



clients



networking and communications



intel.com
1999 annual report
intc.com

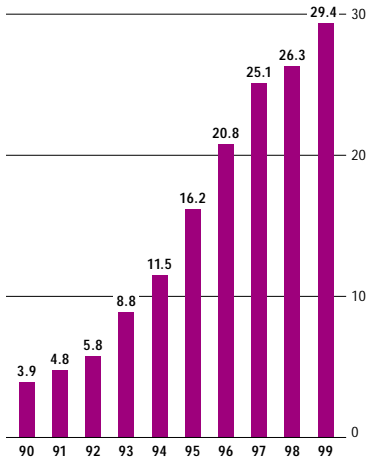
the building blocks of the internet economy



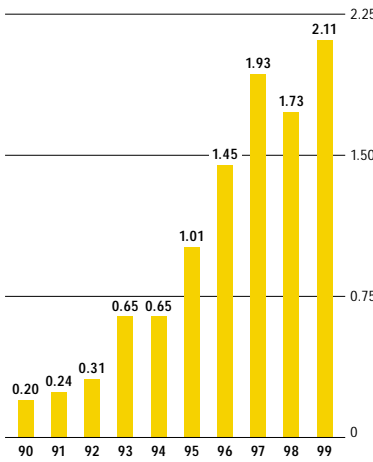
server platforms



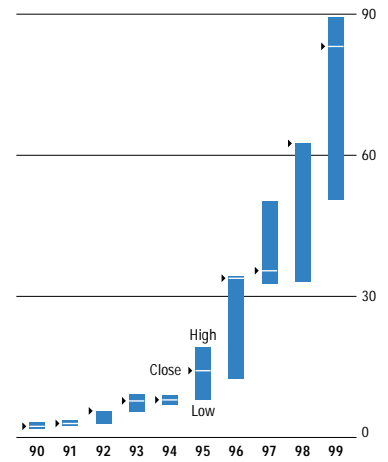
solutions and services



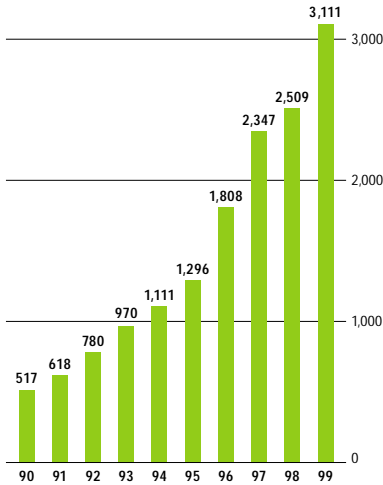
Net revenues
(Dollars in billions)



Diluted earnings per share
(Dollars, adjusted for stock splits)



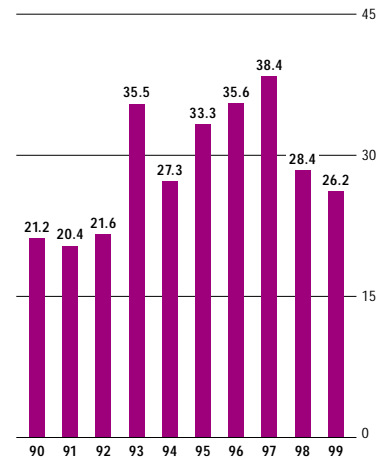
Stock price trading ranges by fiscal year
(Dollars, adjusted for stock splits)



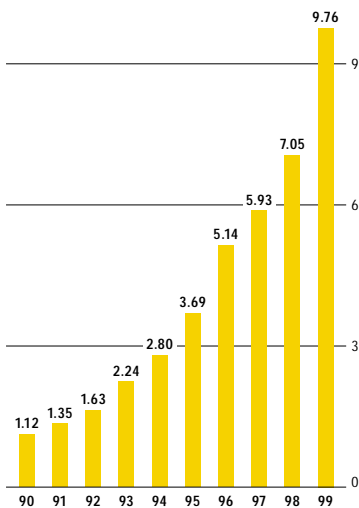
Research and development
(Dollars in millions, excluding purchased in-process research and development)

1999 facts and figures

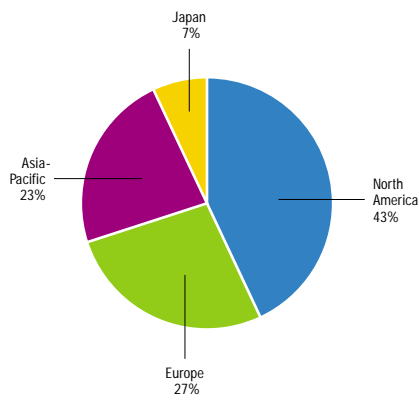
Intel's stock price has risen at a 48% compound annual growth rate in the last 10 years.



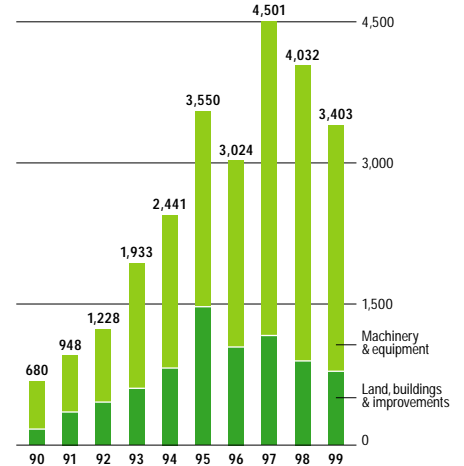
Return on average stockholders' equity
(Percent)



Book value per share at year-end
(Dollars, adjusted for stock splits)



Geographic breakdown of 1999 revenues
(Percent)



Capital additions to property, plant and equipment[†]
(Dollars in millions)

Past performance does not guarantee future results. Share and per share amounts shown have been adjusted for stock splits through 1999.

[†]Additions in 1998 include capital assets acquired from Digital Equipment Corporation.



In 1999, the Internet revolution continued to reshape how the world does business. Accordingly, we worked to transform Intel: from being at the center of the PC industry to being at the center of



by following our “copy exactly” strategy: our new 0.18-micron manufacturing fabs are virtual replicas of the development fab where the process was perfected.



■ **Segmentation:** Our strategy

the Internet economy. We developed new strategic business directions that position us to supply key building blocks at many points within the Internet infrastructure, from networks to chips.

Even as we were expanding the company’s focus, our core microprocessor business provided us with a solid growth rate.

We ended the year with record sales of \$29.4 billion, an increase of 12%. This was our 13th straight year of revenue growth. Net income was up 21% to \$7.3 billion including acquisition-related costs; without acquisition-related costs, it would have been up 29% to \$8.1 billion.

Our performance was strong around the world, with 57% of our sales coming from outside the U.S. The Asian markets have started to recover, and European sales were solid. As the developing economies expand, we expect even stronger growth worldwide.

1999 was an extraordinarily busy year, with significant output from all of our product groups. To our frustration, our execution was less than perfect, leading to delays in the introduction of several products. Despite these issues, we ended the year with a very strong roster of achievements:

■ **Processor launch:** We accomplished the largest microprocessor product introduction in our history, with 15 new Pentium® III and Pentium® III Xeon™ processors introduced at once. This was supported by chipsets and motherboards that help computer makers bring systems based on the new chips to market quickly.

■ **Manufacturing:** We ramped our new 0.18-micron manufacturing process faster than any other process in our history. We were able to generate high yields quickly in our factories

in microprocessors has worked extremely well, allowing us to provide chips for all major computing price/performance points. In 1999, we adjusted our costs and our investment strategy to be consistent with our segmentation plans, and as a result we experienced strong unit shipment growth across

microprocessor market segments.

■ **Acquisitions:** We purchased 12 companies for about \$6 billion, augmenting our capabilities in a number of key product areas. Companies acquired included Shiva, Softcom, Dialogic, Level One Communications, NetBoost, IPivot and DSP Communications.

■ **Strategic investments:** The Intel Capital program had a boom year, with equity investments in areas of strategic importance to Intel. We ended the year with an investment portfolio valued at about \$8 billion. At the end of 1999, we

held stakes in more than 350 companies around the world, dedicated to the evolving Internet economy—from physical infrastructure to content. These investments substantially augmented our participation in the online revolution.

■ **Future powerhouse:** We produced successful sample versions of the Itanium™ processor, based on the revolutionary new IA-64 architecture designed to meet the needs of powerful Internet servers. We expect this architecture to be as important to the Internet infrastructure in the future as the current Intel architecture has been to PC computing for the last 15 to 20 years. Our goal is to make the IA-64 architecture the main engine of the Internet in the next decade, starting with the Itanium processor, which we expect to be in production in mid-2000.

We’re building on our core strengths to pursue new strategic directions.

■ **As others see us:** We were pleased to have Intel included in the Dow Jones Industrial Average* in November 1999; this reflects the importance of technology in the overall U.S. economy. We were gratified to be ranked #8 on *Fortune* magazine's list of most admired companies, and honored to be rated #4 among U.S. companies with the best corporate reputations, according to research by Harris Interactive Incorporated and the Reputation Institute.

■ **Supplying the Internet economy.** Just as the PC was the growth engine for computing in the last decade, the Internet will be the growth engine for computing in the next decade. The Internet runs on chips. From the networking silicon that directs electronic signals around the globe, to the high-performance servers that house every Web page and e-mail message, to the microprocessors in the PCs and other devices used to get on-line, the Internet relies on silicon. This reliance builds directly on our experience and core strengths.

Our four key business areas are:

■ **Clients:** In our core business, we focus on delivering quality microprocessors for a wide range of computing needs. Our Pentium III microprocessor is the fastest ramping processor ever, excellent for performance desktop PCs and entry-level servers and workstations. We also supply the Intel® Celeron™ processor, enabling entry-level PC buyers to get reliable Intel technology for less than \$1,000; a variety of processors customized for mobile computing solutions; and a line of flash memory products for handheld wireless devices.

■ **Networking and communications:** With the boom in networking and communications, we have made it a priority to develop and acquire expanded capabilities in the networking silicon business. We have purchased several companies with strong expertise in this area and have developed the Intel®



Our future powerhouse:
the Itanium™ processor

Internet Exchange™ architecture, a powerful, flexible new platform for silicon-based networking products. We are also expanding our offering of system-level communications products that help build the network infrastructure.

■ **Server platforms:** Within five years, we expect there to be tens of millions of servers worldwide, most based on Intel architecture. Many servers harness the power of two, four, eight or more Intel processors each, making them a very significant growth opportunity. We have invested about half of our microprocessor R&D budget on initiatives in this area, including the IA-64 architecture and the Pentium III Xeon processor family, specifically designed for mid-range and high-

end servers and workstations. Part of our strategy is to make it easier for server makers to design their products around Intel architecture, so we provide chipsets, boards and system-level products that incorporate Intel components for servers at various levels of integration.

■ **Solutions and services:** The e-Business revolution provides a key opportunity to help companies develop and run e-Commerce systems. We do more than \$1 billion in business each month over the Internet, and according to

the July 1999 issue of *PC Computing* magazine, we are the world's largest business-to-business e-Commerce site. Through Intel® Online Services, we sell our own technology and products in a service form to other companies that may not have the expertise or resources to handle a booming e-Commerce operation in house.

These new strategies leverage our core business and position us well to serve the Internet economy. These strategic areas are described in further detail on the following pages. We look forward to the challenges in this new environment and expect to grow as Internet computing continues to expand.

Our mission
is to be the
preeminent
building block
supplier to
the worldwide
Internet
economy.

Gordon E. Moore
Chairman Emeritus

Andrew S. Grove
Chairman

Craig R. Barrett
President and CEO

clients

PCs, notebooks,
handheld devices, smart
cell phones and other
tools used to get online

networking and communications

silicon, wires and boxes
that form the infrastructure
connecting millions
of clients and servers

the internet

revolution requires a wholesale reengineering of the infrastructure for commerce and communications. In five to eight years, we believe the world will be linked by one billion connected computers, through tens of millions of servers, generating trillions of dollars of e-commerce. As we shift our focus from a PC-dominated industry to an internet-dominated economy, we are positioning ourselves to provide key technologies to help drive this transformation.

server platforms

powerful systems, often based on
several processors working together,
that house data and
direct traffic on the internet

solutions and services

tools and technical
support that companies
need to succeed in the
internet economy

File Edit View Favorites Tools Help

Address: <http://media.intelweboutfitter.com/preview/us/preview.htm> Go

intel WebOutfitter™
Service

Members Log-in Join Now

Tech Treks Site Seeing Get Equipped Member Helpdesk

Welcome to Intel® WebOutfitter™ Service, the free* premium service for owners of Pentium® III processor-based PCs

- Exclusive access to hot new Web sites & technology
- One-stop downloads of the latest Internet tools
- Links to the next generation of Web sites
- All for free!

System Requirements:

- Intel® Pentium® III processor
- Netscape Communicator® 4.5, AOL® 4.x, or Internet Explorer 4.x and above
- Macromedia® Flash 4.0
- 56k modem or higher
- Microsoft Windows® 98

What you can't do in life... do it on the Web.

Members experience the latest in Web technology including digital photography, music, shopping, and more...

Capture, Edit and Share your photos online. See a demo.

Intel® Play™ OX3™ Computer Microscope
Special offer in time for the holiday:

Broadband Exclusive
Special offers for members, in limited areas only. [FIND OUT MORE](#)

1999 january february march april may june july

Introduced the mobile Pentium® II processor, our first Pentium II processor with L2 cache built on a single silicon die, with higher performance and smaller packaging for mobile PCs.

Introduced the Pentium® III processor, optimized for the Internet, for advanced imaging, 3D, and streaming audio and video applications.

Launched the Intel® Celeron™ processor 466 MHz for value PCs, giving consumers higher performance and access to the Internet for under \$1,000. Also launched the Intel® 810 chipset, integrating multimedia capabilities for low-cost PCs.

Announced the next-generation StrongARM® processor technology for advanced handheld computing products and Internet access devices, including smart phones.

getting online

clients

In the Internet economy, everyone has the same need: to get online. But not everyone gets there the same way. The PC remains the tool of choice for online access, making Intel architecture the key doorway to the Internet. At the same time, other devices such as smart cell phones increasingly offer Internet access as well. Intel participates in these product areas, too. The

company delivers a wide range of processors and memory technologies, powering products from high-performance desktops and workstations to mobile PCs to value PCs to Internet appliances and cell phones. Intel's segmentation plans and new investments are strategically geared to put Intel products at the heart of most types of tools people use to get online.

august september october november december

Announced 3-volt Intel® StrataFlash® memory, tripling read performance and improving data access times for handheld wireless devices.

Introduced mobile Celeron processors at 466 and 433 MHz for increased performance in value mobile PCs.

Our largest processor launch to date: announced 15 new Pentium III and Pentium® III Xeon™ processors.

