsel, who explained and analyzed final implementing rules promulgated by the U.S. Securities and Exchange Commission and the New York Stock Exchange.

At the end of each quarter, prior to each Supervisory Board meeting to approve ST's results and quarterly earnings press release, the Audit Committee reviewed

ST's interim financial information and the proposed press release and discussed with the independent accountants those matters required to be discussed under SAS 61. In addition, the Audit Committee reviewed ST's quarterly "Operating and Financial Review and Prospects" and full interim financial statements (including notes) before they are filed with the SEC and duly certified (pursuant to sections 302 and 906 of the Sarbanes-Oxley Act).

The Audit Committee also proceeded with its annual review of ST's Internal Audit, as well as the scope, planning and costs of ST's external audit activities. The Audit Committee reviewed and approved management's proposal for a new internal operating procedure regarding engagements with external auditors.

The Audit Committee reviewed its Charter with the assistance of ST's outside U.S. counsel, with a view to compliance with final Sarbanes-Oxley implementing rules and final NYSE listing standards, to the extent permitted by Dutch law. The Audit Committee completed a self-evaluation and reported regularly to the Supervisory Board.

In advance of its review of our draft annual Financial Statements, the Audit Committee reviewed our external auditors' statement of independence with them. The Audit Committee approved the compensation of our external auditors and also approved the scope of their audit, audit-related and non-audit-related services, held separate meetings with the external auditors and discussed ST's critical accounting policies with our external auditors.

The Audit Committee reviewed ST's conclusions as to effectiveness of Internal Controls in 2003, had various meetings with management, external auditors and approved ST's internal audit plan for 2004. The Audit Committee also determined that three members of the Audit Committee qualified as "audit committee financial experts" and that all of its members are financially literate. The Audit Committee's conclusions on such matters were reported to the Supervisory Board, which adopted them.

Nominating and Corporate Governance Committee

As part of the Supervisory Board's corporate governance review, the Supervisory Board, on the recommendation of the Ad Hoc Committee, resolved to establish a Nominating and Corporate

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Governance Committee. The Supervisory Board will meet following the AGM to resolve upon the composition and Charter of the new Nominating and Corporate Governance Committee.

Finally, the Supervisory Board, in conjunction with the Managing Board, prepared the agenda for the AGM and recommends for adoption the proposed resolutions. The agenda, proposed resolutions and other information regarding the upcoming AGM are available on ST's website and in print to any shareholder upon request.

Monday, March 15, 2004

Bruno STEVE ----------------------	Robert WHITE ----------------------
Tom DE WAARD	Remy DULLIEUX

Doug DUNN	Riccardo GALLO
Francis GAVOIS	Alessandro OVI

Current members of ST Supervisory Board

Bruno Steve has been a member of our Supervisory Board since 1989 and Chairman since March 27, 2002. He served as Vice-Chairman of the Supervisory Board from 1989 to July 1990 and from May 1999 through March 2002. From July 1990 to March 1993 and from June 1996 until May 1999, Mr. Steve also served as Chairman of our Supervisory Board. He has been with Istituto per la Ricostruzione Industriale--IRI S.p.A. ("I.R.I".), a former shareholder of Finmeccanica, 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.. 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. He is also a professor at LUISS Guido Carli University in Rome.

Tom de Waard was appointed to the Supervisory Board in 1998. Mr. de Waard was appointed chairman of the Audit Committee by the Supervisory Board in 1999. Mr. de Waard has been a partner of Clifford Chance, a leading international law firm since March 2000 and has been the Managing Partner of Clifford Chance Amsterdam office since May 1, 2002. Prior to that, he was a partner at Stibbe, where he held several positions since 1971 and gained extensive experience working with major international companies, particularly with respect to corporate finance. He is a member of the Amsterdam bar and was President of the Netherlands Bar Association from 1993 through 1995. He received his law degree from Leiden University in 1971. Mr. De Waard is a member of the Supervisory Board of BESI N.V.

Remy Dullieux has been a member of the Supervisory Board since 1993. Mr. Dullieux was chairman of the Audit Committee from 1996 to 1999. He is a graduate of the Ecole Polytechnique. Since the beginning of 2004, he has been senior Vice President for IT business ownership and technical intervention in the fixed line and distribution Division of France Telecom. Between 1996 and 2004, Mr. Dullieux served as a France Telecom Executive Manager for the Northern and Eastern areas of France and then for the Western and Southwestern areas of France. From 1991 to June 1996, Mr. Dullieux served as Group Executive Vice President for Strategic Procurement and Development for France Telecom. From 1985 to 1988, Mr. Dullieux served as Regional Manager of Creteil, and announced his resignation effective at the April 23, 2004 Annual General Meeting of Shareholders.

Doug Dunn was appointed to the Supervisory Board in 2001. He is President and

Chief Executive Officer of ASM Lithography Holding N.V., an original equipment manufacturer in the semiconductor industry. Mr. Dunn currently serves on the Board of Directors of ARM plc and Sendo plc, both UK companies. Mr. Dunn also serves on the Board of MEDEA+. 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 and 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 is also a member of the board of directors of Comitato Sir (since 1981). 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, which was at the time the largest state-owned industrial holding. He currently serves as chairman of IPI, the Italian Institute for Industrial Promotion.

Francis Gavois was appointed to the Supervisory Board in 1998. Mr. Gavois is a member of the Boards of Directors of Plastic Omnium and FT1CI and of the Supervisory Board of the Consortium de Realisation (CDR). He also served as the Chairman of the Supervisory Board of ODDO et Cie until May 2003. 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 Exterieur (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 Special Advisor to the President of the European Community and serves on the boards of Seat S.p.A., Carnegie Mellon University, N.W. Fund (Capital Group, E.U.P.A.C. (Capital Group) 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 that of Silicon Graphics, Inc. He is a member of the U.S. National Academy of Engineering and the recipient of the American Physical Society's Pake Prize. 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.

ST Supervisory Board Nominees

Gerald Arbola is recommended for appointment to the Supervisory Board at the 2004 AGM to fulfill the remaining term of Jean-Pierre Noblanc, whose passing the Board has mourned since last summer, through the 2005 AGM. Mr. Arbola is an Executive Board member of Areva and its Chief Financial Officer. Mr. Arbola is a graduate of the Institut d'Etudes Politiques de Paris and holds an advanced degree in economics. Mr. Arbola joined the Cogema group in 1982 as director of planning and strategy for SGN, then served as chief financial officer at SGN from 1985 to 1989, becoming executive vice president of SGN in 1988, chief financial officer of Cogema in 1992. He was appointed as a member of the executive committee in 1999, and also served as chairman of the board of SGN in 1997 and 1998. Mr. Arbola has served as chief financial officer and member of the Executive Board of AREVA since July 3, 2001.

