

CATEGORY III BUSINESS

Business Summary

As a part of our business diversification strategy, we have made efforts to enter into the Electronics business unit in addition to the Category I and II Businesses we have traditionally operated. Products in this business, mainly for TMC and our Forklifts department, include AC control semiconductors for EHV vehicles, AC inverters, semiconductors and controllers for industrial equipment, and SS wireless modems for general use. As an addition to the existing product line, we have further initiated production of liquid crystal display devices in April 1999, by establishing a new joint venture, ST-LCD, with Sony Corporation on an equal ownership basis in October 1997. We also established another new joint venture, TIBC, with a 35% investment from Ibiden Co., Ltd. and 65% from the Company in October 1998 to manufacture plastic package boards for IC chips. The production began in April 1999. In the future, we plan to expand this Category III Business, our Electronics business, to a level comparable with our other existing businesses.

Business Performance for Fiscal 1999 and Future Business Plans

Only sales of existing semiconductors and electronic equipment are included in the financial statements, since both liquid crystal display devices and plastic package boards for IC chips were not yet in production by fiscal 1999. Sales of these existing products have increased as volume increased, although small in scale, and reached ¥5,098 million, up ¥1,562 million from ¥3,536 million for the previous year. We project an explosive growth in sales over the coming years, with additional contributions coming from liquid crystal display devices and IC package boards (although the contribution from the sales of the former is not fully included in the consolidated figures, since it is accounted for under the equity method). Liquid crystal display devices and IC package boards businesses are expected to produce losses for the first few years, given the nature of the businesses. That is, due to the heavier capital investment in the early years and other start-up expenses such as larger depreciation. However, we plan to concentrate our efforts on making these businesses grow to become major contributors to the bottom line from five years after start of production, by making continuous improvements in productivity and cost reduction.



SS Wireless Modem