Acquired DSP Communications, a leading supplier of digital cellular communications products, enabling new generations of smart wireless handsets.

Introduced new Pentium III processors running at 800 and 750 MHz.



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1999januaryfebruarymarchaprilmayjunejuly

Acquired **Shiva**, a supplier of integrated remote network access solutions for business.


Launched the **AnyPoint™** home network product, letting families with more than one PC share Internet access, files, printers and games through a phone line.

Acquired **Softcom**, maker of semiconductor products for networking equipment used to direct voice and data across networks.

Acquired **Dialogic**, a producer of hardware and software for high-end servers operating in voice and data networks.

linking up

networking and communications



The Internet economy is driving growth of the silicon building blocks and communications systems that help build the network infrastructure. Intel's networking and communications business has been growing rapidly for the last several years, with silicon, systems and software products that help build networks and link consumers and businesses. In 1999, to further expand our capabilities and product offerings, Intel acquired several companies with expertise in this area. We also launched the Intel® Internet Exchange™ architecture, a powerful, flexible platform for silicon-based products, to help the networking and communications industry build faster, more intelligent networks.

august september october november december

Acquired **Level One Communications**, aimed at increasing advanced networking capability by increasing bandwidth and functionality through silicon integration.

Acquired **NetBoost** for chips, systems and software complementary to the Intel® Internet Exchange™ architecture.

Formed the \$200 million **Intel Communications Fund** for equity investments in companies supporting our key initiatives in voice and data communications.

Acquired **IPivot**, maker of e-Commerce equipment that helps ensure faster, more reliable and secure transactions.

1999 january february march april may june july

Unveiled the Pentium III Xeon processor for servers and workstations based on multiple processors.

Along with other corporate investors, we established the \$250 million Intel 64 Fund for equity investments in companies developing Internet and enterprise applications based on the IA-64 architecture.

delivering on demand

server platforms

Behind every Web page, every e-mail message and every e-Commerce transaction is a server. Each keystroke launches a series of demanding electronic tasks that puts the servers behind the scenes through their paces. Servers, the engines of the Internet, are booming: according to our estimates, only about 4% of the servers that will be needed by the year 2005 are currently online. And more than 80% of commercial servers shipped in the world run on Intel architecture, according to IDC. The opportunity is vast. Intel dedicated about half of its microprocessor R&D investments in 1999 to new products for the server and workstation market segments. This has centered particularly on the IA-64 processor architecture, a powerful new design that can handle twice as much data at one time as the Pentium® processor family. We expect this architecture to become the backbone of the Internet.



august september october november december

Began shipping the **Profusion®** chipset, which makes it easier for OEMs to build 8-way servers based on the Pentium III Xeon processor.

Launched new **Pentium III Xeon processors** designed specifically for high-performance 2-way servers, at speeds of up to 733 MHz.

Announced the **Itanium™** brand: the first in the next-generation IA-64 family of processors for servers and high-end workstations.

Led the server industry to a single standard for future high-performance input/output, known as the **InfiniBand*** architecture.

Began delivering **prototype Itanium processors** to server makers and software developers, to speed the development and testing of products for the new architecture.

1999januaryfebruarymarchaprilmayjunejuly

Intel and Mattel announced creation of the Intel® Play™ family of computer toys, including the QX3* computer microscope.

Launched the e-Commerce Provider Program, helping companies build branded online stores without having to develop, design, administer or host their own solutions.

building for the boom

solutions and services

In rapidly increasing numbers, companies worldwide are laying the foundations for information technology infrastructure and e-Commerce services. Intel is leading the way: its \$1 billion per month in online sales makes it the largest business-to-business e-Commerce site in the world, according to the July 1999 issue of *PC Computing* magazine. In 1999, Intel leveraged this experience into a new business direction. Intel® Online Services provides a full range of Internet services to businesses, including hosting services and fast development of e-Business solutions for companies around the world. Intel also continues to invest in ways to attract new users and develop new uses for computing. These initiatives help drive demand for the powerful microprocessors that make computing more exciting and rewarding for consumers.



august september october november december.

With Hong Kong-based **Pacific Century Group**, announced agreements to enable broadband Internet deployment in Asia.

Introduced **Intel® PC Camera Pro Pack**, letting users directly connect camcorders and VCRs to their PCs.

Intel and **NEC** announced a collaboration to provide enhanced Internet-related business solutions worldwide.

First **Intel® Online Services** facility opened in Santa Clara, California. Plans announced for new locations in Virginia, England and Japan.

Intel and **Nokia** joined forces to develop a new class of consumer devices that integrate the Internet and digital TV.

clients

networking and
communications

solutions
and services

server platforms

server platforms

the internet today

is like a young child; most of its life is ahead of it. As the Internet economy continues to revolutionize the way people work and communicate, Intel will be there, providing the critical building blocks of this transformation:

- microprocessors that power PCs and other tools people use to get online
- chips and systems that build the network infrastructure
- powerful processors that help servers keep information flying around the globe
- services and support that companies need, to take advantage of this incredible new environment

As always, we build on our core strengths: our extensive and long-term experience in marketing, engineering and manufacturing around the globe; our leadership in the computing industry; our financial resources; the strong value of the Intel brand; and the dedication and discipline of our people. These assets will help us meet our goal to be the preeminent building block supplier to the worldwide Internet economy.

clients

solutions
and services

networking and
communications

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communications

clients

server platforms

solutions
and services

Ten years ended December 25, 1999

(In millions—except employees)	Employees at year-end (in thousands)	Net investment in property, plant & equipment	Total assets	Long-term debt & put warrants	Stockholders' equity	Additions to property, plant & equipment ^A	Weighted average diluted shares outstanding
1999	70.2	\$ 11,715	\$ 43,849	\$ 1,085	\$ 32,535	\$ 3,403	3,470
1998	64.5	\$ 11,609	\$ 31,471	\$ 903	\$ 23,377	\$ 4,032	3,517
1997	63.7	\$ 10,666	\$ 28,880	\$ 2,489	\$ 19,295	\$ 4,501	3,590
1996	48.5	\$ 8,487	\$ 23,735	\$ 1,003	\$ 16,872	\$ 3,024	3,551
1995	41.6	\$ 7,471	\$ 17,504	\$ 1,125	\$ 12,140	\$ 3,550	3,536
1994	32.6	\$ 5,367	\$ 13,816	\$ 1,136	\$ 9,267	\$ 2,441	3,496
1993	29.5	\$ 3,996	\$ 11,344	\$ 1,114	\$ 7,500	\$ 1,933	3,528
1992	25.8	\$ 2,816	\$ 8,089	\$ 622	\$ 5,445	\$ 1,228	3,436
1991	24.6	\$ 2,163	\$ 6,292	\$ 503	\$ 4,418	\$ 948	3,344
1990	23.9	\$ 1,658	\$ 5,376	\$ 345	\$ 3,592	\$ 680	3,247

(In millions—except per share amounts)	Net revenues	Cost of sales ^B	Research & development ^C	Amortization of goodwill & other acquisition-related intangibles	Operating income	Net income	Basic earnings per share	Diluted earnings per share	Dividends declared per share
1999	\$29,389	\$11,836	\$ 3,111	\$ 411	\$ 9,767	\$ 7,314	\$ 2.20	\$ 2.11	\$.110
1998	\$26,273	\$12,088	\$ 2,509	\$ 56	\$ 8,379	\$ 6,068	\$ 1.82	\$ 1.73	\$.050
1997	\$25,070	\$ 9,945	\$ 2,347	—	\$ 9,887	\$ 6,945	\$ 2.12	\$ 1.93	\$.058
1996	\$20,847	\$ 9,164	\$ 1,808	—	\$ 7,553	\$ 5,157	\$ 1.57	\$ 1.45	\$.048
1995	\$16,202	\$ 7,811	\$ 1,296	—	\$ 5,252	\$ 3,566	\$ 1.08	\$ 1.01	\$.038
1994	\$11,521	\$ 5,576	\$ 1,111	—	\$ 3,387	\$ 2,288	\$.69	\$.65	\$.029
1993	\$ 8,782	\$ 3,252	\$ 970	—	\$ 3,392	\$ 2,295	\$.69	\$.65	\$.025
1992	\$ 5,844	\$ 2,557	\$ 780	—	\$ 1,490	\$ 1,067	\$.32	\$.31	\$.013
1991	\$ 4,779	\$ 2,316	\$ 618	—	\$ 1,080	\$ 819	\$.25	\$.24	—
1990	\$ 3,921	\$ 1,930	\$ 517	—	\$ 858	\$ 650	\$.21	\$.20	—

Share and per share amounts shown have been adjusted for stock splits through 1999.

^AAdditions to property, plant and equipment in 1998 include \$475 million for capital assets acquired from Digital Equipment Corporation.

^BCost of sales for 1998 reflects the reclassification of amortization of goodwill and other acquisition-related intangibles to a separate line item.

^CResearch and development excludes in-process research and development of \$392 million and \$165 million for 1999 and 1998, respectively.

Consolidated statements of income

INTEL CORPORATION 1999

Three years ended December 25, 1999
(In millions—except per share amounts)

	1999	1998	1997
Net revenues	\$29,389	\$26,273	\$25,070
Cost of sales.....	11,836	12,088	9,945
Research and development.....	3,111	2,509	2,347
Marketing, general and administrative.....	3,872	3,076	2,891
Amortization of goodwill and other acquisition-related intangibles.....	411	56	—
Purchased in-process research and development.....	392	165	—
Operating costs and expenses.....	<u>19,622</u>	<u>17,894</u>	<u>15,183</u>
Operating income	9,767	8,379	9,887
Interest expense.....	(36)	(34)	(27)
Interest income and other, net.....	1,497	792	799
Income before taxes	11,228	9,137	10,659
Provision for taxes.....	3,914	3,069	3,714
Net income	\$ 7,314	\$ 6,068	\$ 6,945
Basic earnings per common share	\$ 2.20	\$ 1.82	\$ 2.12
Diluted earnings per common share	\$ 2.11	\$ 1.73	\$ 1.93
Weighted average common shares outstanding	3,324	3,336	3,271
Weighted average common shares outstanding, assuming dilution	3,470	3,517	3,590

See accompanying notes.

Consolidated balance sheets

15

INTEL CORPORATION 1999

December 25, 1999 and December 26, 1998
(In millions—except per share amounts)

	1999	1998
Assets		
Current assets:		
Cash and cash equivalents.....	\$ 3,695	\$ 2,038
Short-term investments.....	7,705	5,272
Trading assets.....	388	316
Accounts receivable, net of allowance for doubtful accounts of \$67 (\$62 in 1998).....	3,700	3,527
Inventories.....	1,478	1,582
Deferred tax assets.....	673	618
Other current assets.....	180	122
Total current assets	17,819	13,475
Property, plant and equipment:		
Land and buildings.....	7,246	6,297
Machinery and equipment.....	14,851	13,149
Construction in progress.....	1,460	1,622
	<u>23,557</u>	<u>21,068</u>
Less accumulated depreciation.....	11,842	9,459
Property, plant and equipment, net	11,715	11,609
Marketable strategic equity securities	7,121	1,757
Other long-term investments	790	3,608
Goodwill and other acquisition-related intangibles	4,934	111
Other assets	1,470	911
Total assets	\$43,849	\$31,471
Liabilities and stockholders' equity		
Current liabilities:		
Short-term debt.....	\$ 230	\$ 159
Accounts payable.....	1,370	1,244
Accrued compensation and benefits.....	1,454	1,285
Deferred income on shipments to distributors.....	609	606
Accrued advertising.....	582	458
Other accrued liabilities.....	1,159	1,094
Income taxes payable.....	1,695	958
Total current liabilities	7,099	5,804
Long-term debt	955	702
Deferred tax liabilities	3,130	1,387
Put warrants	130	201
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.001 par value, 50 shares authorized; none issued.....	—	—
Common stock, \$0.001 par value, 4,500 shares authorized; 3,334 issued and outstanding (3,315 in 1998) and capital in excess of par value.....	7,316	4,822
Retained earnings.....	21,428	17,952
Accumulated other comprehensive income.....	3,791	603
Total stockholders' equity	32,535	23,377
Total liabilities and stockholders' equity	\$43,849	\$31,471

See accompanying notes.

Consolidated statements of cash flows

INTEL CORPORATION 1999

Three years ended December 25, 1999
(In millions)

	1999	1998	1997
Cash and cash equivalents, beginning of year	\$ 2,038	\$ 4,102	\$ 4,165
Cash flows provided by (used for) operating activities:			
Net income	7,314	6,068	6,945
Adjustments to reconcile net income to net cash provided by (used for) operating activities:			
Depreciation	3,186	2,807	2,192
Amortization of goodwill and other acquisition-related intangibles	411	56	—
Purchased in-process research and development	392	165	—
Gains on sales of marketable strategic equity securities	(883)	(185)	(106)
Net loss on retirements of property, plant and equipment	193	282	130
Deferred taxes	(219)	77	6
Changes in assets and liabilities:			
Accounts receivable	153	(38)	285
Inventories	169	167	(404)
Accounts payable	79	(180)	438
Accrued compensation and benefits	127	17	140
Income taxes payable	726	(211)	179
Tax benefit from employee stock plans	506	415	224
Other assets and liabilities	(819)	(249)	(21)
Total adjustments	4,021	3,123	3,063
Net cash provided by operating activities	11,335	9,191	10,008
Cash flows provided by (used for) investing activities:			
Additions to property, plant and equipment	(3,403)	(3,557)	(4,501)
Acquisitions, net of cash acquired	(2,979)	(906)	—
Purchases of available-for-sale investments	(7,055)	(10,925)	(9,224)
Sales of available-for-sale investments	831	201	153
Maturities and other changes in available-for-sale investments	7,156	8,681	6,713
Net cash used for investing activities	(5,450)	(6,506)	(6,859)
Cash flows provided by (used for) financing activities:			
Increase (decrease) in short-term debt, net	69	(83)	(177)
Additions to long-term debt	118	169	172
Retirement of long-term debt	—	—	(300)
Proceeds from sales of shares through employee stock plans and other	543	507	317
Proceeds from exercise of 1998 step-up warrants	—	1,620	40
Proceeds from sales of put warrants	20	40	288
Repurchase and retirement of common stock	(4,612)	(6,785)	(3,372)
Payment of dividends to stockholders	(366)	(217)	(180)
Net cash used for financing activities	(4,228)	(4,749)	(3,212)
Net increase (decrease) in cash and cash equivalents	1,657	(2,064)	(63)
Cash and cash equivalents, end of year	\$ 3,695	\$ 2,038	\$ 4,102
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	\$ 40	\$ 40	\$ 37
Income taxes	\$ 2,899	\$ 2,784	\$ 3,305

See accompanying notes.