Didier Lombard is recommended for appointment to the Supervisory Board at the 2004 AGM to fulfil the remaining term of Remy Dullieux, who has retired, through the 2005 AGM. Mr. Lombard currently serves as Executive Director and Member of the Executive Committee of France Telecom, in charge of Technologies, Strategic partnerships and New Usages. Mr. Lombard began his career in the R&D division of France Telecom in 1967, where he contributed to the development of several new products for France Telecom, in relationship with satellite and mobile systems. From 1988 on, he served as scientific and technological director at the Ministry of Research and Technology, General Director for industrial strategies at the Ministry of Economy, Finances and Industry, and Delegate Ambassador for national investments and president of the French Agency for international investments. Mr. Lombard is also a member of the board of directors of Thomson. Mr. Lombard is a graduate of the Ecole Polytechnique and the Ecole Nationale Superieure des Telecommunications.

STMICROELECTRONICS N.V.

ANNUAL REPORT

DECEMBER 31, 2003

STMICROELECTRONICS N.V.

ANNUAL REPORT

DECEMBER 31, 2003

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APPENDIX

STMicroelectronics N.V. consolidated financial statements as of December 31, 2003 and the year then ended.

STATUTORY DIRECTOR

/s/ Pasquale Pistorio

SUPERVISORY DIRECTORS

/s/ Bruno Steve
/s/ Remy Dullieux
/s/ Allesandro Ovi
/s/ Robert M. White
/s/ Riccardo Gallo
/s/ Tom de Waard
/s/ Francis Gavois
/s/ Douglas Dunn

STMICROELECTRONICS N.V.

DIRECTOR'S REPORT

DECEMBER 31, 2003

The director's report is available on request at the Company's office.

Amsterdam, March 10, 2004

STMICROELECTRONICS N.V.
BALANCE SHEET AS AT DECEMBER 31, 2003
(before proposed appropriation of income)

	2003 USD in millions	2002 USD in millions
ASSETS		
FIXED ASSETS		
Intangible fixed assets	368	377
Tangible fixed assets	12	10
Financial fixed assets	7 198	6 278
Total fixed assets	7 578	6 665
NON-CURRENT ASSETS		

Long-term intercompany loans	56	32
Total non-current assets	56	32
CURRENT ASSETS		
Inventories	69	32
Trade receivables	299	268
Short-term intercompany loans	312	312
Group companies receivables	601	636
Other receivables	51	58
Securities	0	2
Cash	2 890	2 473
Total current assets	4 222	3 781
TOTAL ASSETS	11 856	10 478
SHAREHOLDERS' EQUITY AND LIABILITIES		
SHAREHOLDERS' EQUITY		
Issued and paid in capital	1 186	983
Additional paid in capital	1 509	1 468
Retained earnings	4 888	4 558
Treasury stock	(348)	(348)
Cumulative translation adjustment	584	(96)
Income for the year	205	401
Total shareholders' equity	8 024	6 966
LONG-TERM LIABILITIES		
Long-term loans	2 545	2 381
Deferred revenues	2	4
Total long-term liabilities	2 547	2 385
SHORT-TERM LIABILITIES		
Trade payable	17	14
Taxes	11	17
Group companies payables	1 203	1 006
Accrued liabilities	54	90
Total short-term liabilities	1 285	1 127
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	11 856	10 478

The accompanying notes form an integral part of the accounts.

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STMICROELECTRONICS N.V.

STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31, 2003

	2003 USD in millions	2002 USD in millions
Income after taxes	117	111
Income from subsidiaries	88	290
NET INCOME	205	401

The accompanying notes form an integral part of the accounts.

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STMICROELECTRONICS N.V.

NOTES TO THE FINANCIAL STATEMENTS AS AT DECEMBER 31, 2003

1. GENERAL

A description of STMicroelectronics N.V. ("the Company"), its activities and group structure are included in the attached consolidated financial statements, prepared for United States reporting purposes, which also apply to the company-only financial statements. The Company holds investments in subsidiaries operating in the semiconductor manufacturing industry. Additionally, the Company operates through a branch in Switzerland, which markets a broad range of semiconductor integrated circuits and devices used in a wide variety of microelectronic applications.

In accordance with Article 402, Title 9, Book 2 of the Dutch Civil Code the statement of income is presented in abbreviated form.

2. BASIS OF PRESENTATION

Management of the Company is of the opinion that the functional currency of the Company is the US dollar. Furthermore, the reporting currency of the subsidiaries is also the US dollar. Accordingly, the financial statements of the Company are expressed in US dollars.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The annual accounts are prepared in accordance with accounting principles generally accepted in the Netherlands. The accounting principles as described in the notes to the consolidated financial statements also apply to the Company-only financial statements, unless indicated otherwise.

Consolidation

The consolidated financial statements of the Company for the year ended December 31, 2003, which are attached, have been prepared in accordance with accounting principles generally accepted in the United States (US GAAP). In management's opinion, the attached consolidated financial statements do not differ materially from those which would have been prepared, had generally accepted Dutch accounting principles been applied, except for the additional disclosures as presented in Notes 18, 19 and 20.

Intangible assets

Intangible assets include the cost of technologies and licences purchased from third parties and capitalized internally developed software which are amortized over a period ranging from three to seven years, as well as goodwill acquired in business combinations which is amortized over its estimated useful life, generally three to five years. Intangible assets are reflected net of any impairment losses. The carrying value of intangibles is evaluated whenever changes in circumstances indicate the carrying amount may not be recoverable. In determining the recoverability, the Company estimates the fair value based on the expected discounted future cash flows and compares this to the carrying value of the identifiable intangibles. A impairment charge is recognized for the excess of the carrying value over the fair value. Significant estimates used in determining expected undiscounted future cash flows include the applicable sales volume forecasts, evolution of the average selling price and the market acceptance of certain new technologies.

Foreign currencies

The share capital of the Company is denominated in Euro and the year-end balance is translated into US dollars at the year-end exchange rate (Euro/USD 1.2630). The translation differences are taken to the non-distributable cumulative translation adjustment account.

