

Letter to our stockholders

Looking back at 2000, the first half was unexpectedly strong, but in the second half, economic pressures affected the high-tech industry, including Intel. As we widened our product offerings in pursuit of new opportunities in the worldwide Internet economy, we had some missteps, but at the same time, we achieved some exciting successes, renewing our confidence in our expectations of continued long-term growth.

The year 2000 was our 14th consecutive year of revenue growth, with sales of \$33.7 billion. Net income was up 44% including acquisition-related costs; without these costs, net income would have been up 49% to \$12.1 billion. In 2000, we spent \$3.9 billion on research and development and \$6.7 billion on capital expenditures. We continue to invest in key products and processes for the future.

Our markets and investments are increasingly international in scope. Our performance was strong around the world, with 59% of our sales coming from outside North America. We saw considerably improved sales in Japan in 2000, and sales in the Asia-Pacific region set a new record.

Dedication to operational excellence

In 2000, we turned our attention to a larger number of product areas. Throughout much of the 1990s, our primary business was the development of microprocessors for desktop computers, making relatively small modifications to adjust our products for other areas of the computing business. In the last few years, we have been transforming Intel to achieve a better match with high-growth opportunities in other parts of the computing industry—especially servers and networking and communications products, including wireless technologies. We have developed different microprocessors and silicon products designed specifically for the needs of each of these market segments as well as for our traditional segment, personal computers (PCs).

At the same time, the resulting increase in the number of our products and design groups in 2000 strained our execution capability more than in past years, causing some product delays. Throughout the first half of the year, we also struggled to meet customer demand for microprocessors and other semiconductor products.

We have responded by re-dedicating ourselves to operational excellence across the organization. Following our own proven methods, we can design and bring to market very complex devices. We are confident that our commitment to excellence will produce results, and we expect the efforts to show in 2001 and beyond.

We are building on our worldwide leadership in silicon design, manufacturing and marketing to deliver state-of-the-art, silicon-based products in growth areas. In an era when Internet expansion is transforming information technology, we have tremendous opportunities available in networking and communications. We are confident that Intel's silicon building block strategy will drive our long-term success.

Major product developments

In our mission to become the preeminent building block supplier to the worldwide Internet economy, we were pleased to have achieved major successes in 2000 in our core business and beyond:

The newest Internet chip → In November, we successfully launched the Intel® Pentium® 4 processor, our newest microprocessor for high-performance desktop computers. This processor family is our first based on the new Intel® NetBurst™ micro-architecture, with unique technologies designed to deliver advanced performance for Internet computing, including imaging, streaming video, speech processing, 3D, multimedia and multitasking.

Mobile flexibility → Introduced in January 2000, the mobile Pentium® III processor with Intel® SpeedStep™ technology offers notebook PC users a balance between performance and power conservation. Intel SpeedStep technology switches to the most efficient operating mode, depending on whether the mobile PC is plugged in or operating on batteries.

Server power → The Pentium® III Xeon™ processor led our growth in the server market segment in 2000, as the number of Intel® Xeon™ processors shipped grew almost 50% over 1999. We also worked with server industry leaders to build momentum for the Intel® Itanium™ processor family, based on the revolutionary 64-bit microprocessor architecture designed to meet the needs of powerful Internet servers. Thousands of prototype Itanium processor-based systems were shipped in 2000, with production platforms expected during 2001.

Networking and communications blueprint → The Intel® Internet Exchange™ Architecture (IXA)—a framework for designing powerful and flexible networking and telecommunications equipment using reprogrammable silicon—is enjoying widespread industry acceptance. Major telecommunications equipment manufacturers are using IXA to build next-generation networking and communications equipment.

Booming flash demand → In May 2000, we shipped our billionth flash memory chip, our leading memory product for cell phones and other handheld wireless devices. The flash memory market is growing rapidly: we expect to sell our next billion flash units in just two years. To increase our capacity, we are expanding our flash assembly and test facility in Shanghai (more than quadrupling our existing floor space there) and expect to open a new flash fabrication plant in Colorado during the first half of 2001.

Wireless architecture → In August, we introduced the Intel® XScale™ micro-architecture, a new chip architecture designed for use in a wide variety of wireless Internet and networking infrastructure applications. Building on Intel® StrongARM* technology, the Intel XScale micro-architecture has the flexibility to meet low-power and high-performance requirements in devices ranging from Internet-ready cell phones to Internet infrastructure equipment.

Meeting e-Business needs → The worldwide transition to electronic commerce is driving the growth in networked computing. To support this transition, we announced a \$100 million initiative to accelerate deployment of e-Business solutions based on Intel® Architecture. This initiative includes programs for original equipment manufacturers (OEMs) and Web integrators to work directly with Intel to help shift traditional modes of commerce to e-Business solutions.

Supporting future success

To be successful, we must not only introduce innovative products but also build on our manufacturing excellence, bring new capabilities into the company, and continue to attract and retain the best employees.

Manufacturing → Our manufacturing operation responded to strong demand in 2000, supporting record unit sales of microprocessors and flash memory. To increase capacity, we announced six major new construction projects or expansions, including new fabs to be built in Ocotillo, Arizona and Leixlip, Ireland. We will invest approximately \$2 billion to build and equip each new fab.

We substantially completed the transition to 0.18-micron process technology for microprocessors, our fastest manufacturing ramp ever, and we have begun our transition to 0.13-micron technology. We have also started our transition to 300mm (12-inch) wafers, with our first 300mm facility scheduled for completion in 2002. By offering more than twice as much surface area and yielding about 240% as many individual chips per wafer as the 200mm (8-inch) wafers used today, the larger wafers are expected to reduce die manufacturing cost by more than 30%.


Acquisitions and investments → Our acquisition strategy has developed over the last few years to add key technologies to complement our own internal capabilities and accelerate our growth in networking and communications. In 2000, we acquired approximately one company per month. Integrating newly acquired companies is a challenge, but the process is necessary to help the company succeed in a rapidly shifting marketplace. Key acquisitions in 2000 included Ambient Technologies, Inc., GIGA A/S, Picazo Communications, Inc., Basis Communications Corporation, Trillium Digital Systems, Inc. and Ziatech Corporation.

Our Intel Capital program invests in companies of strategic importance to Intel and has also provided a financial return. At the end of 2000, we held equity stakes in more than 550 companies worldwide, and during the year our portfolio provided pre-tax net gains of approximately \$3.8 billion.

Employee excellence → We want to acknowledge the incredible commitment and performance of our people. One of our most powerful resources is our employees, and we've invested in attracting, training and retaining them in a competitive marketplace. We are pleased that even in a volatile employment environment, our turnover has been relatively low. Most Intel employees receive stock options as part of their compensation, making them owners or potential owners of the company, and almost all participate in a bonus program that gives them a stake in the company's success. We are proud of the dedication of our people, who are building Intel's future as a provider of key technologies for the Internet economy.


Gordon E. Moore
Chairman Emeritus


Andrew S. Grove
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