Consolidated statements of stockholders' equity

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Three years ended December 25, 1999 (In millions—except per share amounts)	Common stock and capital in excess of par value		Retained earnings	Accumulated other com- prehensive income	Total
	Number of shares	Amount			
Balance at December 28, 1996	3,283	\$ 2,897	\$13,853	\$ 122	\$16,872
Components of comprehensive income:					
Net income	—	—	6,945	—	6,945
Change in unrealized gain on available-for-sale investments, net of tax	—	—	—	(64)	(64)
Total comprehensive income					<u>6,881</u>
Proceeds from sales of shares through employee stock plans, tax benefit of \$224 and other	61	581	(1)	—	580
Proceeds from sales of put warrants	—	288	—	—	288
Reclassification of put warrant obligation, net	—	(144)	(1,622)	—	(1,766)
Repurchase and retirement of common stock	(88)	(311)	(3,061)	—	(3,372)
Cash dividends declared (\$0.058 per share)	—	—	(188)	—	(188)
Balance at December 27, 1997	3,256	3,311	15,926	58	19,295
Components of comprehensive income:					
Net income	—	—	6,068	—	6,068
Change in unrealized gain on available-for-sale investments, net of tax	—	—	—	545	545
Total comprehensive income					<u>6,613</u>
Proceeds from sales of shares through employee stock plans, tax benefit of \$415 and other	66	922	—	—	922
Proceeds from exercise of 1998 step-up warrants	155	1,620	—	—	1,620
Proceeds from sales of put warrants	—	40	—	—	40
Reclassification of put warrant obligation, net	—	53	588	—	641
Repurchase and retirement of common stock	(162)	(1,124)	(4,462)	—	(5,586)
Cash dividends declared (\$0.050 per share)	—	—	(168)	—	(168)
Balance at December 26, 1998	3,315	4,822	17,952	603	23,377
Components of comprehensive income:					
Net income	—	—	7,314	—	7,314
Change in unrealized gain on available-for-sale investments, net of tax	—	—	—	3,188	3,188
Total comprehensive income					<u>10,502</u>
Proceeds from sales of shares through employee stock plans, tax benefit of \$506 and other	56	1,049	—	—	1,049
Proceeds from sales of put warrants	—	20	—	—	20
Reclassification of put warrant obligation, net	—	7	64	—	71
Repurchase and retirement of common stock	(71)	(1,076)	(3,536)	—	(4,612)
Issuance of common stock in connection with Level One Communications acquisition	34	1,963	—	—	1,963
Stock options assumed in connection with acquisitions	—	531	—	—	531
Cash dividends declared (\$0.110 per share)	—	—	(366)	—	(366)
Balance at December 25, 1999	3,334	\$ 7,316	\$21,428	\$ 3,791	\$32,535

See accompanying notes.

Accounting policies

■ **Fiscal year.** Intel Corporation has a fiscal year that ends the last Saturday in December. Fiscal years 1999, 1998 and 1997, each 52-week years, ended on December 25, 26 and 27, respectively. Periodically, there will be a 53-week year. The next 53-week year will end on December 30, 2000.

■ **Basis of presentation.** The consolidated financial statements include the accounts of Intel and its wholly owned subsidiaries. Significant intercompany accounts and transactions have been eliminated. Accounts denominated in foreign currencies have been remeasured using the U.S. dollar as the functional currency.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

■ **Investments.** Highly liquid debt securities with insignificant interest rate risk and with original maturities of three months or less are classified as cash and cash equivalents. Debt securities with original maturities greater than three months and remaining maturities less than one year are classified as short-term investments. Debt securities with remaining maturities greater than one year are classified as other long-term investments. The company's policy is to protect the value of its fixed income investment portfolio and to minimize principal risk by earning returns based on current interest rates.

The company enters into certain equity investments for the promotion of business and strategic objectives, and typically does not attempt to reduce or eliminate the inherent market risks on these investments. The marketable portion of these strategic investments is classified separately as marketable strategic equity securities. The non-marketable equity and other investments are included in other assets.

A substantial majority of the company's marketable investments are classified as available-for-sale as of the balance sheet date and are reported at fair value, with unrealized gains and losses, net of tax, recorded in stockholders' equity. The cost of securities sold is based on the specific identification method. Realized gains or losses and declines in value, if any, judged to be other than temporary on available-for-sale securities are reported in other income or expense. Non-marketable investments are recorded at the lower of cost or market.

■ **Trading assets.** The company maintains its trading asset portfolio to generate returns that offset changes in certain liabilities related to deferred compensation arrangements. The trading assets consist of marketable equity instruments and are stated at fair value. Both realized and unrealized gains and losses are included in other income or expense and generally offset the change in the deferred compensation liability, which is also included in other income or expense. Net gains on the trading asset portfolio were \$44 million, \$66 million and \$37 million in 1999, 1998 and 1997, respectively. The deferred compensation liabilities amounted to \$384

million and \$287 million in 1999 and 1998, respectively, and are included in other accrued liabilities on the consolidated balance sheets.

■ **Fair values of financial instruments.** Fair values of cash and cash equivalents approximate cost due to the short period of time to maturity. Fair values of short-term investments, trading assets, marketable strategic equity securities, other long-term investments, non-marketable investments, short-term debt, long-term debt, swaps, currency forward contracts and options hedging marketable instruments are based on quoted market prices or pricing models using current market rates. For certain non-marketable equity securities, fair value is estimated based on prices recently paid for shares in that company. No consideration is given to liquidity issues in valuing the debt and investments. The estimated fair values are not necessarily representative of the amounts that the company could realize in a current transaction.

■ **Derivative financial instruments.** The company utilizes derivative financial instruments to reduce financial market risks. These instruments are used to hedge foreign currency, interest rate and certain equity market exposures of underlying assets, liabilities and other obligations. The company also uses derivatives to create synthetic instruments, for example, buying and selling put and call options on the same underlying security, to generate money market like returns with a similar level of risk. The company does not use derivative financial instruments for speculative or trading purposes. The company's accounting policies for these instruments are based on whether they meet the company's criteria for designation as hedging transactions. The criteria the company uses for designating an instrument as a hedge include the instrument's effectiveness in risk reduction and one-to-one matching of derivative instruments to underlying transactions. Gains and losses on currency forward contracts, and options that are designated and effective as hedges of anticipated transactions, for which a firm commitment has been attained, are deferred and recognized in income in the same period that the underlying transactions are settled. Gains and losses on currency forward contracts, options, and swaps that are designated and effective as hedges of existing transactions are recognized in income in the same period as losses and gains on the underlying transactions are recognized and generally offset. Gains and losses on any instruments not meeting the above criteria are recognized in income in the current period. If an underlying hedged transaction is terminated earlier than initially anticipated, the offsetting gain or loss on the related derivative instrument would be recognized in income in the same period. Subsequent gains or losses on the related derivative instrument would be recognized in income in each period until the instrument matures, is terminated or is sold. Income or expense on swaps is accrued as an adjustment to the yield of the related investments or debt they hedge.

■ **Inventories.** Inventories are stated at the lower of cost or market. Cost is computed on a currently adjusted standard

basis (which approximates actual cost on a current average or first-in, first-out basis). Inventories at fiscal year-ends were as follows:

(In millions)	1999	1998
Raw materials	\$ 183	\$ 206
Work in process	755	795
Finished goods	540	581
Total	\$ 1,478	\$ 1,582

■ **Property, plant and equipment.** Property, plant and equipment are stated at cost. Depreciation is computed for financial reporting purposes principally using the straight-line method over the following estimated useful lives: machinery and equipment, 2–4 years; buildings, 4–40 years.

■ **Goodwill and other acquisition-related intangibles.** Goodwill is recorded when the consideration paid for acquisitions exceeds the fair value of net tangible and intangible assets acquired. Goodwill and other acquisition-related intangibles are amortized on a straight-line basis over the periods indicated below. Reviews are regularly performed to determine whether facts or circumstances exist which indicate that the carrying values of assets are impaired. The company assesses the recoverability of its assets by comparing the projected undiscounted net cash flows associated with those assets against their respective carrying amounts. Impairment, if any, is based on the excess of the carrying amount over the fair value of those assets. No impairment has been indicated to date.

Net goodwill and other acquisition-related intangibles at fiscal year-ends were as follows:

(In millions)	Life in years	1999	1998
Goodwill	2–6	\$ 4,124	\$ 52
Developed technology	3–6	612	33
Other intangibles	2–6	198	26
		\$ 4,934	\$ 111

Other intangibles include items such as trademarks, workforce-in-place and customer lists. The total balances presented above are net of total accumulated amortization of \$471 million and \$60 million at December 25, 1999 and December 26, 1998, respectively.

Amortization of goodwill and other acquisition-related intangibles of \$411 million for 1999 consisted of \$307 million of amortization of goodwill and \$104 million of amortization of other acquisition-related intangibles, a majority of which was related to developed technology.

■ **Revenue recognition.** The company generally recognizes net revenues upon the transfer of title. However, certain of the company's sales are made to distributors under agreements allowing price protection and/or right of return on merchandise unsold by the distributors. Because of frequent sales price reductions and rapid technological obsolescence in the industry, Intel defers recognition of revenues on shipments to distributors until the merchandise is sold by the distributors.

■ **Advertising.** Cooperative advertising obligations are accrued and the costs expensed at the same time the related revenues are recognized. All other advertising costs are expensed as incurred. Advertising expense was \$1.7 billion, \$1.3 billion and \$1.2 billion in 1999, 1998 and 1997, respectively.

■ **Interest.** Interest as well as gains and losses related to contractual agreements to hedge certain investment positions and debt (see "Derivative financial instruments") are recorded as net interest income or expense. Interest expense capitalized as a component of construction costs was \$5 million, \$6 million and \$9 million for 1999, 1998 and 1997, respectively.

■ **Earnings per share.** The shares used in the computation of the company's basic and diluted earnings per common share are reconciled as follows:

(In millions)	1999	1998	1997
Weighted average common shares outstanding	3,324	3,336	3,271
Dilutive effect of:			
Employee stock options	145	159	204
Convertible notes	1	—	—
1998 step-up warrants	—	22	115
Weighted average common shares outstanding, assuming dilution	3,470	3,517	3,590

Weighted average common shares outstanding, assuming dilution, includes the incremental shares that would be issued upon the assumed exercise of stock options, as well as the assumed conversion of the convertible notes and the incremental shares for the step-up warrants. Put warrants outstanding had no dilutive effect on diluted earnings per common share for the periods presented. For the three-year period ended December 25, 1999, certain of the company's stock options were excluded from the calculation of diluted earnings per share because they were antidilutive, but these options could be dilutive in the future. Net income for the purpose of computing diluted earnings per common share is not materially affected by the assumed conversion of the convertible notes. (See "Long-term debt" under "Borrowings.")

■ **Stock distribution.** On April 11, 1999, the company effected a two-for-one stock split in the form of a special stock distribution to stockholders of record as of March 23, 1999. On July 13, 1997, the company effected a two-for-one stock split in the form of a special stock distribution to stockholders of record as of June 10, 1997. All share, per share, common stock, stock option and warrant amounts herein have been restated to reflect the effects of these splits.

■ **Reclassifications.** Certain amounts reported in previous years have been reclassified to conform to the 1999 presentation.

■ **Recent accounting pronouncements.** The company intends to adopt Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," as of the beginning of its fiscal year 2001. The standard will require the company to recognize all derivatives on the balance sheet at fair value. Derivatives that

are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities or firm commitments through earnings, or recognized in other comprehensive income until the hedged item is recognized in earnings. The change in a derivative's fair value related to the ineffective portion of a hedge, if any, will be immediately recognized in earnings. The effect of adopting the standard is currently being evaluated but is not expected to have a material effect on the company's financial position or overall trends in results of operations.

Common stock

■ **Stock repurchase program.** The company has an ongoing authorization, as amended, from the Board of Directors to repurchase up to 760 million shares of Intel's common stock in open market or negotiated transactions. During 1999, the company repurchased 71.3 million shares of common stock at a cost of \$4.6 billion. As of December 25, 1999, the company had repurchased and retired approximately 659.9 million shares at a cost of \$18.2 billion since the program began in 1990. As of December 25, 1999, after allowing for 2 million shares to cover outstanding put warrants, 98.1 million shares remained available under the repurchase authorization.

■ **1998 step-up warrants.** In 1993, the company issued 160 million 1998 step-up warrants to purchase 160 million shares of common stock. The warrants became exercisable in May 1993. Between December 27, 1997 and March 14, 1998, approximately 155 million warrants were exercised and shares of common stock were issued for proceeds of \$1.6 billion. The expiration date of these warrants was March 14, 1998.

Put warrants

In a series of private placements from 1991 through 1999, the company sold put warrants that entitle the holder of each warrant to sell to the company, by physical delivery, one share of common stock at a specified price. Activity during the past three years is summarized as follows:

(In millions)	Cumulative net premium received	Put warrants outstanding	
		Number of warrants	Potential obligation
December 28, 1996	\$ 335	18.0	\$ 275
Sales	288	92.6	3,525
Expirations	—	(58.0)	(1,759)
December 27, 1997	623	52.6	2,041
Sales	40	15.0	588
Exercises	—	(30.0)	(1,199)
Expirations	—	(32.6)	(1,229)
December 26, 1998	663	5.0	201
Sales	20	4.0	261
Expirations	—	(7.0)	(332)
December 25, 1999	\$ 683	2.0	\$ 130

The amount related to Intel's potential repurchase obligation has been reclassified from stockholders' equity to put warrants. The 2 million put warrants outstanding at December 25, 1999 expired unexercised in January 2000 and had an average exercise price of \$65 per share.

Borrowings

■ **Short-term debt.** Non-interest-bearing short-term debt at fiscal year-ends was as follows:

(In millions)	1999	1998
Borrowed under lines of credit	\$ —	\$ 10
Drafts payable	230	149
Total	\$ 230	\$ 159

The company also borrows under commercial paper programs. Maximum borrowings under commercial paper programs reached \$200 million during 1999 and \$325 million during 1998. This debt is rated A-1+ by Standard and Poor's and P-1 by Moody's.

■ **Long-term debt.** Long-term debt at fiscal year-ends was as follows:

(In millions)	1999	1998
Payable in U.S. dollars:		
Puerto Rico bonds due 2013 at 3.9%–4.25%	\$ 110	\$ 110
Convertible subordinated notes due 2004 at 4%	210	—
Other U.S. dollar debt	6	5
Payable in other currencies:		
Irish punt due 2001–2027 at 4%–13%	583	541
Other non-U.S. dollar debt	46	46
Total	\$ 955	\$ 702

The company has guaranteed repayment of principal and interest on bonds issued by the Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority. The bonds are adjustable and redeemable at the option of either the company or the bondholder every five years through 2013 and are next adjustable and redeemable in 2003.