Other non-current assets

Other non-current assets consist of underwriting and issuance costs related to the zero-coupon convertible notes. These costs are amortized straight-line over approximately 4 years, which represents the first right of the holder to redeem the convertible notes.

4. INTANGIBLE FIXED ASSETS

	Goodwill	Concessions, licenses and rights of intellectual ownership	Total
	USD in millions	USD in millions	USD in millions
HISTORICAL COST			
Balance at January 1, 2003	136	337	473
Additions	22	77	99
Write offs	--	(7)	(7)
Balance at December 31, 2003	158	407	565
ACCUMULATED AMORTIZATION			
Balance at January 1, 2003	22	74	96
Charge for the year	29	75	104
Write off	--	(3)	(3)
Balance at December 31, 2003	51	146	197
NET BOOK VALUE			
At December 31, 2003	107	261	368
At December 31, 2002	114	263	377

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5. TANGIBLE FIXED ASSETS

(USD in millions)	Furniture and fixtures	Computer and R&D equipment	Other	Total
HISTORICAL COST				
Balance at January 1, 2003	3	10	1	14
Additions	--	4	--	4
Disposals	(0)	(--)	(--)	(--)
Balance at December 31, 2003	3	14	1	18
ACCUMULATED DEPRECIATION				
Balance at January 1, 2003	1	3	--	4
Charge for the year	--	2	--	2
Disposals	(--)	(--)	(--)	(--)

Balance at December 31, 2003	1	5	--	6
NET BOOK VALUE At December 31, 2003	2	9	1	12
NET BOOK VALUE At December 31, 2002	2	7	1	10

6. FINANCIAL FIXED ASSETS

(USD in millions)	2003	2002
Investments in consolidated group companies	7,155	6 243
Investments	26	14
Debt issuance costs, net	17	21
	7 198	6 278

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Investments in consolidated group companies

(USD in millions)	2003	2002
Balance January 1	6 243	4 940
Income from subsidiaries	88	290
Dividends paid	(351)	(159)
Capital increase	296	561
Translation effect	879	611
Balance December 31	7 155	6 243

7. INVENTORIES

The balance for inventories contains only finished goods.

8. TRADE RECEIVABLES

Trade receivables mature within one year.

9. SHORT-TERM INTERCOMPANY LOANS

Short-term intercompany loans consist of the following:

	December 31, 2003	December 31, 2002

STMicroelectronics SA (France)		
Non-interest bearing cash advance	101	-
STMicroelectronics Inc (USA)		
Loan due 2004 bearing interest at 3-month LIBOR plus 1.50%	150	150
Loan due 2004 bearing interest at 3-month LIBOR plus 1.50%	60	60
Synad Technology		
Non-interest bearing cash advance	1	-
STMicroelectronics Srl (Italy)		

	December 31, 2003	December 31, 2002
Loan due 2003 bearing fixed interest at 4%	-	52
STMicroelectronics Ltd. (Malta)		
Non-interest bearing cash advance	-	50
Total short-term intercompany loans	312	312

10. LONG-TERM INTERCOMPANY LOANS

Long-term intercompany loans consist of the following:

	December 31, 2003	December 31, 2002
STMicroelectronics Inc. (Canada)		
Loan due 2005 bearing interest at 3-month LIBOR plus 1.50%	-	32
Loan due 2005 bearing interest at 3-month LIBOR plus 0.375%	51	-

STMicroelectronics Ltd. (Israel)		
Loan due 2006 bearing interest at 3-month LIBOR plus 0.50%	5	-
Total long-term intercompany loans	56	32

11. GROUP COMPANIES

	2003 USD in millions	2002 USD in millions
Trade receivables	564	436
Other receivables	37	200
Total group companies receivables	601	636
Trade payables	688	727
Other payables	515	279
Total group companies payables	1 203	1 006

12. SHAREHOLDERS' EQUITY

(USD in millions)	Issued and paid in capital	Additional paid in capital	Retained earnings	Treasury stock	Cumulative translation adjustment	Inco for t ye
Balance January 1, 2003	983	1 469	4 558	(348)	(97)	4
Appropriation of 2002 net income	--	--	401	--	--	(4
Issuance of shares	3	20	--	--	--	
Dividends paid	--	--	(71)	--	--	
Net income 2003	--	--	--	--	--	2
Premium on convertible debt	--	20	--	--	--	
Translation effect and other Comprehensive income	200	--	--	--	681	
Balance December 31, 2003	1 186	1 509	4 888	(348)	584	2

The EURO equivalent of the issued share capital at December 31, 2003 amounts to EURO 938,880,523 (2002: EURO: 936,960,496). For the changes in issued and paid in capital and additional paid in capital, see the consolidated financial statements of the Company as attached in the Appendix.

Treasury stock
As of December 31, 2003, 13,400,000 shares of common stock totalling USD 348,335,000 (2002 : 13,400,000 shares totalling USD 348,335,000) have been repurchased and reflected at cost as a reduction from shareholders' equity. The repurchased shares have been allocated to be used in the Company's most recent employee stock option plan. For details on the Company's stock option plans, see Note 14 of the consolidated financial statements of the Company.

13. LONG-TERM LOANS

In September 1999, the Company issued $919 million principal amount at maturity of zero-coupon subordinated convertible notes (LYONs), due 2009, for net proceeds of $708 million. 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 holders may redeem their LYONs on September 22, 2004 at a price of $885.91 per one thousand dollar face value of the LYONs. The Company may choose to pay the redemption price in cash or in common shares or a combination of both. On or after September 22, 2002 and prior to September 22, 2004, the Company may redeem for cash all, but not a portion of the LYONs. On or after September 22, 2004, the Company may redeem all or a portion of the LYONs for cash. The notes are subordinated to all existing and future indebtedness of the Company.

In November 2000, the Company issued $2,146 million principal amount at maturity of zero-coupon unsubordinated convertible bonds, due 2010, for net proceeds of $1,458 million. 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 holders may redeem their convertible bonds for cash on January 17, 2005, at a price of $805.15 per one thousand dollar face value of the convertible notes. On or after November 16, 2003 and prior to November 16, 2005, the Company may redeem for cash all, but not a portion of the convertible bonds. On or after November 16, 2005, the Company may redeem for cash all or

a portion of the convertible bonds. The notes are unsubordinated to all existing and future indebtedness of the Company.

