

Letter to our stockholders

2001 was a tough year for the technology industry. Most companies took a beating, and many investors wondered if technology was dead. Our answer is a resounding no. The history of technology revolutions is told in cycles of boom, bust and build-out. Despite the recent downturn, we are confident that we will see decades of future growth in Internet-related technologies. Here at Intel, we are staying the course. Guided by our vision of the ongoing digital revolution, we continue to introduce new products and invest for the future so that we will be ready to ride the recovery.

"As we look to the future, our strategies are based on the fundamental belief that we have seen only the early stages of the deployment of digital technologies. The two areas that our business focuses on, computing and communications, are the backbone of the digital infrastructure, and our products are the building blocks that make up this infrastructure."



Andrew S. Grove



Craig R. Barrett

"Our core philosophy for these times is that you can't save your way out of a downturn. The only way you come out of a recession stronger than when you went into it is with new products and new technologies. We're investing in new product development and improved manufacturing technologies that will help pave the way for recovery."

As 2001 progressed, it became increasingly clear that the economy had drifted into a recession with worldwide impact. Just as the high-tech sector had fueled the previously buoyant global economy, it also led the way into the slow business climate.

In 2001, the high-tech industry was characterized by high inventory levels and overcapacity of component and system products. Parts of the high-tech infrastructure had been built ahead of anticipated demand, leading many companies to cut back on their computing and communications technology expenditures in 2001. In addition, the dot-com collapse contributed to market declines that affected all areas of the high-tech industry.

All this made for a pretty bleak year for Intel financially. Revenues for 2001 were \$26.5 billion, down 21% from 2000. Including acquisition-related costs of \$2.5 billion, net income for 2001 was \$1.3 billion, down 88% from \$10.5 billion in 2000. Excluding these costs, net income was \$3.6 billion, down 70% from 2000.

Our sales came from an increasingly international market. We ended 2001 with nearly two-thirds of our sales generated outside the Americas. In the fourth quarter, for the first time, sales were largest in the Asia-Pacific region. A growing distributor channel and strong processor and chipset sales helped drive this trend, as Asia-Pacific increasingly becomes the manufacturing center for the PC industry. However, sales were lower in all regions than they were in 2000, reflecting the worldwide reach of the recession.

In response to the global slowdown, we focused our efforts around three key principles. First, we believe that, as in previous economic cycles, **great new products will lead the recovery**. In 2001, we accelerated our efforts to develop and introduce the products that we expect will help bring the industry out of the downturn. In August, we introduced the Intel® Pentium® 4 processor running at 2.0 gigahertz, or 2.0 billion cycles per second. With its unique Intel® NetBurst™ microarchitecture, the Pentium 4 processor is optimized for a richer multimedia online experience. By year's end, we were building this chip on our new 0.13-micron technology, increasing on-chip memory while reducing processor size by nearly 30%.

We also continued to advance our 64-bit processor for high-end servers and workstations—the Intel® Itanium™ processor. This processor is designed for the most demanding data-intensive applications, such as enterprise resource planning, scientific computing and graphics modeling. In December 2001, our original equipment manufacturer customers began shipping to end users their initial pilot systems based on our next-generation Itanium processor, codenamed "McKinley." We anticipate that this new processor will be generally available in mid-2002.

Our product roadmap acceleration efforts were by no means confined to microprocessors. Our Ethernet products translate and transmit data across networks. In 2001, we introduced and shipped in volume the world's first single-chip Gigabit Ethernet controller, which operates 10 times faster than the previous industry-standard product. Our Gigabit Ethernet solutions have been widely adopted. As of the end of 2001, Intel products accounted for more than half of the Gigabit Ethernet connections worldwide.

In flash memory, a critical ingredient of today's smart cell phones and other handheld computing devices, we extended our leadership by introducing the first flash memory built on the 0.13-micron manufacturing process technology. The new flash chip is nearly half the size of its predecessor and also consumes less power.

Our second key principle: we know that **a downturn is no time to shy away from strategic spending**. Though the high-tech industry was mired in overcapacity in 2001, we know from experience that capacity wilts like lettuce. There's always too much of yesterday's technology and never enough of tomorrow's. For Intel, tomorrow's manufacturing capacity is necessary to build the advanced products that we expect will help contribute to the recovery. Consequently, during this downturn, we did what may seem counter-intuitive: we accelerated our capital investments, spending \$7.3 billion in 2001, compared with approximately \$10 billion in capital spending over the previous two years combined. We also invested \$3.8 billion in research and development in 2001, mostly focused on silicon products and processes.