During 1999, the company assumed 4% convertible subordinated notes with a principal amount of \$115 million as a result of the Level One Communications, Inc. acquisition (see "Acquisitions"). The value assigned to the notes was approximately \$212 million, based upon the assumed conversion price at the date of acquisition. Amortization of the premium substantially offsets the interest expense on the notes. The notes are convertible into common stock of the company at a conversion price of \$31.01 per share. After September 2000, the notes are redeemable at the option of the company.

The Irish punt borrowings were made in connection with the financing of manufacturing facilities in Ireland, and Intel has invested the proceeds in Irish punt denominated instruments of similar maturity to hedge foreign currency and interest rate exposures.

Under shelf registration statements filed with the Securities and Exchange Commission, Intel may issue up to \$1.4 billion of additional securities in the form of common stock, preferred

stock, depository shares, debt securities and warrants to purchase the company's or other issuers' common stock, preferred stock and debt securities, and, subject to certain limits, stock index warrants and foreign currency exchange units.

As of December 25, 1999, aggregate debt maturities were as follows: 2001—\$62 million; 2002—\$21 million; 2003—\$134 million; 2004—\$236 million; and thereafter—\$502 million.

Available-for-sale investments

The returns on a majority of the company's marketable investments in long-term fixed rate debt and certain equity securities are swapped to U.S. dollar LIBOR-based returns. The currency risks of investments denominated in foreign currencies are hedged with foreign currency borrowings, currency forward contracts or currency interest rate swaps (see "Derivative financial instruments" under "Accounting policies").

Investments with maturities of greater than six months consist primarily of A and A2 or better rated financial instruments and counterparties. Investments with maturities of up to six months consist primarily of A-1 and P-1 or better rated financial instruments and counterparties. Foreign government regulations imposed upon investment alternatives of foreign subsidiaries, or the absence of A and A2 rated counterparties in certain countries, result in some minor exceptions. Intel's practice is to obtain and secure available collateral from counterparties against obligations whenever Intel deems appropriate. At December 25, 1999, investments were placed with approximately 175 different counterparties.

Available-for-sale investments at December 25, 1999 were as follows:

(In millions)	Cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
U.S. government securities	\$ 2,746	\$ —	\$ (5)	\$ 2,741
Commercial paper	2,971	—	(2)	2,969
Floating rate notes	2,152	—	(4)	2,148
Bank time deposits	2,022	—	(3)	2,019
Corporate bonds	865	49	(9)	905
Loan participations	625	—	—	625
Fixed rate notes	275	—	(1)	274
Securities of foreign governments	59	—	—	59
Other debt securities	33	—	(1)	32
Total debt securities	11,748	49	(25)	11,772
Marketable strategic equity securities	1,277	5,882	(38)	7,121
Preferred stock and other equity	121	—	—	121
Total equity securities	1,398	5,882	(38)	7,242
Swaps hedging investments in debt securities	—	12	(50)	(38)
Currency forward contracts hedging investments in debt securities	—	2	—	2
Total available-for-sale investments	13,146	5,945	(113)	18,978
Less amounts classified as cash equivalents	(3,362)	—	—	(3,362)
	\$ 9,784	\$ 5,945	\$ (113)	\$15,616

Available-for-sale investments at December 26, 1998 were as follows:

(In millions)	Cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
U.S. government securities	\$ 2,824	\$ —	\$ (11)	\$ 2,813
Commercial paper	2,694	5	(2)	2,697
Floating rate notes	1,273	2	(2)	1,273
Corporate bonds	1,153	51	(17)	1,187
Bank time deposits	1,135	1	(1)	1,135
Loan participations	625	—	—	625
Repurchase agreements	124	—	—	124
Securities of foreign governments	36	1	(1)	36
Other debt securities	160	—	—	160
Total debt securities	10,024	60	(34)	10,050
Hedged equity	100	—	(2)	98
Marketable strategic equity securities	822	979	(44)	1,757
Preferred stock and other equity	140	1	—	141
Total equity securities	1,062	980	(46)	1,996
Options creating synthetic money market instruments	474	—	—	474
Swaps hedging investments in debt securities	—	19	(52)	(33)
Swaps hedging investments in equity securities	—	2	—	2
Currency forward contracts hedging investments in debt securities	—	2	(4)	(2)
Total available-for-sale investments	11,560	1,063	(136)	12,487
Less amounts classified as cash equivalents	(1,850)	—	—	(1,850)
	\$ 9,710	\$ 1,063	\$ (136)	\$10,637

Available-for-sale securities with a fair value at the date of sale of \$1 billion, \$227 million and \$153 million were sold in 1999, 1998 and 1997, respectively. The gross realized gains on these sales totaled \$883 million, \$185 million and \$106 million, respectively.

The amortized cost and estimated fair value of investments in debt securities at December 25, 1999, by contractual maturity, were as follows:

(In millions)	Cost	Estimated fair value
Due in 1 year or less	\$11,031	\$11,054
Due in 1–2 years	192	194
Due in 2–5 years	58	58
Due after 5 years	467	466
Total investments in debt securities	\$11,748	\$11,772

Derivative financial instruments

Outstanding notional amounts for derivative financial instruments at fiscal year-ends were as follows:

(In millions)	1999	1998
Swaps hedging investments in debt securities	\$ 2,002	\$ 2,526
Swaps hedging investments in equity securities	\$ —	\$ 100
Swaps hedging debt	\$ 156	\$ 156
Currency forward contracts	\$ 845	\$ 830
Options creating synthetic money market instruments	\$ —	\$ 2,086

While the contract or notional amounts provide one measure of the volume of these transactions, they do not represent the amount of the company's exposure to credit risk. The amounts potentially subject to credit risk (arising from the possible inability of counterparties to meet the terms of their contracts) are generally limited to the amounts, if any, by which a counterparty's obligations exceed the obligations of Intel with that counterparty. The company controls credit risk through credit approvals, limits and monitoring procedures. Credit rating criteria for derivative financial instruments are similar to those for investments.

■ **Swap agreements.** The company utilizes swap agreements to exchange the foreign currency, equity and interest rate returns of its investment and debt portfolios for floating U.S. dollar interest rate based returns. The floating rates on swaps are based primarily on U.S. dollar LIBOR and are reset on a monthly, quarterly or semiannual basis.

Pay rates on swaps hedging investments in debt securities match the yields on the underlying investments they hedge. Payments on swaps hedging investments in equity securities match the equity returns on the underlying investments they hedge. Receive rates on swaps hedging debt match the expense on the underlying debt they hedge. Maturity dates of swaps match those of the underlying investment or the debt they hedge. There is approximately a one-to-one matching of swaps to investments and debt. Swap agreements generally remain in effect until expiration.

Weighted average pay and receive rates, average maturities and range of maturities on swaps at December 25, 1999 were as follows:

	Weighted average pay rate	Weighted average receive rate	Weighted average maturity	Range of maturities
Swaps hedging investments in U.S. dollar debt securities	6.0%	6.0%	1.0 years	0-4 years
Swaps hedging investments in foreign currency debt securities	5.6%	5.7%	1.6 years	0-4 years
Swaps hedging debt	5.5%	5.7%	3.8 years	1-4 years

Note: Pay and receive rates are based on the reset rates that were in effect at December 25, 1999.

■ **Other foreign currency instruments.** Intel transacts business in various foreign currencies, primarily Japanese yen and certain other Asian and European currencies. The company has established revenue and balance sheet hedging programs to protect against reductions in value and volatility of future cash flows caused by changes in foreign exchange rates. The company utilizes currency forward contracts and currency options in these hedging programs. The maturities on these instruments are less than 12 months.

Fair values of financial instruments

The estimated fair values of financial instruments outstanding at fiscal year-ends were as follows:

(In millions)	1999		1998	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Cash and cash equivalents	\$ 3,695	\$ 3,695	\$ 2,038	\$ 2,038
Short-term investments	\$ 7,740	\$ 7,740	\$ 4,821	\$ 4,821
Trading assets	\$ 388	\$ 388	\$ 316	\$ 316
Marketable strategic equity securities	\$ 7,121	\$ 7,121	\$ 1,757	\$ 1,757
Other long-term investments	\$ 791	\$ 791	\$ 3,618	\$ 3,618
Non-marketable instruments	\$ 1,177	\$ 3,410	\$ 571	\$ 716
Options creating synthetic money market instruments	\$ —	\$ —	\$ 474	\$ 474
Swaps hedging investments in debt securities	\$ (38)	\$ (38)	\$ (33)	\$ (33)
Swaps hedging investments in equity securities	\$ —	\$ —	\$ 2	\$ 2
Short-term debt	\$ (230)	\$ (230)	\$ (159)	\$ (159)
Long-term debt	\$ (955)	\$ (1,046)	\$ (702)	\$ (696)
Swaps hedging debt	\$ —	\$ (5)	\$ —	\$ 1
Currency forward contracts	\$ 1	\$ —	\$ (1)	\$ (1)

Concentrations of credit risk

Financial instruments that potentially subject the company to concentrations of credit risk consist principally of investments and trade receivables. Intel places its investments with high-credit-quality counterparties and, by policy, limits the amount of credit exposure to any one counterparty based on Intel's analysis of that counterparty's relative credit standing. A majority of the company's trade receivables are derived from sales to manufacturers of computer systems, with the remainder spread across various other industries. The company's five largest customers accounted for approximately 44% of net revenues for 1999. At December 25, 1999, these customers accounted for approximately 35% of net accounts receivable.

The company endeavors to keep pace with the evolving computer and Internet-related industries, and has adopted credit policies and standards intended to accommodate industry growth and inherent risk. Management believes that credit risks are moderated by the diversity of its end customers and geographic sales areas. Intel performs ongoing credit evaluations of its customers' financial condition and requires collateral or other credit support as deemed necessary.

Interest income and other

(In millions)	1999	1998	1997
Interest income	\$ 618	\$ 593	\$ 562
Gains on sales of marketable strategic equity securities	883	185	106
Foreign currency gains (losses), net	(1)	11	63
Other income (expense), net	(3)	3	68
Total	\$ 1,497	\$ 792	\$ 799

Comprehensive income

The components of other comprehensive income and related tax effects were as follows:

(In millions)	1999	1998	1997
Gains on investments during the year, net of tax of \$(2,026), \$(357) and \$(4) in 1999, 1998 and 1997, respectively	\$ 3,762	\$ 665	\$ 5
Less: adjustment for gains realized and included in net income, net of tax of \$309, \$65 and \$37 in 1999, 1998 and 1997, respectively	(574)	(120)	(69)
Other comprehensive income	\$ 3,188	\$ 545	\$ (64)

Accumulated other comprehensive income presented in the accompanying consolidated balance sheets consists of the accumulated net unrealized gain on available-for-sale investments.

Provision for taxes

Income before taxes and the provision for taxes consisted of the following:

(In millions)	1999	1998	1997
Income before taxes:			
U.S.	\$ 7,239	\$ 6,677	\$ 8,033
Foreign	3,989	2,460	2,626
Total income before taxes	\$ 11,228	\$ 9,137	\$ 10,659
Provision for taxes:			
Federal:			
Current	\$ 3,356	\$ 2,321	\$ 2,930
Deferred	(162)	145	30
	3,194	2,466	2,960
State:			
Current	393	320	384
Foreign:			
Current	384	351	394
Deferred	(57)	(68)	(24)
	327	283	370
Total provision for taxes	\$ 3,914	\$ 3,069	\$ 3,714
Effective tax rate	34.9%	33.6%	34.8%

The tax benefit associated with dispositions from employee stock plans reduced taxes currently payable for 1999 by \$506 million (\$415 million and \$224 million for 1998 and 1997, respectively).

The provision for taxes reconciles to the amount computed by applying the statutory federal rate of 35% to income before taxes as follows:

(In millions)	1999	1998	1997
Computed expected tax	\$ 3,930	\$ 3,198	\$ 3,731
State taxes, net of federal benefits	255	208	249
Foreign income taxed at different rates	(239)	(339)	(111)
Non-deductible acquisition-related costs	274	74	—
Other	(306)	(72)	(155)
Provision for taxes	\$ 3,914	\$ 3,069	\$ 3,714

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Significant components of the company's deferred tax assets and liabilities at fiscal year-ends were as follows:

(In millions)	1999	1998
Deferred tax assets		
Accrued compensation and benefits	\$ 111	\$ 117
Accrued advertising	66	62
Deferred income	182	181
Inventory valuation and related reserves	91	106
Interest and taxes	48	52
Other, net	175	100
	673	618
Deferred tax liabilities		
Depreciation	(703)	(911)
Acquired intangibles	(214)	—
Unremitted earnings of certain subsidiaries	(172)	(152)
Unrealized gain on investments	(2,041)	(324)
	(3,130)	(1,387)
Net deferred tax (liability)	\$ (2,457)	\$ (769)

U.S. income taxes were not provided for on a cumulative total of approximately \$2.2 billion of undistributed earnings for certain non-U.S. subsidiaries. The company intends to reinvest these earnings indefinitely in operations outside the United States.

The years 1998 and 1997 are currently under examination by the Internal Revenue Service. Management believes that adequate amounts of tax and related interest and penalties, if any, have been provided for any adjustments that may result for these years.

Employee benefit plans

■ **Stock option plans.** Intel has a stock option plan under which officers, key employees and non-employee directors may be granted options to purchase shares of the company's authorized but unissued common stock. The company also has a stock option plan under which stock options may be granted to employees other than officers and directors. The company's Executive Long-Term Stock Option Plan, under which certain key employees, including officers, have been granted stock options, terminated in September 1998. Although this termination will not affect options granted prior to this date, no further grants may be made under this plan. Under all of the plans, the option exercise price is equal to the fair market value of Intel common stock at the date of grant. During 1999, Intel also assumed the stock option plans and the outstanding options of certain acquired companies. No additional options will be granted under these assumed plans.

Options granted by Intel currently expire no later than 10 years from the grant date and generally vest within 5 years. Proceeds received by the company from exercises are credited to common stock and capital in excess of par value. Additional information with respect to stock option plan activity was as follows:

(Shares in millions)	Shares available for options	Outstanding options	
		Number of shares	Weighted average exercise price
December 28, 1996	130.6	337.8	\$ 7.49
Additional shares reserved	260.0	—	—
Grants	(63.0)	63.0	\$ 36.23
Exercises	—	(47.2)	\$ 3.06
Cancellations	8.8	(8.8)	\$ 16.38
December 27, 1997	336.4	344.8	\$ 13.12
Grants	(48.0)	48.0	\$ 38.35
Exercises	—	(63.0)	\$ 4.59
Cancellations	17.3	(17.3)	\$ 23.64
Lapsed under terminated plans	(38.5)	—	—
December 26, 1998	267.2	312.5	\$ 18.13
Grants	(40.6)	40.6	\$ 63.91
Options assumed in acquisitions	—	12.8	\$ 25.74
Exercises	—	(48.0)	\$ 6.64
Cancellations	12.3	(12.3)	\$ 32.85
December 25, 1999	238.9	305.6	\$ 25.73
Options exercisable at:			
December 27, 1997		115.2	\$ 3.66
December 26, 1998		103.8	\$ 6.11
December 25, 1999		103.2	\$ 9.42

The range of option exercise prices for options outstanding at December 25, 1999 was \$0.15 to \$84.97. The range of exercise prices for options is wide due primarily to the increasing price of the company's stock over the period in which the option grants were awarded, in addition to the impact of assumed options of acquired companies that had experienced even greater price appreciation.