In August 2003, the Company issued $1,332 million principal amount at maturity of zero coupon senior convertible bonds due 2013. The bonds were issued with a negative yield of 0.5% that resulted in a higher principal amount at issuance of $1,400 million and net proceeds of $1,386 million. The notes are convertible at any time by the holders at the rate of 29.9144 shares of the Company's common stock for each one thousand dollar face value of the notes. The holders may redeem their convertible bonds on August 5, 2006 at a price of $985.09, on August 5, 2008 at $975.28 and on August 5, 2010 at $965.56 per one thousand dollar face value of the notes. At any time from August 20, 2006 the Company may redeem for cash at their decreted value all or a portion of the convertible bonds subject to the level of the Company's share price.

14. LOANS AND BANKS

The Company has revolving lines of credit agreements with several financial institutions totalling USD 163,000,000 (2002: USD 80,000,000). At December 31, 2003 no amounts were drawn on these available lines of credit (2002: nil).

15. GUARANTEES

Guarantees given by the Company to banks of its subsidiaries amounted to approximately USD 816,700,000 at December 31, 2003 (2002: USD 864,659,000).

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16. WAGES, SALARIES AND SOCIAL CHARGES

	2003 USD in millions	2002 USD in millions
Wages and salaries	34	26
Social charges	3	2
Pension service costs	3	2
Other employee benefits	1	1
	-----	-----
	41	31
	-----	-----

The average number of persons employed by the Company during the year ended December 31, 2003 was 223 (2002: 187).

17. RENUMERATION TO BOARD OF DIRECTORS AND SUPERVISORY BOARD MEMBERS

Individual remuneration paid to Directors in 2003:

	USD '000
P. Pistorio as sole Director	
Wages and salaries	770
Bonus	539

Stock options granted to Directors in 2003:

P. Pistorio as sole Director   400,000 at a grant price of $19.18

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Individual remuneration paid to Supervisory Board Members :

	2003 USD'000	2002 USD'000
B. Steve	92	89
J.P. Noblanc	92	89
R. Dullieux	41	46
F. Gavois	66	62
A. Ovi	77	66
R. Gallo	60	52
R. White	84	70
T. de Waard	82	74
D. Dunn	54	38
	648	586

Stock options granted to Supervisory Board Members :

	2003		2002	
	Number of options granted	Grant price USD	Number of options granted	Granted price USD
B. Steve	12 000	19.18	12 000	31.11
J.P. Noblanc	12 000	19.18	12 000	31.11
R. Dullieux	12 000	19.18	12 000	31.11
F. Gavois	12 000	19.18	12 000	31.11
A. Ovi	12 000	19.18	12 000	31.11
R. Gallo	12 000	19.18	12 000	31.11
R. White	12 000	19.18	12 000	31.11
T. de Waard	12 000	19.18	12 000	31.11
D. Dunn	12 000	19.18	12 000	31.11

18. CONSOLIDATED FINANCIAL STATEMENTS OF STMICROELECTRONICS N.V.

The consolidated financial statements of the Company for the year ended December 31, 2003 are attached as an Appendix to these parent Company accounts.

19. RECONCILIATION OF SHAREHOLDERS' EQUITY AND NET INCOME ACCORDING TO DUTCH GAAP VERSUS US GAAP

In 2003, the Company charged USD 48 million (2002 : 28 million) related to goodwill amortization expense to net income. Under US GAAP, no goodwill amortization is allowed, but an impairment test is required. For US purposes, the amortization expense is reversed from income.

Reconciliation of shareholders' equity

	2003 USD in millions	2002 USD in millions
Shareholders' equity in accordance with Dutch GAAP	8 024	6 966
Reversal of goodwill amortization	76	28
Shareholders' equity in accordance with US GAAP	8 100	6 994

Reconciliation of net income

	2003 USD in millions	2002 USD in millions
Net income in accordance with Dutch GAAP	205	401
Reversal of goodwill amortization	48	28
Net income in accordance with US GAAP	253	429

20. ADDITIONAL DISCLOSURES FOR THE ATTACHED CONSOLIDATED FINANCIAL STATEMENTS TO COMPLY WITH DUTCH REQUIREMENTS AND GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN THE NETHERLANDS

Intangible fixed assets

(USD in millions)	Goodwill	Technologies & licenses, Internally developed software and purchased software	Total
HISTORICAL COST			
Balance at January 1, 2003	182	510	692
Additions, net	108	66	174
Balance at December 31, 2003	290	576	866
ACCUMULATED AMORTIZATION			
Balance at January 1, 2003	51	199	250
Charge for the year, net	48	52	100
Balance at December 31, 2003	99	251	350

NET BOOK VALUE

At December 31, 2003	191	325	516
At December 31, 2002	131	311	442

Tangible fixed assets

(USD in millions)	Land and buildings	Machinery and buildings	Other tangible fixed assets	Tangible fixed asset under construction and prepayments on tangible fixed assets	Total
HISTORICAL COST					
Balance at January 1, 2003	916	10 711	486	455	12 568
Additions, net	161	2 375	77	-184	2 429
Balance at December 31, 2003	1 077	13 086	563	271	14 997
ACCUMULATED DEPRECIATION					
Balance at January 1, 2003	181	5 849	318	-	6 348
Depreciation	39	1 886	104	-	2 029
Balance at December 31, 2003	220	7 735	422	-	8 377
NET BOOK VALUE					
At December 31, 2003	857	5 351	141	271	6 620
At December 31, 2002	735	4 862	168	455	6 220

Wages, salaries and social charges

(USD in millions)	2003	2002
Wages and salaries	1 471	1 217
Social charges and pensions	453	376
	1 924	1 593

The average number of persons employed by the Company and its subsidiaries for the year ended December 31, 2003 was 44,545 (2002: 42,003).

STMICROELECTRONICS N.V.

OTHER INFORMATION

DECEMBER 31, 2003

1. AUDITORS' REPORT

The report of the auditors, PricewaterhouseCoopers Accountants N.V., is presented on page 19.

2. APPROPRIATION OF RESULT - PROVISIONS IN COMPANY'S ARTICLES OF ASSOCIATION

The Managing Directors, with the approval of the Supervisory Board, are allowed to allocate net income to a reserve fund. The Articles of Association provide that the net result for the year, after deduction of the aforementioned allocation to the reserve fund, is subject to the disposition by the Annual General Meeting of Shareholders.