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Gordon Moore was a pioneer in the creation of Silicon Valley and of Intel, founding the company with Robert Noyce in 1968. Gordon has been widely recognized for "Moore's Law," first articulated in 1965. It has accurately predicted that the number of transistors that can fit on a silicon chip will double every couple of years. This is still the driving principle in semiconductor manufacturing today. What is less widely recognized is that Intel was founded and still operates on the same premise: that practical transistor sizes will shrink, continually increasing the complexity of electronic devices that can



**Chairman Emeritus
Gordon E. Moore**
retired from Intel's
board of directors
in May 2001.

be made cost-effectively, and that therefore digital electronics has the potential to penetrate all human enterprise. Through the years, as Intel built first memory chips and then microprocessors of increasing density and performance at lower costs, the company has been the practical embodiment of Gordon's vision of what technology could do. Over more than three decades, Gordon has overseen Intel's leadership role in the digital revolution, as founder, chief executive and chairman of the board. We are grateful for his vision and feel fortunate to retain his advice as chairman emeritus indefinitely.

In 2001, the majority of our capital investment went to build manufacturing capacity. Significantly, we were able to ramp our new 0.13-micron manufacturing process technology into production months ahead of schedule, with multiple factories producing 0.13-micron processors by the end of the year. The new process shrinks transistor feature sizes so that each chip has more, smaller and faster transistors. This yields higher performance chips that cost less to manufacture and require less power to operate than chips made on the earlier process.

We also began using a manufacturing process that fabricates chips on new 300mm (12-inch) diameter wafers, instead of the smaller 200mm (8-inch) wafers we have been using since the early 1990s. We expect to ramp this process into production in 2002. When fully implemented, the 300mm wafer size is expected to cut die manufacturing costs by 30%. This adds to the cost benefits of the smaller chip sizes on 0.13-micron technology and helps us maintain our industry leadership in semiconductor manufacturing.

Finally, we know that **our ultimate success depends on the quality of our internal execution**. In 2001, we continued our operational excellence program that began in 2000. We are proud of our employees, who dedicated themselves to improving their operational productivity across the company.

This disciplined focus allowed us to do more with less. Operational excellence helped us accelerate new product introductions and manufacturing ramps, while also improving our cost containment. For example, we were able to launch the Intel® 845 Chipset months ahead of schedule and ramp it into production volumes faster than any other chipset. This helped support the rapid acceptance of the Pentium 4 processor in the mainstream PC market segment. We achieved this goal for the Pentium 4 processor while emphasizing cost control across the company. For instance, through attrition and focused local redeployment, we worked to bring our headcount into line with our business level, without having to resort to major layoffs. We ended the year with 83,400 permanent employees, down 8% from our peak earlier in the year.

We also increasingly implemented our e-Business techniques throughout the company, which was a significant factor in containing

costs. We have built our internal infrastructure and practices around our own products and technologies; we handle everything online, from order processing to materials management to accounts payable. More than 60% of our materials transactions and approximately 85% of our customer orders are processed electronically.

As a result of all of these efforts, we ended the year with a leaner, more efficient operation; industry-leading manufacturing capabilities; and a strong product position across a broad range of market segments. Our task for 2002 will be to build on these efforts and continue to increase market segment share for all of our products.

As we look to the future, our strategies are based on the belief that we have seen only the early stages of deployment of digital technologies. In this report, we review examples of past technology revolutions. Many technological innovations experienced an early period of feverish adoption and investment, which ended with financial turbulence. The downturn was then followed by an extended period of real growth toward full deployment of the technology.

We think the current technology-led recession represents a turbulent period in the information revolution. However, we believe that a long period of continued, pervasive worldwide deployment of digital technologies is still ahead of us.

To pursue these future opportunities, we have developed innovative product architectures in new areas beyond the PC. We are also fortunate to have financial resources, a dedicated and competent group of employees, and stable and deep management ranks.

We are pleased to welcome a new member to the executive office. On January 16, 2002, our board of directors elected 27-year Intel veteran Paul S. Otellini as Intel's president and chief operating officer. For the last four years, Paul has been executive vice president and general manager of the Intel Architecture Group, which contributes about 80% of Intel's revenues. With this promotion, we recognize his excellent record of service and leadership.

Our aim coming into 2001 was to emerge from the year stronger than we entered it, and we believe we have achieved that goal. We are optimistic that 2002 will be another year of building strength and delivering on our ultimate mission to be the preeminent building block supplier to the worldwide Internet economy.

Handwritten signature of Andrew S. Grove in blue ink.

Andrew S. Grove
Chairman

Handwritten signature of Craig R. Barrett in blue ink.

Craig R. Barrett
Chief Executive Officer