The following tables summarize information about options outstanding at December 25, 1999:

Range of exercise prices	Outstanding options		
	Number of shares (in millions)	Weighted average contractual life (in years)	Weighted average exercise price
\$0.15–\$7.58	59.6	2.4	\$ 4.28
\$8.66–\$15.09	62.9	4.8	\$ 10.46
\$15.12–\$37.45	91.4	6.7	\$ 25.61
\$37.47–\$84.97	91.7	8.6	\$ 50.28
Total	305.6	6.0	\$ 25.73

Range of exercise prices	Exercisable options	
	Number of shares (in millions)	Weighted average exercise price
\$0.15–\$7.58	59.2	\$ 4.29
\$8.66–\$15.09	28.4	\$ 9.11
\$15.12–\$37.45	12.3	\$ 25.87
\$37.47–\$84.97	3.3	\$ 43.04
Total	103.2	\$ 9.42

These options will expire if not exercised at specific dates through December 2009. Option exercise prices for options exercised during the three-year period ended December 25, 1999 ranged from \$0.15 to \$61.41.

■ **Stock Participation Plan.** Under this plan, eligible employees may purchase shares of Intel's common stock at 85% of fair market value at specific, predetermined dates. Of the 472 million shares authorized to be issued under the plan, 74.3 million shares remained available for issuance at December 25, 1999. Employees purchased 5.4 million shares in 1999 (6.3 million in 1998 and 9.0 million in 1997) for \$241 million (\$229 million and \$191 million in 1998 and 1997, respectively).

■ **Pro forma information.** The company has elected to follow APB Opinion No. 25, "Accounting for Stock Issued to Employees," in accounting for its employee stock options because, as discussed below, the alternative fair value accounting provided for under SFAS No. 123, "Accounting for Stock-Based Compensation," requires the use of option valuation models that were not developed for use in valuing employee stock options. Under APB No. 25, because the exercise price of the company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized in the company's financial statements.

Pro forma information regarding net income and earnings per share is required by SFAS No. 123. This information is required to be determined as if the company had accounted for its employee stock options (including shares issued under the Stock Participation Plan, collectively called "options") granted subsequent to December 31, 1994 under the fair

value method of that statement. The fair value of options granted in 1999, 1998 and 1997 reported below has been estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions:

Employee stock options	1999	1998	1997
Expected life (in years)	6.5	6.5	6.5
Risk-free interest rate	5.2%	5.3%	6.6%
Volatility	.38	.36	.36
Dividend yield	.2%	.2%	.1%

Stock Participation Plan shares	1999	1998	1997
Expected life (in years)	.5	.5	.5
Risk-free interest rate	4.9%	5.2%	5.3%
Volatility	.45	.42	.40
Dividend yield	.2%	.2%	.1%

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because the company's options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in the opinion of management, the existing models do not necessarily provide a reliable single measure of the fair value of its options. The weighted average estimated fair value of employee stock options granted during 1999, 1998 and 1997 was \$29.53, \$17.91 and \$17.67 per share, respectively, excluding options assumed through acquired companies. The weighted average estimated fair value of shares granted under the Stock Participation Plan during 1999, 1998 and 1997 was \$19.81, \$10.92 and \$11.04, respectively.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting periods. The company's pro forma information follows:

(In millions—except per share amounts)	1999	1998	1997
Pro forma net income	\$ 6,860	\$ 5,755	\$ 6,735
Pro forma basic earnings per share	\$ 2.06	\$ 1.73	\$ 2.06
Pro forma diluted earnings per share	\$ 1.98	\$ 1.66	\$ 1.88

■ **Retirement plans.** The company provides tax-qualified profit-sharing retirement plans (the "Qualified Plans") for the benefit of eligible employees in the U.S. and Puerto Rico and certain foreign countries. The plans are designed to provide employees with an accumulation of funds for retirement on a tax-deferred basis and provide for annual discretionary employer contributions to trust funds.

The company also provides a non-qualified profit-sharing retirement plan (the "Non-Qualified Plan") for the benefit of eligible employees in the U.S. This plan is designed to permit certain discretionary employer contributions in excess of the tax limits applicable to the Qualified Plans and to permit employee deferrals in excess of certain tax limits. This plan is unfunded.

The company expensed \$294 million for the Qualified Plans and the Non-Qualified Plan in 1999 (\$291 million in 1998 and \$273 million in 1997). The company expects to fund approximately \$333 million for the 1999 contribution to the Qualified Plans and to allocate approximately \$9 million for the Non-Qualified Plan, including the utilization of amounts expensed in prior years. A remaining accrual of approximately \$157 million carried forward from prior years is expected to be contributed to these plans when allowable under IRS regulations and plan rules.

Contributions made by the company vest based on the employee's years of service. Vesting begins after three years of service in 20% annual increments until the employee is 100% vested after seven years.

The company provides tax-qualified defined-benefit pension plans for the benefit of eligible employees in the U.S. and Puerto Rico. Each plan provides for minimum pension benefits that are determined by a participant's years of service, final average compensation (taking into account the participant's social security wage base) and the value of the company's contributions, plus earnings, in the Qualified Plan. If the participant's balance in the Qualified Plan exceeds the pension guarantee, the participant will receive benefits from the Qualified Plan only. Intel's funding policy is consistent with the funding requirements of federal laws and regulations. The company also provides defined-benefit pension plans in certain foreign countries. The company's funding policy for foreign defined-benefit pension plans is consistent with the local requirements in each country. These defined-benefit pension plans had no material impact on the company's financial statements for the periods presented.

The company provides postemployment benefits for retired employees in the U.S. Upon retirement, eligible employees are credited with a defined dollar amount based on years of service. These credits can be used to pay all or a portion of the cost to purchase coverage in an Intel-sponsored medical plan. These benefits had no material impact on the company's financial statements for the periods presented.

Acquisitions

During 1999 and 1998, the company completed a number of acquisitions that were accounted for using the purchase method of accounting.

In February 1999, the company acquired Shiva Corporation in a cash transaction. Shiva's products include remote access and virtual private networking solutions for the small to medium enterprise market segment and the remote access needs of campuses and branch offices.

In July 1999, the company acquired privately held Softcom Microsystems, Inc. in a cash transaction. Softcom develops and markets semiconductor products for original equipment manufacturers in the networking and communications market segments. Softcom's high-performance components are designed for networking gear (access devices, routers and switches) used to direct voice and data across the Internet as well as traditional enterprise networks.

In July 1999, the company acquired Dialogic Corporation in a cash transaction. The acquisition is aimed at expanding the company's standard high-volume server business in the networking and telecommunications market segments. Dialogic designs, manufactures and markets computer hardware and software enabling technology for computer telephony systems.

In August 1999, the company acquired Level One Communications in a stock-for-stock transaction. Approximately 34 million shares of Intel common stock were issued in connection with the purchase. In addition, Intel assumed Level One Communications' convertible debt with a fair value of approximately \$212 million. Level One Communications provides silicon connectivity solutions for high-speed telecommunications and networking applications.

In September 1999, the company acquired privately held NetBoost Corporation in a cash transaction. NetBoost develops and markets hardware and software solutions for communications equipment suppliers and independent software vendors in the networking and communications market segments.

In October 1999, the company acquired privately held IPivot, Inc. in a cash transaction. IPivot designs and manufactures Internet commerce equipment that manages large volumes of Internet traffic more securely and efficiently.

In November 1999, the company acquired DSP Communications, Inc. in a cash transaction. DSP Communications is a leading supplier of solutions for digital cellular communications products, including chipsets, reference designs, software and other key technologies for lightweight wireless handsets.

In January 1998, the company acquired Chips and Technologies, Inc. in a cash transaction. Chips and Technologies was a supplier of graphics accelerator chips for mobile computing products.

In May 1998, the company purchased the semiconductor operations of Digital Equipment Corporation. Assets acquired consisted primarily of property, plant and equipment. Following the completion of the purchase, lawsuits between the companies that had been pending since 1997 were dismissed with prejudice.

For 1999 and 1998, \$392 million and \$165 million, respectively, were allocated to purchased in-process research and development, and expensed upon acquisition of the above companies, because the technological feasibility of products under development had not been established and no future alternative uses existed.

These purchase transactions are further described below:

(In millions)	Consideration	Purchased in-process research & development	Goodwill & identified intangibles	Form of consideration
1999				
Shiva	\$ 132	\$ —	\$ 99	Cash and options assumed
Softcom	\$ 149	\$ 9	\$ 139	Cash and options assumed
Dialogic	\$ 732	\$ 83	\$ 614	Cash and options assumed
Level One Communications	\$ 2,137	\$ 231	\$ 2,007	Common stock and options assumed
NetBoost	\$ 215	\$ 10	\$ 205	Cash and options assumed
IPivot	\$ 496	\$ —	\$ 505	Cash and options assumed
DSP Communications	\$ 1,599	\$ 59	\$ 1,491	Cash and options assumed
1998				
Chips and Technologies	\$ 337	\$ 165	\$ 126	Cash and options assumed
Semiconductor operations of Digital	\$ 585	\$ —	\$ 32	Cash

Consideration includes the cash paid, less any cash acquired; the value of stock issued and options assumed; and excludes any debt assumed.

In addition to the transactions described above, Intel purchased other businesses in smaller transactions. The charge for purchased in-process research and development related to these other acquisitions was not significant. The total amount allocated to goodwill and identified intangibles for these transactions was \$175 million, which represents a substantial majority of the consideration for these transactions.

The consolidated financial statements include the operating results of acquired businesses from the dates of acquisition. The operating results of Softcom, Level One Communications and NetBoost have been included in the Network Communications Group operating segment. The operating results of Shiva, Dialogic and IPivot have been included in the Communications Products Group operating segment. The operating results of DSP Communications have been included in the Wireless Communications and Computing Group operating segment. All of these groups are part of the "all other" category for segment reporting purposes. The operating results of Chips and Technologies have been included in the Intel Architecture Business Group operating segment.

The unaudited pro forma information below assumes that companies acquired in 1999 and 1998 had been acquired at the beginning of 1998 and includes the effect of amortization of goodwill and identified intangibles from that date. The impact of charges for purchased in-process research and development has been excluded. This is presented for informational purposes only and is not necessarily indicative of the results of future operations or results that would have been achieved had the acquisitions taken place at the beginning of 1998.

(In millions, except per share amounts—unaudited)	1999	1998
Net revenues	\$29,894	\$27,101
Net income	\$ 6,948	\$ 5,218
Basic earnings per common share	\$ 2.08	\$ 1.55
Diluted earnings per common share	\$ 1.99	\$ 1.46

Commitments

The company leases a portion of its capital equipment and certain of its facilities under operating leases that expire at various dates through 2010. Rental expense was \$71 million in 1999, \$64 million in 1998 and \$69 million in 1997. Minimum rental commitments under all non-cancelable leases with an initial term in excess of one year are payable as follows: 2000—\$68 million; 2001—\$57 million; 2002—\$53 million; 2003—\$41 million; 2004—\$32 million; 2005 and beyond—\$77 million. Commitments for construction or purchase of property, plant and equipment approximated \$2.5 billion at December 25, 1999. In connection with certain manufacturing arrangements, Intel had minimum purchase commitments of approximately \$59 million at December 25, 1999 for flash memory.

Contingencies

In November 1997, Intergraph Corporation filed suit in Federal District Court in Alabama for patent infringement and generally alleging that Intel attempted to coerce Intergraph into relinquishing certain patent rights. The suit alleges that Intel infringes five Intergraph microprocessor-related patents, and includes alleged violations of antitrust laws and various state law claims. The suit seeks injunctive relief, damages and prejudgment interest, and further alleges that Intel's infringement is willful and that any damages awarded should be trebled. Intergraph's expert witness has claimed that Intergraph is entitled to damages of approximately \$2.2 billion for Intel's alleged patent infringement, \$500 million for the alleged antitrust violations and an undetermined amount for the alleged state law violations. Intel has also counterclaimed that the Intergraph patents are invalid and further alleges infringement of seven Intel patents, breach of contract and misappropriation of trade secrets. In October 1999, the court reconsidered an earlier adverse ruling and granted Intel's motion for summary judgment that the Intergraph patents are licensed to Intel, and dismissed all of Intergraph's patent infringement claims with prejudice. Intergraph has appealed

this ruling. In November 1999, the Court of Appeals for the Federal Circuit reversed the District Court's April 1998 order requiring Intel to continue to deal with Intergraph on the same terms as it treats allegedly similarly situated customers with respect to confidential information and products supply. The company disputes Intergraph's remaining antitrust and state law claims, and intends to defend the lawsuit vigorously.

The company is currently party to various legal proceedings, including that noted above. While management, including internal counsel, currently believes that the ultimate outcome of these proceedings, individually and in the aggregate, will not have a material adverse effect on the company's financial position or overall trends in results of operations, litigation is subject to inherent uncertainties. Were an unfavorable ruling to occur, there exists the possibility of a material adverse impact on the net income of the period in which the ruling occurs.

Intel has been named to the California and U.S. Superfund lists for three of its sites and has completed, along with two other companies, a Remedial Investigation/Feasibility study with the U.S. Environmental Protection Agency (EPA) to evaluate the groundwater in areas adjacent to one of its former sites. The EPA has issued a Record of Decision with respect to a groundwater cleanup plan at that site, including expected costs to complete. Under the California and U.S. Superfund statutes, liability for cleanup of this site and the adjacent area is joint and several. The company, however, has reached agreement with those same two companies which significantly limits the company's liabilities under the proposed cleanup plan. Also, the company has completed extensive studies at its other sites and is engaged in cleanup at several of these sites. In the opinion of management, including internal counsel, the potential losses to the company in excess of amounts already accrued arising out of these matters would not have a material adverse effect on the company's financial position or overall trends in results of operations, even if joint and several liability were to be assessed.

The estimate of the potential impact on the company's financial position or overall results of operations for the above legal proceedings could change in the future.