In the case that a net loss for the year exceeds retained earnings, no dividend payments are allowed until the loss has been recovered from net income in future years.

3. SUBSEQUENT EVENTS

There are no matters to report.

[PRICEWATERHOUSECOOPERS logo and letterhead]

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

Auditors' report

Introduction

In accordance with your instructions we have audited the financial statements of STMicroelectronics N.V., Amsterdam, for the year 2003. 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 audit.

Scope

We conducted our audit in accordance with auditing standards generally accepted in the Netherlands. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the company as at December 31, 2003 and of the result for the year then ended in accordance with accounting principles generally accepted in the Netherlands and comply with the financial reporting requirements included in Part 9 of Book 2 of the Netherlands Civil Code.

March 10, 2004

/s/ PricewaterhouseCoopers Accountants N.V.

PricewaterhouseCoopers is the trade name of amongst others the following companies: PricewaterhouseCoopers Accountants N.V. (registered with the Trade Register under number 34180285), PricewaterhouseCoopers Belastingadviseurs N.V. (registered with the Trade Register under number 34180284), PricewaterhouseCoopers Corporate Finance & Recovery N.V. (registered with the Trade Register under number 34180287) and PricewaterhouseCoopers B.V. (registered with the Trade Register under number 34180289). The services rendered by these companies are governed by General Terms & Conditions, which include provisions regarding our liability. These General Terms & Conditions are filed with the Amsterdam Chamber of Commerce and can also be viewed at www.pwcglobal.com/nl.

CONSOLIDATED FINANCIAL STATEMENTS
Index to Consolidated Financial Statements

Page

Financial Statements:

[PRICEWATERHOUSECOOPERS logo and letterhead]

REPORT OF INDEPENDENT ACCOUNTANTS

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

In our opinion, the accompanying consolidated balance sheet and the related consolidated statement of income, of cash flows and of changes in shareholders' equity present fairly, in all material respects, the financial position of STMicroelectronics N.V. and its subsidiaries at December 31, 2003 and December 31, 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, 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.

March 10, 2004

/s/ PricewaterhouseCoopers Accountants N.V.

PricewaterhouseCoopers is the trade name of amongst others the following companies: PricewaterhouseCoopers Accountants N.V. (registered with the Trade Register under number 34180285), PricewaterhouseCoopers Belastingadviseurs N.V. (registered with the Trade Register under number 34180284), PricewaterhouseCoopers Corporate Finance & Recovery N.V. (registered with the Trade Register under number 34180287) and PricewaterhouseCoopers B.V. (registered with the Trade Register under number 34180289). The services rendered by these companies are governed by General Terms & Conditions, which include provisions regarding our liability. These General Terms & Conditions are filed with the Amsterdam Chamber of Commerce and can also be viewed at www.pwcglobal.com/nl.

STMicroelectronics N.V.
Consolidated Statements of Income
(in million of U.S. dollars, except per share data ($))

	Year ended		
	December 31 2003	December 31 2002	Decembe 2
Net sales	7,234	6,270	6,
Other revenues	4	48	
NET REVENUES	7,238	6,318	6,
Cost of sales	(4,672)	(4,020)	(4,
GROSS PROFIT	2,566	2,298	2,
Selling, general and administrative	(785)	(648)	(
Research and development	(1,238)	(1,022)	(
Other income and expenses, net	(4)	7	
Impairment, restructuring charges and other related closure costs	(205)	(34)	(
OPERATING INCOME	334	601	
Interest expense, net	(52)	(68)	
Equity in loss of joint venture	(1)	(11)	
Loss on extinguishment of convertible debt	(39)	0	
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	242	522	
Income tax (expense) benefit	14	(89)	
INCOME BEFORE MINORITY INTERESTS	256	433	
Minority interests	(3)	(4)	

NET INCOME	253	429	
EARNINGS PER SHARE (BASIC)	0.29	0.48	0
EARNINGS PER SHARE (DILUTED)	0.27	0.48	0

The accompanying notes are an integral part of these Consolidated Financial Statements

STMicroelectronics N.V.
CONSOLIDATED BALANCE SHEETS

As at In million of U.S. dollars	December 31, 2003	December 31, 2002
ASSETS		
Current assets:		
Cash and cash equivalents	2,998	2,562
Marketable securities	0	2
Trade accounts receivable	1,272	1,095
Inventories	1,129	930
Deferred tax assets	106	35
Other receivables and assets	616	567
Total current assets	6,121	5,191
Goodwill	267	159
Other intangible assets, net	325	311
Property, plant and equipment, net	6,620	6,220
Long-term deferred tax assets	45	28
Investments and other non-current assets	99	95
	7,356	6,813
Total assets	13,477	12,004
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Bank overdrafts	45	19
Current portion of long-term debt	106	146
Trade accounts payable	1,044	912
Other payables and accrued liabilities	693	606
Deferred tax liabilities	10	6
Accrued income tax	179	184
Total current liabilities	2,077	1,873

Long-term debt	2,944	2,797
Reserves for pension and termination indemnities	236	173
Long-term deferred tax liabilities	37	86
Other non-current liabilities	38	39
	3,255	3,095
Total liabilities	5,332	4,968
Commitment and contingencies		
Minority interests	45	42
Common Stock:	1,146	1,144
.. preferred stock:540,000,000 shares authorized, not issued		
.. common stock:Euro 1.04 nominal value, 1,200,000,000 shares authorized, 902,769,734 shares issued, 889,369,734 shares outstanding		
Capital surplus	1,905	1,864
Accumulated result	4,774	4,592
Accumulated other comprehensive income (loss)	623	(258)
Treasury stock	(348)	(348)
Shareholders' equity	8,100	6,994
Total liabilities and shareholders' equity	13,477	12,004

The accompanying notes are an integral part of these Consolidated Financial Statements

STMicroelectronics N.V.
CONSOLIDATED STATEMENTS OF CASH FLOWS

In million of U.S. dollars	Year e December 31, 2003	Decembe
Cash flows from operating activities:		
Net income	253	
Items to reconcile net income and cash flow from operating activities:		
Depreciation and amortization	1,608	
Amortization of discount on convertible debt	68	
Loss on extinguishment of convertible debt	39	
Gain on the sale of marketable securites	(4)	
Other non-cash items	(53)	
Minority interest in net income of subsidiaries	3	
Deferred income tax	(131)	
Equity in loss of joint venture	1	
impairment, restructuring charges and other related closure costs, net of cash payments	197	
Changes in assets and liabilities:		