Operating segment and geographic information

Intel designs, develops, manufactures and markets computer, networking and communications products at various levels of integration. The company is organized into five product-line operating segments: the Intel Architecture Business Group, the Wireless Communications and Computing Group (formed out of the former Computing Enhancement Group), the Communications Products Group (formed during 1999), the Network Communications Group and the New Business Group. Each group has a vice president who reports directly to the Chief Executive Officer (CEO). The CEO allocates resources to each group using information on their revenues and operating profits before interest and taxes. The CEO has been identified as the Chief Operating Decision Maker.

The Intel Architecture Business Group's products include microprocessors and related board-level products based on the P6 microarchitecture (including the Pentium® III, Intel® Celeron™ and Pentium® III Xeon™ processors). Sales of microprocessors and related board-level products based on the P6 microarchitecture represented a substantial majority of the company's 1999 revenues and gross margin. As a result of a reorganization during 1999, the Intel Architecture Business Group's products also include chipsets. The Wireless Communications and Computing Group's products are component-level hardware and software for digital cellular communications, including flash memory, low-power processors and digital signal processors. The Communications Products Group's products consist of system-level hardware, software and support services for e-Business data centers and communications access solutions. The Network Communications Group's products include communications silicon components and embedded control chips (formerly included in the Computing Enhancement Group) for networking and communications applications. The New Business Group provides e-Commerce data center services as well as products such as connected peripherals and security access software. Intel's products in all operating groups are sold directly to original equipment manufacturers, retail and industrial distributors, and resellers throughout the world.

In addition to these operating segments, the sales and marketing, manufacturing, finance and administration groups also report to the CEO. Expenses of these groups are allocated to the operating segments and are included in the operating results reported below. Certain corporate-level operating expenses (primarily the amount by which profit-dependent bonus expenses differ from a targeted level recorded by the operating segments) and reserves for deferred income on shipments to distributors are not allocated to operating segments and are included in "all other" in the reconciliation of operating profits reported below.

Although the company has five operating segments, only the Intel Architecture Business Group is a reportable segment. Intel had previously shown two reportable segments; however, as a result of a reorganization during 1999, no segment other than the Intel Architecture Business Group now represents 10% or more of revenues or operating profit. Information for prior periods has been reclassified. Intel does not identify or allocate assets by operating segment, and does not allocate depreciation as such to the operating segments, nor does the CEO evaluate groups on these criteria. Operating segments do not record intersegment revenues, and, accordingly, there are none to be reported. Intel does not allocate interest and other income, interest expense or taxes to operating segments. The accounting policies for segment reporting are the same as for the company as a whole (see "Accounting policies"), except that operating segments recognize revenues upon shipment to distributors, and changes in the reserves for deferred income on these shipments are recorded at the corporate level only.

Information on reportable segments for the three years ended December 25, 1999 is as follows:

(In millions)	1999	1998	1997
Intel Architecture Business Group			
Revenues	\$25,274	\$23,853	\$22,606
Operating profit	\$11,356	\$ 9,413	\$11,132
All other			
Revenues	\$ 4,115	\$ 2,420	\$ 2,464
Operating loss	\$ (1,589)	\$ (1,034)	\$ (1,245)
Total			
Revenues	\$29,389	\$26,273	\$25,070
Operating profit	\$ 9,767	\$ 8,379	\$ 9,887

In 1999, two customers each accounted for 13% of the company's revenues. In 1998, one customer accounted for 13% of the company's revenues and another accounted for 11%. In 1997, one customer accounted for 12% of the company's revenues. A substantial majority of the sales to these customers were Intel Architecture Business Group products.

Geographic revenue information for the three years ended December 25, 1999 is based on the location of the selling entity. Property, plant and equipment information is based on the physical location of the assets at the end of each of the fiscal years.

Revenues from unaffiliated customers by geographic region were as follows:

(In millions)	1999	1998	1997
United States	\$12,740	\$11,663	\$11,053
Europe	7,798	7,452	6,774
Asia-Pacific	6,704	5,309	4,754
Japan	2,147	1,849	2,489
Total revenues	\$29,389	\$26,273	\$25,070

Net property, plant and equipment by country was as follows:

(In millions)	1999	1998
United States	\$ 8,127	\$ 8,076
Ireland	1,312	1,287
Other foreign countries	2,276	2,246
Total property, plant and equipment, net	\$11,715	\$11,609

Supplemental information (unaudited)

Quarterly information for the two years ended December 25, 1999 is presented on page 37.

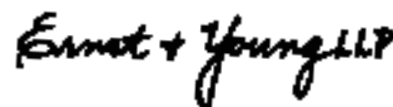
**The Board of Directors and
Stockholders, Intel Corporation**

We have audited the accompanying consolidated balance sheets of Intel Corporation as of December 25, 1999 and December 26, 1998, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 25, 1999. 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 in accordance with auditing standards generally accepted in the United States. 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 financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Intel Corporation at December 25, 1999 and December 26, 1998, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 25, 1999, in conformity with accounting principles generally accepted in the United States.

The logo for Ernst & Young LLP, featuring the company name in a stylized, handwritten-style font.

San Jose, California
January 11, 2000

Results of operations

Intel posted record net revenues in 1999, for the 13th consecutive year, increasing by 12% from 1998, and by 5% from 1997 to 1998. Net revenues for the Intel Architecture Business Group operating segment increased by 6% from 1998, and by 5.5% from 1997 to 1998. The increases for the Intel Architecture Business Group for both periods were primarily due to higher unit volumes of microprocessors, partially offset by lower average selling prices for microprocessors. As a result of a change in the company's internal organization during 1999, the Intel Architecture Business Group is the only remaining reportable operating segment. Within the "all other" category for operating segment reporting, revenues from sales of flash memory and networking and communications products grew significantly from 1998 to 1999. From 1997 to 1998, sales of flash memory and embedded products declined while networking and communications products grew significantly.

During 1999, sales of microprocessors and related board-level products based on the P6 microarchitecture (including the Intel® Celeron™, Pentium® III and Pentium® III Xeon™ processors), which are included in the Intel Architecture Business Group's operations, comprised a substantial majority of Intel's consolidated net revenues and gross margin. For 1998, these represented a majority of Intel's consolidated net revenues and a substantial majority of gross margin. Sales of the P6 microprocessors first became a significant portion of the company's revenues and gross margin in 1997. Sales of Pentium® family processors, including Pentium® processors with MMX™ technology, were not significant for 1999, but were a rapidly declining but still significant portion of the company's revenues and gross margin for 1998. During 1997, sales of Pentium family processors were a majority of the company's revenues and gross margin.

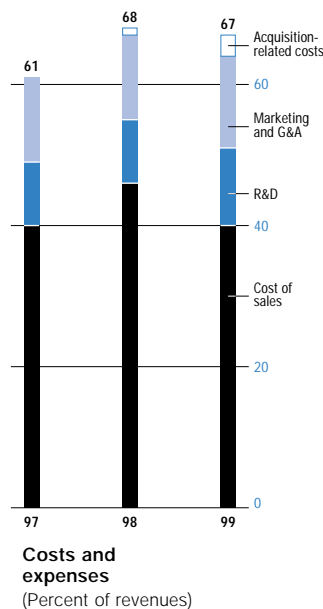
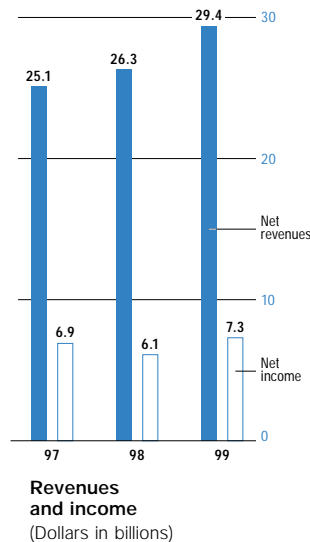
Total cost of sales decreased by 2% from 1998 to 1999, primarily due to lower unit costs for microprocessors in 1999 for the Intel Architecture Business Group operating segment. These lower unit costs were partially offset by higher unit sales volume in 1999. The lower unit costs in 1999 were achieved primarily through redesigned microprocessor products with lower cost packaging, including packaging using fewer purchased components, as well as factory efficiencies and lower purchase prices on purchased components. Total cost of sales increased by 22% from 1997 to 1998, primarily

due to microprocessor unit volume growth and additional costs associated with purchased components for the Single Edge Contact (SEC) cartridge housing the Pentium® II processor. The total gross margin percentage increased to 60% in 1999 from 54% in 1998, primarily due to lower unit costs in the Intel Architecture Business Group operating segment, partially offset by lower average selling prices. The gross margin percentage decreased to 54% in 1998 from 60% in 1997, primarily due to the increased costs in the Intel Architecture Business Group related to the SEC cartridge in the Pentium II processor and the lower average selling prices of processors in the first half of 1998 compared to the first half of 1997. See "Outlook" for a discussion of gross margin expectations.

Excluding charges of \$392 million for purchased in-process research and development (IPR&D) related to the current year's acquisitions and \$165 million in 1998, research and development spending increased \$602 million, or 24%, from 1998 to 1999, primarily due to increased spending on product development programs including product development of acquired companies. Research and development spending increased 7% from 1997 to 1998, primarily due to increased spending on development of microprocessor products. Marketing, general and administrative expenses increased \$796 million, or 26%, from 1998 to 1999, primarily due to increases for the Intel Inside® cooperative advertising program, merchandising spending relating to new product launches and profit-dependent bonus expenses. From 1997 to 1998, marketing, general and administrative expenses increased \$185 million, or 6%, primarily due to the Intel Inside program and merchandising spending, partially offset by lower profit-dependent bonus expenses.

The fair value of the IPR&D for each of the acquisitions was determined using the income approach, which discounts expected future cash flows from projects under development to their net present value. Each project was analyzed to determine the technological innovations included; the utilization of core technology; the complexity, cost and time to complete the remaining development efforts; any alternative future use or current technological feasibility; and the stage of completion. Future cash flows were estimated based on forecasted revenues and costs, taking into account the expected life cycles of the products and the underlying technology, relevant market sizes and industry trends.

Discount rates were derived from a weighted average



cost of capital analysis, adjusted to reflect the relative risks inherent in each entity's development process, including the probability of achieving technological success and market acceptance. The IPR&D charge includes the fair value of IPR&D completed. The fair value assigned to developed technology is included in identifiable intangible assets, and no value is assigned to IPR&D to be completed or to future development. Intel believes the amounts determined for IPR&D, as well as developed technology, are representative of fair value and do not exceed the amounts an independent party would pay for these projects. Failure to deliver new products to the market on a timely basis, or to achieve expected market acceptance or revenue and expense forecasts, could have a significant impact on the financial results and operations of the acquired businesses.

The total charge for IPR&D for the Dialogic Corporation acquisition, completed in July 1999, was approximately \$83 million. Dialogic designs, manufactures and markets computer hardware and software enabling technology for computer telephony systems. Twelve IPR&D projects were identified and valued, with two projects under the Springware and CT Server product groups accounting for 65% of the value assigned to IPR&D. Springware is a line of voice and intelligent network interface boards that provides signal processing features that can be reconfigured by developers for special applications. The next-generation Springware project was estimated to be approximately 60% complete, with estimated costs to complete of \$3 million and an estimated completion date of the first quarter of 2000. The CT Server project is designed to converge voice, media and packet communications within enterprise or public networking systems by providing a single platform for telecommunications switching, media processing and other communications services. The CT Server project was estimated to be approximately 55% complete, with estimated costs to complete of \$11.5 million. The estimated completion date for the CT Server project was originally the first quarter of 2000 but is now estimated to be the second quarter of 2000. Dialogic's other IPR&D projects ranged from 10% to 90% complete and averaged approximately 60% complete. Total estimated costs to complete all other projects were \$17.5 million, with expected completion dates from the third quarter of 1999 through the third quarter of 2000. Projects expected to complete during 1999 completed on schedule. The average discount rates used

were 22% for IPR&D projects and 14% for developed technology. Dialogic's weighted average cost of capital was 17%.

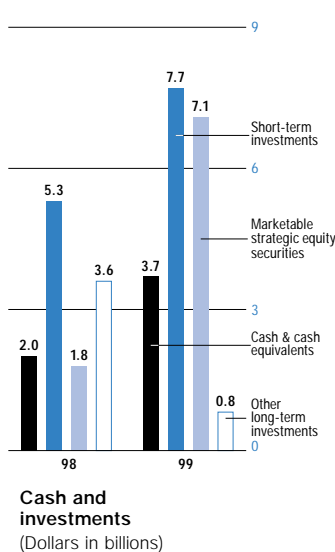
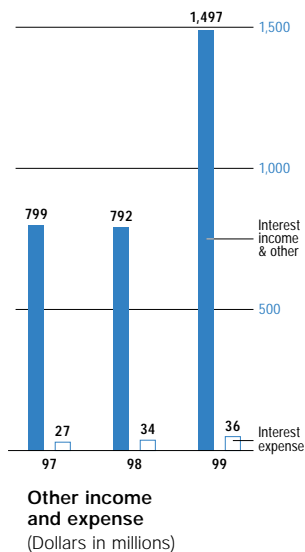
The total charge for IPR&D for the Level One Communications, Inc. acquisition, completed in August 1999, was approximately \$231 million. Level One Communications provides silicon connectivity, switching and access solutions for high-speed telecommunications and networking applications. Eight IPR&D projects were identified and valued, with each project representing from 5% to 18% of the total IPR&D value for this acquisition. Current Level One Communications products provide silicon connectivity, local area network (LAN) switching and wide area network (WAN) access solutions for high-speed telecommunications and networking applications. In-process projects include transceivers, routers and switch chipsets using current and emerging technologies for the

networking and telecommunications markets. These projects ranged from 39% to 86% complete, with total remaining costs to complete of \$19.1 million. Expected project completion dates ranged from the third quarter of 1999 through the third quarter of 2000, and projects expected to complete during 1999 completed on schedule. The discount rates used were 30% for IPR&D projects and 20% for developed technology. Level One Communications' weighted average cost of capital was 23%.

The total charge for IPR&D for the DSP Communications, Inc. acquisition, completed in November 1999, was approximately \$59

million. DSP Communications develops and supplies form-fit reference designs, chipsets and software for mobile telephone manufacturers. Four IPR&D projects were identified and valued, with each project representing from 9% to 31% of the total IPR&D value. The in-process projects are enhancements of DSP Communications' existing digital cellular chipsets, new third-generation chipsets and new products designed for use in other emerging wireless personal communications services. These projects ranged from 10% to 90% complete, with expected project completion dates from 2000 to 2003, and total remaining costs to complete of \$13 million. The average discount rates used for DSP Communications were 20% for IPR&D projects and 11% for developed technology. DSP Communications' weighted average cost of capital was 17%.