Trade receivables	(109)
Inventories	(75)
Trade payables	(8)
Other assets and liabilities, net	131
Net cash from operating activities	1,920
Cash flows from investing activities:	
Payment for purchases of tangible assets	(1,221)
Proceeds from the sale of marketable securities	4
Investment in intangible and financial assets	(34)
Payment for acquisitions, net of cash received	(188)
Net cash used in investing activities	(1,439)
Cash flows from financing activities:	
Proceeds from issuance of long-term debt	1,398
Repayment of long-term debt	(1,432)
Increase (decrease) in short-term facilities	25
Capital increase	22
Payments to acquire treasury stock	0
Dividends paid	(71)
Other financing activities	(1)
Net cash used in financing activities	(59)
Effect of changes in exchange rates	14
Net cash increase	436
Cash and cash equivalents at beginning of the period	2,562
Cash and cash equivalents at end of the period	2,998

Supplemental cash information:	
Interest paid	19
Income tax paid	102

The accompanying notes are an integral part of these Consolidated Financial Statements

STMicroelectronics N.V.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

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

	Common	Capital	Treasury	Accumulated	Accumulated Other Comprehensive

	Stock	Surplus	Stock	Result	(Loss) income
Balance as of December 31, 2000	1,134	1,690		3,977	(676)
Capital increase	8	146			
Repurchase of common stock			(233)		
Comprehensive income:					
Net Income				257	
Other comprehensive loss, net of tax					(193)
Comprehensive income					
Dividends, $0.04 per share				(35)	
Balance as of December 31, 2001	1,142	1,836	(233)	4,199	(869)
Capital increase	2	28			
Repurchase of common stock			(115)		
Comprehensive income:					
Net Income				429	
Other comprehensive income, net of tax					611
Comprehensive income					
Dividends, $0.04 per share				(36)	
Balance as of December 31, 2002	1,144	1,864	(348)	4,592	(258)
Capital increase	2	41			
Comprehensive income:					
Net Income				253	
Other comprehensive income, net of tax					881
Comprehensive income					
Dividends, $0.08 per share				(71)	
Balance as of December 31, 2003	1,146	1,905	(348)	4,774	623

The accompanying notes are an integral part of these Consolidated Financial Statements

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of U.S. dollars, except per share amounts)

1 - THE COMPANY

STMicroelectronics N.V. (the "Company") is registered in The Netherlands with its statutory domicile in Amsterdam. The Company was formed in 1987 with the name of SGS-THOMSON Microelectronics by the combination of the semiconductor business of SGS Microclettronica (then owned by Societa Finanziaria Telefonica (S.T.E.T.), an Italian corporation) and the non-military business of Thomson Semiconducteurs (then owned by Thomson-CSF, a French corporation) whereby each company contributed their respective semiconductor businesses in exchange for a 50% interest in the Company.

The Company is a global independent semiconductor company that designs, develops, manufactures and markets a broad range of semiconductor integrated circuits ("ICs") and discrete devices. The Company offers a diversified product portfolio and develops products for a wide range of market applications, including automotive products, computer peripherals, telecommunications systems, consumer products, industrial automation and control systems. Within its diversified portfolio, the Company has focused on developing products that leverage its technological strengths in creating customized, system-level solutions with high-growth digital and mixed-signal content.

The Company's products are manufactured and designed using a broad range of manufacturing processes and proprietary design methods. The Company uses all of the prevalent function-oriented process technologies, including complementary metal oxide silicon ("CMOS"), bipolar and nonvolatile memory technologies. In addition, by combining basic processes, the Company has developed advanced systems-oriented technologies that enable it to produce differentiated and application-specific products, including BiCMOS technologies (bipolar and CMOS) for mixed-signal applications, BCD technologies (bipolar, CMOS and diffused metal oxide silicon (DMOS)) for intelligent power applications and embedded memory technologies. This broad technologies portfolio, a cornerstone of its strategy for many years, enables the Company to meet the increasing demand for "system-on-a-chip" solutions. Complementing this depth and diversity of process and design technology is its broad intellectual property portfolio that the Company uses to enter into important patent cross licensing agreements with other major semiconductors companies.

The Company's major shareholders have established holding companies and a shareholder agreement to enable them to manage their interests in STMicroelectronics N.V.

At December 31, 2003, 34.5% of issued shares of the Company (December 31, 2002: 35.6%) were owned by STMicroelectronics Holding II B.V., 64.0% were owned by the public (December 31, 2002: 62.9%), and 1.5% constituted treasury shares (December 31, 2002: 1.5%).

At December 31, 2003 and 2002, STMicroelectronics Holding II B.V. was 100% owned by STMicroelectronics Holding N.V.

At December 31, 2003, STMicroelectronics Holding N.V. was owned as follows:

- 50% by FT1CI, a French holding company, whose shareholders were Areva (63.8%) and France Telecom (36.2%)

- 50% by Finmeccanica, an Italian holding company, whose shareholders were the Italian Ministry of Economics (32.3%) and the public (67.7%).

At December 31, 2002, STMicroelectronics Holding N.V. was owned as follows:

- 49% by FT1CI, a French holding company, whose shareholders were Areva (63.8%) and France Telecom (36.2%)

- 51% by Finmeccanica, an Italian holding company, whose shareholders were the Italian Ministry of Economics (32.3%) and the public (67.7%).

2 - ACCOUNTING POLICIES

The accounting policies of the Company conform with accounting principles generally accepted in the United States of America ("U.S. GAAP"). All balances and values in the current and prior periods are in millions of dollars, except share and per-share amounts.

2.1 - Principles of consolidation

The consolidated financial statements of the Company have been prepared in conformity with U.S. GAAP. The Company's consolidated financial statements include the assets, liabilities, results of operations and cash flows 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 reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of net revenue and expenses during the reporting period. The primary areas that require significant estimates and judgments by management include, but are not limited to, sales returns and allowances, allowances for doubtful accounts, inventory reserves, warranty costs, evaluation of the impact of litigation and claims, valuation of acquired intangibles, goodwill, investments and tangible assets as well as the impairment of their related carrying values, restructuring charges, other non-recurring special charges, and assumptions used in calculating pension obligations, deferred income tax assets and liabilities and valuation allowances and provisions for specifically identified income tax exposures. The Company bases the estimates and assumptions on historical experience and on various other factors such as market trends and business plans that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. The actual results experienced by the Company could differ materially and adversely from management's estimates. To the extent there are material differences between the estimates and the actual results, future results of operations could be significantly affected.

2.3 - Foreign currency

The U.S. dollar is the reporting currency for the Company. This is consistent with the worldwide semiconductor industry's use of the U.S. dollar as a currency of reference for actual pricing in the market. Furthermore, there is no single currency in which the majority of the Company's transactions are denominated, and revenues from external sales in U.S. dollars exceed revenues in any other currency. However, labor costs are concentrated primarily in the countries that have adopted the Euro currency.

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 monthly 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 (loss)".

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 consolidated statements of income.

The Company conducts its business on a global basis in various major international currencies. As a result, the Company is exposed to adverse movements in foreign currency exchange rates. The Company enters into foreign currency exchange forward contracts and currency options to reduce its exposure to changes in exchange rates and the associated risk arising from the denomination of certain assets and liabilities in foreign currencies at the Company's subsidiaries. The Company's only derivative instruments include foreign currency exchange forward

contracts and currency options that do not qualify as hedging instruments under Statement of Financial Accounting Standards No. 133 Accounting for Derivative Instruments and Hedging Activities. These instruments are marked-to-market at each period-end with the associated changes in fair value recognized in "other income and expenses, net" in the consolidated statements of income.

2.4 - Reclassifications

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

2.5 - Revenue Recognition

Net sales

The policy of the Company is to recognize revenue from sales of products to its customers when the rights and risks of ownership of the goods are passed to customers, which usually occurs at the time of 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 or receive potential price reductions on existing stock on-hand under certain circumstances. Provisions are made at the time of sale for estimated product returns and price protection, which may occur under the contractual terms agreed with the distributors. These provisions are based on the latest historical data and expected evolution of market prices.

The Company's customers return products from time to time for technical reasons. In some cases, these returned products are reworked and shipped back to customers. The Company analyzes the status of product returns and accrues for the historical trends of returns.

Other revenue

Other revenue primarily consists of fees invoiced to partners under a co-development contract and is recognized as the related costs are incurred. The related costs under such contracts are recorded in "cost of sales". Other revenue also includes certain contract indemnity payments and patent royalty income, which arc recognized ratably over the term of the agreements.

Fundings

Fundings received by the Company are mainly from governmental agencies. Fundings for research and development costs are recognized as the related costs are incurred, after the finalization and signing of the fundings' contract with the relevant government department or agency and are included in "other income and expenses, net". Fundings for capital expenditures are deducted from the cost of the related fixed assets and reduce depreciation over the assets' remaining estimated useful lives.

2.6 - Advertising costs

Advertising costs are expensed as incurred and are recorded as selling, general and administrative expenses.

Advertising expenses for 2003, 2002 and 2001 were $9 million, $11 million and $21 million, respectively.

2.7 - Research and development

Research and development costs are charged to expense as incurred. Research and development expenses include costs incurred by the Company, the Company's share of costs incurred by other research and development interest groups, and costs associated with co-development contracts. Research and development expenses do not include marketing design center costs, which are accounted for as selling expenses and process engineering, pre-production or process transfer costs which are recorded as cost of sales.

2.8 - Start-up costs

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

2.9 - Income taxes

The provision for current taxes represents the income taxes expected to be payable related to the current year income or to benefit in the case of a current-year loss in each individual tax jurisdiction. Provisions for specific tax exposures are also estimated and recorded when an additional tax payment is determined probable. 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 operating loss carry-forwards. Deferred tax assets and liabilities are measured using the enacted tax rates at which they are expected to be realized or settled. A valuation allowance is provided where necessary to reduce deferred tax assets to the amount for which management considers the possibility of recovery to be more likely than not.

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 (adding-back interest expense, net of tax effects, related to convertible debt if determined to be dilutive) 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 and cash equivalents

Highly liquid investments with insignificant interest rate risk purchased with an original maturity of ninety days or less are considered to be cash and cash equivalents.

2.12 - Marketable securities

Management determines the appropriate classification of investments in debt and equity securities at the time of purchase and reassesses the classification at each reporting date. For those marketable securities with a readily determinable fair value and that are classified as available-for-sale, the securities are reported at fair value with changes in fair value recognized as a separate component of "other comprehensive income (loss)" in the statements of shareholders' equity. Other than temporary losses are recorded in net income based on the Company's assessment of any significant, sustained reductions in the investment's market value and of the market indicators affecting the securities. Gains and losses on securities sold are determined based on the specific identification method and are recorded as "other income and expenses, net".

2.13 - Trade accounts receivable

Trade accounts receivable are stated net of allowances for doubtful accounts. The Company maintains an allowance for doubtful accounts for potential estimated losses resulting from its customers' inability to stake required payments. The Company bases its estimates on historical collection trends and records a provision accordingly. In addition, the Company is required to evaluate its customers' credit ratings from time to time and record an additional provision for any specific account the Company estimates as doubtful.

2.14 - Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is computed by adjusting standard cost to approximate actual manufacturing costs on a quarterly basis; the cost is therefore dependent on the Company's manufacturing performance. In the case of underutilitation of manufacturing facilities, the costs associated with the excess capacity are not included in the valuation of inventories but charged directly to cost of sales.

Provisions for obsolescence are estimated for uncommitted inventories based on the previous quarter sales, orders' backlog and production plans.

2.15 - Intangible assets subject to amortization

Intangible assets subject to amortization include the cost of technologies and licenses purchased from third parties, internally developed software which is capitalized and purchased software. Intangible assets subject to amortization are reflected net of any impairment losses. The carrying value of intangible assets subject to amortization is evaluated whenever changes in circumstances indicate that the carrying amount may not be recoverable. In determining recoverability, the Company estimates the fair value based on the projected discounted future cash flows associated with the intangible assets and compares this to their carrying value. An impairment loss is recognized for the excess of the carrying amount over the fair value. Amortization is computed using the straight-line method over the following estimated useful lives:

Technologies & licenses	3-7 years
Internally developed software	3-5 years
Software	3 years

The Company evaluates the remaining useful life of an intangible asset each reporting period to determine whether events and circumstances warrant a revision to the remaining period of amortization.