In the first quarter of 1998, the company purchased Chips and Technologies, Inc. and recorded a charge for IPR&D of \$165 million. Chips and Technologies had a product line of mobile graphics controllers based on 2D and video graphics



technologies. Their major development activities included new technologies for embedded memory and 3D graphics. Other development projects included improvements to the existing 2D and video technologies and several other new business product lines. The discount rates applied were 15% for developed technology and 20% for IPR&D projects, compared to an estimated weighted average cost of capital of approximately 10%. Costs to complete all of the in-process projects were estimated to be \$30 million. Approximately 70% of the estimated IPR&D was attributable to the embedded memory technology and the 3D technology that were expected to be used together and separately in products under development. Development of the first in a series of mobile graphics products using the embedded memory technology was estimated to be approximately 80% complete and was completed in August 1998. The 3D technology was at an earlier stage of development with a minimal amount of work completed at the time of the acquisition. Close to the time of the acquisition, Intel also began working with another company to license their 3D technology for a line of desktop graphics controllers. Subsequent to the acquisition, a decision was made that the mobile and desktop product lines should have compatible 3D technologies, and further development of the Chips and Technologies 3D technology was stopped. During 1999, Intel realigned its discrete graphics resources to focus on integrated graphics chipsets utilizing the core technology acquired from Chips and Technologies.

Amortization of goodwill and other acquisition-related intangibles increased \$355 million from 1998 to 1999, primarily due to the impact of acquisitions made in 1999, including Level One Communications, Dialogic, DSP Communications and IPivot, Inc. For 1999, a substantial majority of this amortization was included in the calculation of the operating loss for the "all other" category for segment reporting purposes.

Interest expense increased \$2 million from 1998 to 1999 due to higher average borrowing balances and lower interest capitalization. Interest and other income increased \$705 million from 1998 to 1999, primarily due to higher realized gains on sales of equity investments. For 1998 compared to 1997, interest expense increased \$7 million due to higher average borrowing balances and lower interest capitalization. Interest and other income was essentially unchanged for the same period, with higher realized gains on sales of equity securities and higher interest income offset by lower foreign currency gains.

The company's effective income tax rate was 34.9% in 1999, 33.6% in 1998 and 34.8% in 1997. Excluding the impact of the non-deductible charges for IPR&D and the amortization of goodwill and other acquisition-related intangibles, the company's effective income tax rate was approximately 33% for both 1999 and 1998. Foreign income taxed at rates different from U.S. rates contributed to the lower tax rate in 1999 and 1998 compared to 1997, excluding the impact of acquisitions.

Financial condition

The company's financial condition remains very strong. At December 25, 1999, total cash, trading assets and short-

and long-term investments, excluding marketable strategic equity securities, totaled \$13 billion, up from \$11 billion at December 26, 1998. Cash provided by operating activities was \$11 billion in 1999, compared to \$9.2 billion and \$10 billion in 1998 and 1997, respectively.

The company used \$5.5 billion in net cash for investing activities during 1999, compared to \$6.5 billion during 1998 and \$6.9 billion during 1997. Capital expenditures totaled \$3.4 billion in 1999, as the company continued to invest in property, plant and equipment, primarily for additional micro-processor manufacturing capacity and the transition of manufacturing technology. The company also paid \$3 billion in cash for acquisitions, net of cash acquired, including the purchases of Shiva Corporation, Softcom Microsystems, Inc., Dialogic, NetBoost Corporation, IPivot and DSP Communications. In addition, the company issued approximately 34 million shares of common stock and assumed convertible debt valued at approximately \$212 million in connection with the purchase of Level One Communications. Sales of available-for-sale investments provided \$831 million in cash. The company also had committed approximately \$2.5 billion for the purchase or construction of property, plant and equipment as of December 25, 1999. See "Outlook" for a discussion of capital expenditure expectations in 2000.

Inventory levels in total decreased in 1999, with raw materials, work-in-process and finished goods inventory all contributing to the decrease. For 1999, the impact of the increase in revenues on the accounts receivable balance was offset by a decrease in the days sales outstanding. The company's five largest customers accounted for approximately 44% of net revenues for 1999. Two customers each accounted for 13% of revenues in 1999. One customer accounted for 13% of revenues and another accounted for 11% in 1998, and one customer accounted for 12% of revenues in 1997. At December 25, 1999, the five largest customers accounted for approximately 35% of net accounts receivable.

The company used \$4.2 billion for financing activities in 1999, compared to \$4.7 billion and \$3.2 billion in 1998 and 1997, respectively. The major financing applications of cash in 1999 were for the repurchase of 71.3 million shares of common stock for \$4.6 billion and payment of dividends of \$366 million. The major financing applications of cash in 1998 and 1997 were for stock repurchases totaling \$6.8 billion and \$3.4 billion, respectively; payments of dividends of \$217 million and \$180 million, respectively; and for 1997, a \$300 million repayment under a private reverse repurchase arrangement. Financing sources of cash during 1999 were primarily \$543 million in proceeds from the sale of shares mainly pursuant to employee stock plans (\$507 million in 1998 and \$317 million in 1997). Financing sources of cash during 1998 also included \$1.6 billion in proceeds from the exercise of the 1998 step-up warrants (\$40 million in 1997).

As part of its authorized stock repurchase program, the company had outstanding put warrants at the end of 1999, with the potential obligation to buy back 2 million shares of its common stock at an aggregate price of \$130 million. Subsequent to the year-end, these put warrants expired unexercised.

At December 25, 1999, marketable strategic equity securities totaled \$7.1 billion with approximately \$5.8 billion in unrealized appreciation, an increase in total value of \$5.3 billion compared to December 26, 1998 and an increase in unrealized appreciation of approximately \$4.9 billion.

Other sources of liquidity include authorized commercial paper borrowings of \$700 million. The company also maintains the ability to issue an aggregate of approximately \$1.4 billion in debt, equity and other securities under Securities and Exchange Commission shelf registration statements.

The company believes that it has the financial resources needed to meet business requirements for the next 12 months, including potential future acquisitions or strategic investments, capital expenditures for the expansion or upgrading of worldwide manufacturing capacity, working capital requirements and the dividend program.

Financial market risks

The company is exposed to financial market risks, including changes in interest rates, foreign currency exchange rates and marketable equity security prices. To mitigate these risks, the company utilizes derivative financial instruments. The company does not use derivative financial instruments for speculative or trading purposes. All of the potential changes noted below are based on sensitivity analyses performed on the company's financial positions at December 25, 1999. Actual results may differ materially.

The primary objective of the company's investments in debt securities is to preserve principal while maximizing yields, without significantly increasing risk. To achieve this objective, the returns on a substantial majority of the company's marketable investments in long-term fixed rate debt securities are swapped to U.S. dollar LIBOR-based returns. The company considered the historical volatility of the three-month LIBOR rate experienced in the past year and determined that it was reasonably possible that an adverse change of 60 basis points, approximately 10% of the rate at the end of 1999, could be experienced in the near term. A hypothetical 60-basis-point increase in interest rates would result in an approximate \$16 million decrease in the fair value of the company's investments in debt securities as of the end of 1999 (\$30 million as of the end of 1998).

The company hedges currency risks of investments denominated in foreign currencies with foreign currency borrowings, currency forward contracts and currency interest rate swaps. Gains and losses on these foreign currency investments would generally be offset by corresponding losses and gains on the related hedging instruments, resulting in negligible net exposure to the company.

A substantial majority of the company's revenue, expense and capital purchasing activities are transacted in U.S. dollars. However, the company does enter into these transactions in other currencies, primarily Japanese yen and certain other Asian and European currencies. To protect against reductions in value and the volatility of future cash flows caused by changes in currency exchange rates, the company has established revenue, expense and balance sheet hedging

programs. Currency forward contracts and currency options are utilized in these hedging programs. The company's hedging programs reduce, but do not always entirely eliminate, the impact of currency exchange rate movements. The company considered the historical trends in currency exchange rates and determined that it was reasonably possible that adverse changes in exchange rates of 20% for certain Asian currencies and 10% for all other currencies could be experienced in the near term. Such an adverse change would result in an adverse impact on income before taxes of less than \$20 million as of the end of each of 1999 and 1998.

The company is exposed to equity price risks on the marketable portion of its portfolio of strategic equity securities. The company typically does not attempt to reduce or eliminate its market exposure on these securities. These investments are generally in companies in the high-technology industry, and a substantial majority of the market value of the portfolio is in three sectors: Internet, semiconductor and networking. As of December 25, 1999, five equity positions constituted approximately 49% of the market value of the portfolio, of which approximately \$1.2 billion, or 17% of the market value of the portfolio, consisted of an investment in Micron Technology, Inc.

The company analyzed the historical movements over the past several years of high-technology stock indices that the company considered appropriate. Based on the analysis, the company estimated that it was reasonably possible that the prices of the stocks in the company's portfolio could experience a 30% adverse change in the near term. Assuming a 30% adverse change, the company's marketable strategic equity securities would decrease in value by approximately \$2.1 billion, based on the value of the portfolio as of December 25, 1999. Assuming the same 30% adverse change as of December 26, 1998, the company's marketable strategic equity securities would have decreased in value by approximately \$525 million. The increase in the impact of the assumed adverse change from 1998 to 1999 reflects the increase in size of the portfolio, a significant portion of which represents unrealized appreciation. The portfolio's concentrations in specific companies or sectors may vary over time and may be different from the compositions of the indices analyzed, and these factors may affect the portfolio's price volatility. This estimate is not necessarily indicative of future performance, and actual results may differ materially.

Outlook

This outlook section contains a number of forward-looking statements, all of which are based on current expectations. Actual results may differ materially. These statements do not reflect the potential impact of any mergers or acquisitions that had not closed as of the end of 1999.

Intel's goal is to be the preeminent building block supplier to the worldwide Internet economy. The company's primary focus areas are the client platform, server platform, networking and communications, and solutions and services. The company's five product-line operating segments support these initiatives.

Intel's strategy for client and server platforms is to introduce ever higher performance microprocessors and chipsets, tailored for the different market segments of the worldwide computing market, using a tiered branding approach. In line with this strategy, the company is seeking to develop higher performance microprocessors based on the P6 microarchitecture specifically for each computing segment: the Intel Celeron processor for the value segment; Pentium III processors for home and business applications, and for entry-level servers and workstations; and Pentium III Xeon processors for mid-range and high-end servers and workstations. During 2000, the company also expects to introduce processors for high-end servers based on the IA-64 architecture, under the Itanium™ brand. In addition, the client platform strategy includes providing low-power processors and flash memory for handheld wireless devices. The Intel Architecture Business Group operating segment supports the client and server platform initiatives. The Wireless Communications and Computing Group supports the handheld wireless device initiatives for the client platform.

Intel plans to cultivate new businesses as well as continue to work with the computing industry to expand Internet capabilities and product offerings, and develop compelling software applications that can take advantage of higher performance microprocessors and chipsets, thus driving demand toward Intel's newer products in each computing market segment. The company may continue to take various steps, including reducing microprocessor prices at such times as it deems appropriate, in order to increase acceptance of its latest technology and to remain competitive within each relevant market segment.

In the network and communications infrastructure area, Intel's strategy is to deliver both system-level communications products and component-level silicon building blocks for networking and communications systems for the home and small- and medium-sized businesses. Intel has made acquisitions and expects to make additional acquisitions to grow new networking and communications areas. Initiatives in these areas are supported by the Communications Products Group operating segment, focusing on system-level products, and the Network Communications Group, focusing on component-level products.

Intel also intends to build new service businesses around the Internet. During 1999, the company launched Intel Online Services, which provides Web hosting and e-Commerce services for customers. Intel intends to deliver a consistent worldwide platform for developing and delivering e-Business solutions. The New Business Group operating segment supports the service business initiatives.

Intel expects that the total number of computers using Intel's P6 microarchitecture processors and other semiconductor components sold worldwide will continue to grow in 2000. In addition, Intel expects to grow revenues in the networking, communications and wireless businesses by 50% or more in 2000. However, the company's financial results are substantially dependent on sales of microprocessors

and related components by the Intel Architecture Business Group. Revenues are also a function of the mix of microprocessor types and speeds sold as well as the mix of related motherboards, purchased components and other semiconductor products, all of which are difficult to forecast. Because of the wide price difference among types of microprocessors, this mix affects the average price that Intel will realize and has a large impact on Intel's revenues. The company's expectations regarding growth in the computing industry worldwide are dependent in part on the growth in usage of the Internet and the expansion of Internet product offerings. The expectations are also subject to the impact of economic conditions in various geographic regions.

Intel's expectations regarding growth in the networking, communications and wireless areas, as well as in new service businesses, are subject to the company's ability to acquire businesses as well as to integrate and operate them successfully, and to grow new businesses internally.

Intel's current gross margin expectation for 2000 is 61% plus or minus a few points compared to 60% for 1999. The company's gross margin varies depending on the mix of types and speeds of processors sold as well as the mix of microprocessors and related motherboards and purchased components. The company has been implementing new packaging formats that have reduced costs on certain microprocessor products, and this is expected to be the primary driver of cost reductions for 2000 as the transition to the new packaging formats continues. The company also expects to have reduced costs due to continued productivity improvements on its existing manufacturing processes, including the new 0.18-micron manufacturing process. Various other factors—including unit volumes, yield issues associated with production at factories, ramp of new technologies, the reusability of factory equipment, excess or obsolete inventory, variations in inventory valuation and mix of shipments of other semiconductor and non-semiconductor products—will also continue to affect the amount of cost of sales and the variability of gross margin percentages.

Intel's primary goal is to get its advanced technology to the marketplace, and at the same time increase gross margin dollars. The company's plans to grow in non-microprocessor areas, particularly those areas that have the potential to expand networking and communications capabilities, are intended to increase gross margin dollars but may lower the gross margin percentage. In addition, from time to time the company may forecast a range of gross margin percentages for the coming quarter. Actual results may differ from these estimates.

The company has expanded its semiconductor manufacturing and assembly and test capacity over the last few years, and continues to plan capacity based on the assumed continued success of its strategy as well as the acceptance of its products in specific market segments. The company expects that capital spending will increase to approximately \$5 billion in 2000 from \$3.4 billion in 1999. The increase is primarily a result of expected spending related to the

development of next-generation 0.13-micron process technology for both 300 millimeter and 200 millimeter manufacturing, in addition to increased spending on new fabrication facility construction and equipment purchases to add 0.18-micron capacity. If the market demand does not continue to grow and move rapidly toward higher performance products in the various market segments, revenues and gross margin may be affected, the capacity installed might be under-utilized and capital spending may be slowed. Revenues and gross margin may also be affected if the company does not add capacity fast enough to meet market demand. This spending plan is dependent upon expectations regarding production efficiencies and delivery times of various machinery and equipment, and construction schedules for new facilities. Depreciation for 2000 is expected to be approximately \$3.4 billion, an increase of approximately \$200 million from 1999. Most of this increase would be included in cost of sales and research and development spending. Amortization of goodwill and other acquisition-related intangibles is expected to be approximately \$1.2 billion for 2000.