The capitalization of costs for internally developed software begins when preliminary project stage is completed and when the Company, implicitly or explicitly, authorizes and commits to funding a computer software project. It must be probable that the project will be completed and will be used to perform the function intended.

2.16-Goodwill

Since January 1, 2002, goodwill acquired in business combinations is no longer amortized and is subject to an impairment test to be performed on an annual basis or more frequently if indicators of impairment exist, in order to assess the recoverability of its carrying value. Goodwill subject to potential impairment is tested in each reporting unit. The Company defines its reporting units at an individual business level, which is one level below the four semiconductor product groups described in Note 29. An impairment charge is recognized when the fair value of each reporting unit for which goodwill is allocated is lower than the total carrying amount of the reporting unit including its allocated goodwill. The fair value is based on the Company's estimate of the reporting unit's expected discounted future cash flows. Significant estimates used in determining future cash flows include the applicable reporting unit's volume forecasts, average selling price evolution and the market acceptance of certain new technologies.

2.17 - Property, plant and equipment

Property, plant and equipment are stated at cost, net of government fundings and any impairment losses. Major additions and improvements are capitalized, minor replacements and repairs are charged to current operations.

Depreciation is computed using the straight-line method over the following estimated useful lives:

Buildings	33 years
Facilities & leasehold improvements	10 years
Machinery and equipment	6 years
Computer and R&D equipment	3-6 years
Other	2-5 years

The Company evaluates the carrying value of its property, plant and equipment whenever changes in circumstances indicate their carrying amount may not be recoverable. In determining recoverability, the Company estimates the expected undiscounted future cash flows associated with the tangible asset or group of assets and compares this to their carrying value. An impairment charge is recognized when the carrying value of the tangible asset or group of tangible assets exceeds the fair value, which is normally estimated by the Company based on the expected discounted cash flows or independent market appraisals. Significant estimates used in determining the expected future cash flows include the utilization of the Company's fabrication facilities and the ability to upgrade such facilities, change in the selling price and the adoption of new technologies.

Assets subject to leasing agreements and classified as capital lease are included in property, plant and equipment and depreciated over the shorter of the estimated useful life or the lease term.

When property, plant and equipment are retired or otherwise disposed of, the net book value of the assets is removed from the Company's books and the net gain or loss is included in "other income and expenses, net" in the consolidated statements of income.

2.18 - Investments

Investments are accounted for using the equity method of accounting if the investment gives the Company the ability to exercise significant influence over an investee. Significant influence is generally deemed to exist if the Company has a 20% to 50% ownership interest in the voting stock of the investee and representation in the Board of Directors.

Investments without readily determinable fair values and for which the Company does not have the ability to exercise significant influence are accounted for under the cost method. Under the cost method of accounting, investments are carried at historical cost and are adjusted only for declines in fair value. For investments in public companies that have readily determinable fair values and for which the Company does not exercise significant influence, the Company classifies these investments as available-for-sale and, accordingly, recognizes changes in their fair values as a separate component of "other comprehensive income (loss)" in the consolidated statements of shareholders' equity. Other-than-temporary losses are recorded in net income and are based on the Company's assessment of any significant, sustained reductions in the investment's market value and of the market indicators affecting the securities. Gains and losses on investments sold are determined on the specific identification method and are recorded as "other income or expenses, net" in the consolidated statements of income.

2.19- Pension and termination indemnities

The Company sponsors various retirement plans for its employees; such plans include both defined benefit and defined contribution plans. These plans conform to local regulations and practices of the countries in which the Company operates. Significant estimates are used in determining the assumptions incorporated in the calculation of the pension obligations, which is supported by input from independent actuaries.

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2.20-Convertible debt

Zero-coupon convertible bonds are recorded at the principal amount on maturity in long-term debt and are presented net of the debt discount on issuance. This discount is amortized over the term of the debt as interest expense using the interest rate method.

Zero-coupon convertible bonds issued with a negative yield are initially recorded at their accreted value as of the first redemption right of the holder. The negative yield is recorded as capital surplus and represents the difference between the principal amount at issuance and the lower accreted value at the first redemption right of the holder.

Debt issuance costs are capitalized as long-term investments and are amortized in "interest expense, net" until the first redemption right of the holder.

2.21 - Comprehensive income (loss)

Comprehensive income (loss) is defined as the change in equity of a business during a period except those resulting from investment by shareholders and distributions to shareholders. In the accompanying financial statements, "other comprehensive income (loss)" consists of foreign currency translation adjustments, the unrealized gain or loss on marketable securities classified as available-for-sale and the change in the excess of the minimum pension liability over the unrecognized prior service cost of certain pension plans.

2.22 - Fair value of stock-based compensation

At December 31, 2003, the Company has six stock-based employee and Supervisory Board compensation plans which are described in detail in Note 14. 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. No stock-based employee compensation cost is reflected in net income, as all options under those plans were granted at an exercise price equal to the market value of the underlying common stock on the date of grant. Pro forma information regarding net income and earnings per share ("EPS") 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:

	Year ended December 31, 2003	Year ended December 31, 2002	Year ended December 31, 2001
Expected life (years)	6	5	5
Volatility	59.6%	60.1%	57.4%
Risk-free interest rate	2.7%	4.1%	4.5%
Dividend yield	0.35%	0.20%	0.10%

The weighted average fair value of options granted during 2003 was $10.66 ($16.80 in 2002 and $20.48 in 2001). The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of FAS 123 to employee stock-based compensation. Pro forma net income and EPS for 2002 and 2001 has been revised to correct for the reversal of compensation expense associated with forfeited stock option grants. As a result, pro forma net income has increased by $37 million and $16 million for 2002 and 2001, respectively.

	Year ended December 31, 2003	Year ended December 31, 2002
Net income, as reported	253	429
Deduct: Total stock-based employee compensation expense determined under FAS 123, net of related tax effects	(186)	(163)
Net income, pro forma	67	266
Earnings per share:		
Basic, as reported	0.29	0.48
Basic, pro forma	0.08	0.30
Diluted, as reported	0.27	0.48
Diluted, pro forma	0.07	0.30

2.23 - New accounting pronouncements

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141, Business Combinations (FAS 141), which is applicable for all business combinations initiated after June 30, 2001. This statement eliminates the use of the pooling-of-interests method and provides specific criteria for the recognition of intangible assets apa