The industry in which Intel operates is characterized by very short product life cycles, and the company's continued success is dependent on technological advances, including the development and implementation of new processes and new strategic products for specific market segments. Because Intel considers it imperative to maintain a strong research and development program, spending for research and development in 2000, excluding in-process research and development, is expected to increase to approximately \$3.8 billion from \$3.1 billion in 1999. The higher spending is driven primarily by the full-year impact of acquisitions and investments in new businesses as well as increased investment in Intel architecture-related businesses. The company intends to continue spending to promote its products and to increase the value of its product brands. Based on current forecasts, spending for marketing, general and administrative expenses is also expected to increase in 2000.

The company currently expects its tax rate to be 31.7% for 2000, excluding the impact of costs related to prior and any future acquisitions. This estimate is based on current tax law, the current estimate of earnings and the expected distribution of income among various tax jurisdictions, and is subject to change.

During 1998, Intel established a team to address the issues raised by the introduction of the Single European Currency, the Euro, on January 1, 1999. The team is continuing to work on the conversion issues during the transition period through January 1, 2002. Intel's internal systems that were affected by the initial introduction of the Euro were made Euro capable without material system modification costs. Further internal systems changes are being made during the three-year transition phase in preparation for the ending of bilateral rates in January 2002 and the ultimate withdrawal of the legacy currencies in July 2002. The costs of these changes are not expected to be material. The introduction of the Euro has not materially affected the company's foreign exchange and hedging activities, or the company's use of

derivative instruments, and is not expected to result in any material increase in costs to the company. While Intel will continue to evaluate the impact of the ongoing Euro conversion over time, based on currently available information, management does not believe that the Euro conversion will have a material adverse impact on the company's financial condition or overall trends in results of operations.

Intel established a comprehensive program to deal with issues related to the year 2000 computer programming problem. By the end of 1999, all of the company's internal systems categorized as critical, priority or important were determined to be year 2000 capable. To date, there have been no material problems caused by year 2000 issues related to the company's internal systems or non-performance of suppliers.

Intel also established a program to assess the year 2000 capability of its products. The definition of "Year 2000 Capable" is available on Intel's Web site. To assist customers in evaluating their year 2000 issues, the company developed a Web-enabled database indicating the capability of Intel's current branded products and certain branded products no longer being produced. The capabilities of certain non-Intel branded products of certain subsidiaries are posted on the Web sites of those entities.

All Intel processors and microcontrollers (embedded processors) are Year 2000 Capable, with the exception of two custom microcontroller products sold to a limited number of customers. However, the ability of a complete system to operate correctly depends on firmware (BIOS) capability and software design and integration, which for many end users includes firmware and software provided by companies other than Intel.

Except as specifically provided in the limited warranties offered on certain of its current and some discontinued products, the company does not believe it is legally responsible for costs incurred by customers to ensure their year 2000 capability. Nevertheless, the company has incurred various costs to provide customer support and customer satisfaction services regarding year 2000 issues.

The company currently expects that the total cost of these programs will be approximately \$100 million. Approximately \$96 million has been spent on the programs to date, of which approximately \$54 million was incurred in 1999. Costs include estimated payroll costs for redeployed personnel and the costs of consultants, software and hardware upgrades, and dedicated program offices.

No significant internal systems projects were deferred due to year 2000 program efforts. The installation schedule of certain new software and hardware was accelerated to solve year 2000 capability issues, for which related costs were estimated to be an additional amount of approximately \$15 million. These estimated costs do not include any potential costs related to customer or other claims.

Based on currently available information, management does not believe that the year 2000 matters discussed above will have a material adverse impact on the company's financial condition or overall trends in results of operations.

The company is currently party to various legal proceedings. Although litigation is subject to inherent uncertainties, management, including internal counsel, does not believe that the ultimate outcome of these legal proceedings will have a material adverse effect on the company's financial position or overall trends in results of operations. However, were an unfavorable ruling to occur in any specific period, there exists the possibility of a material adverse impact on the results of operations of that period. Management believes, given the company's current liquidity and cash and investment balances, that even an adverse judgment would not have a material impact on cash and investments or liquidity.

The company's future results of operations and the other forward-looking statements contained in this outlook—in particular the statements regarding expected product introductions, expectations regarding additional acquisitions, intentions regarding building new service businesses around the Internet, the number of computers using Intel processors, gross margin and cost savings, capital spending, depreciation and amortization, research and development, marketing and general and administrative expenses, the tax rate, the conversion to the Euro, the year 2000 issue and pending legal proceedings—involve a number of risks and uncertainties.

In addition to the factors discussed above, among the other factors that could cause actual results to differ materially are the following: changes in end user demand due to usage of the Internet; changes in customer order patterns; competitive factors such as rival chip architectures and manufacturing technologies, competing software-compatible microprocessors and acceptance of new products in specific market segments; pricing pressures; development and timing of the introduction of compelling software applications; execution of the manufacturing ramp, including the transition to the 0.18-micron process technology; the ability to grow new networking, communications, wireless and other Internet-related businesses and successfully integrate and operate any acquired businesses; unanticipated costs or other adverse effects associated with processors and other products containing errata (deviations from published specifications); impact on the company's business by year 2000 problems and claims; and litigation involving antitrust, intellectual property, consumer and other issues.

Intel believes that it has the product offerings, facilities, personnel, and competitive and financial resources for continued business success, but future revenues, costs, margins and profits are all influenced by a number of factors, including those discussed above, all of which are inherently difficult to forecast.

Financial information by quarter (unaudited)

(In millions—except per share amounts) 1999 for quarter ended		December 25	September 25	June 26	March 27
Net revenues		\$ 8,212	\$ 7,328	\$ 6,746	\$ 7,103
Cost of sales		\$ 3,176	\$ 3,026	\$ 2,740	\$ 2,894
Net income ^A		\$ 2,108	\$ 1,458	\$ 1,749	\$ 1,999
Basic earnings per share		\$.63	\$.44	\$.53	\$.60
Diluted earnings per share		\$.61	\$.42	\$.51	\$.57
Dividends per share ^B	Declared	\$ —	\$.060	\$ —	\$.050
	Paid	\$.030	\$.030	\$.030	\$.020
Market price range common stock ^C	High	\$ 83.13	\$ 89.31	\$ 66.06	\$ 70.47
	Low	\$ 65.13	\$ 57.00	\$ 50.50	\$ 54.91

(In millions—except per share amounts) 1998 for quarter ended		December 26	September 26	June 27	March 28
Net revenues		\$ 7,614	\$ 6,731	\$ 5,927	\$ 6,001
Cost of sales ^D		\$ 3,160	\$ 3,176	\$ 3,012	\$ 2,740
Net income ^A		\$ 2,064	\$ 1,559	\$ 1,172	\$ 1,273
Basic earnings per share		\$.62	\$.46	\$.35	\$.39
Diluted earnings per share		\$.59	\$.44	\$.33	\$.36
Dividends per share ^B	Declared	\$ —	\$.035	\$ —	\$.015
	Paid	\$.020	\$.015	\$.015	\$.015
Market price range common stock ^C	High	\$ 62.50	\$ 45.72	\$ 42.41	\$ 47.09
	Low	\$ 39.22	\$ 35.59	\$ 32.97	\$ 35.13
Market price range step-up warrants ^C	High	\$ —	\$ —	\$ —	\$ 36.56
	Low	\$ —	\$ —	\$ —	\$ 24.73

^A Net income for the third and fourth quarters of 1999 reflects charges of \$333 million and \$59 million, respectively, for purchased in-process research and development related to acquisitions. Net income for the first quarter of 1998 reflects a similar charge of \$165 million.

^B As of the second quarter of 1998, the company had adopted a new dividend declaration schedule which results in the Board of Directors considering two dividend declarations in the first and third quarters of the year and no declarations in the second and fourth quarters. A dividend was paid in each quarter of 1999 and 1998.

^C Intel's common stock (symbol INTC) trades on The Nasdaq Stock Market* and is quoted in the Wall Street Journal and other newspapers. Intel's 1998 step-up warrants traded on The Nasdaq Stock Market prior to their March 1998 expiration. Intel's common stock also trades on The Swiss Exchange. At December 25, 1999, there were approximately 238,000 registered holders of common stock. All stock and warrant prices are closing prices per The Nasdaq Stock Market, as adjusted for stock splits.

^D Cost of sales for 1998 reflects the reclassification of amortization of goodwill and other acquisition-related intangibles to a separate line item.

Corporate directory

Board of directors

Gordon E. Moore ^{41 51}
Chairman Emeritus
of the Board

Andrew S. Grove ⁴
Chairman of the Board

Craig R. Barrett ⁴
President and
Chief Executive Officer

John P. Browne ^{1 2}
Group Chief Executive
BP Amoco p.l.c.
An integrated oil company

Winston H. Chen ^{11 2}
Chairman
Paramitas Foundation
A private foundation

D. James Guzy ^{1 3 61}
Chairman
Arbor Company
A limited partnership

David S. Pottruck ^{1 2 5}
President and
Co-Chief Executive Officer
The Charles Schwab
Corporation
A securities brokerage firm

Jane E. Shaw ^{21 3 6}
Chairman and
Chief Executive Officer
AeroGen, Inc.
A private company

Leslie L. Vadasz
Executive Vice President
President,
Intel Capital

David B. Yoffie ^{31 4 5 6 7}
Max and Doris Starr
Professor of International
Business Administration
Harvard Business School

Charles E. Young ^{3 5 6}
Chancellor Emeritus
University of California
at Los Angeles and
Interim President
University of Florida

¹ Member of Audit
Committee

² Member of Compensation
Committee

³ Member of Corporate
Governance Committee

⁴ Member of Executive
Committee

⁵ Member of Finance
Committee

⁶ Member of Nominating
Committee

⁷ Lead Independent
Director

¹ Committee Chairman

Directors emeriti

Max Palevsky
Industrialist

Arthur Rock
Venture capitalist

Corporate officers

Gordon E. Moore
Chairman Emeritus
of the Board

Andrew S. Grove
Chairman of the Board

Craig R. Barrett
President and
Chief Executive Officer

Paul S. Otellini
Executive Vice President
General Manager,
Intel Architecture
Business Group

Gerhard H. Parker
Executive Vice President
General Manager,
New Business Group

Leslie L. Vadasz
Executive Vice President
President,
Intel Capital

Andy D. Bryant
Senior Vice President
Chief Financial and
Enterprise Services Officer

Sean M. Maloney
Senior Vice President
Director,
Sales and Marketing Group

Michael R. Splinter
Senior Vice President
General Manager,
Technology and
Manufacturing Group

Ronald J. Whittier
Senior Vice President
General Manager,
Intel Content Services

Albert Y. C. Yu
Senior Vice President
General Manager,
Microprocessor
Products Group

Michael A. Aymar
Vice President;
President,
Intel Online Services, Inc.

Robert J. Baker
Vice President
General Manager,
Fab/Sort Manufacturing

Louis J. Burns
Vice President
General Manager,
Platform Components Group

Dennis L. Carter
Vice President
Director,
Strategic Marketing

Sunlin Chou
Vice President
General Manager,
Technology and
Manufacturing Group

Mark A. Christensen
Vice President
General Manager,
Network Communications
Group

Jami K. Dover
Vice President
Director,
Worldwide Marketing
Operations

F. Thomas Dunlap, Jr.
Vice President
General Counsel and Secretary

Kirby A. Dyess
Vice President
Director,
New Business Development

Michael J. Fister
Vice President
General Manager,
Enterprise Server Group

Thomas R. Franz
Vice President
General Manager,
Network Processing Group

Patrick P. Gelsing
Vice President
General Manager,
Desktop Products Group

Hans G. Geyer
Vice President
General Manager,
Cellular Communications
Division

D. Craig Kinnie
Vice President
Director,
Intel Architecture Labs

John H. F. Miner
Vice President
General Manager,
Communications
Products Group

Patricia Murray
Vice President
Director,
Human Resources

Stephen P. Nachtsheim
Vice President
Director of Operations,
Intel Capital

Ronald J. Smith
Vice President
General Manager,
Wireless Communications
and Computing Group

Stephen L. Smith
Vice President
General Manager,
IA-64 Processor Division

Arvind Sodhani
Vice President
Treasurer

Appointed officers

Frank Alvarez
Vice President
Technology and
Manufacturing Group
General Manager,
Systems Manufacturing

Shmuel Arditi
Vice President
Wireless Communications
and Computing Group
General Manager,
Cellular Communications
Division

Alan C. Baldwin
Vice President
New Business Group
General Manager,
International Internet Services

John Breslin
Vice President
Sales and Marketing Group
General Manager,
Asia-Pacific Operations

Howard G. Bubb
Vice President
Communications
Products Group;
President,
Dialogic Corporation

Ling I. Bundgaard
Vice President
Technology and
Manufacturing Group
Site Manager,
Philippine Operations

Douglas F. Busch
Vice President
Information Technology
Director,
Information Technology

Anand Chandrasekher
Vice President
Intel Architecture
Business Group
General Manager,
Workstation Products Group

Jason Chun Shen Chen
Vice President
Sales and Marketing Group
General Manager,
Asia-Pacific Operations

David M. Cowan
Vice President
Microprocessor
Products Group
General Manager,
Server and Workstation
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Intel's Investor Relations home page on the Internet contains background on the company and its products, financial information, frequently asked questions and our animated online annual report, as well as other useful information.

For investor information, including additional annual reports, 10-Ks, 10-Qs or any other financial literature, please see our Web site at www.intc.com or contact Harris Trust & Savings Bank at (800) 298-0146 (U.S. and Canada) or (312) 360-5123 (worldwide); or call Intel at (44) 1793 403 000 (Europe); (852) 3955 4555 (Hong Kong); (81) 298 47 8511 (Japan).

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Independent auditors

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Intel and education

Our vision of a billion connected computers around the world can only become a reality if our industry and others continue to be driven by bright, creative, educated employees. We are committed to empowering teachers with the skills and resources necessary to prepare students for success in higher education and the competitive workforce of the 21st century.

Intel now donates more than \$100 million per year to initiatives that support education in math, science and technology. We have a particular goal to provide professional development for 400,000 K-12 math and science teachers by training them how to incorporate computers into their curriculum. Teachers' skills and motivation are critical to improving student achievement in mathematics and science.

We are pleased that Craig Barrett was appointed to the National Commission on Mathematics and Science Teaching for the 21st Century. This area is a priority not just for Intel or our industry, but for the future of the country. As we work to build the Internet economy, we also intend to support the educational initiatives that will make it a success.

Today, Intel supplies the computing and communications industries with chips, boards, systems and software that are the “ingredients” of computers, servers, and networking and communications products. These products are used by industry members to create advanced computing and communications systems. Intel’s mission is to be the preeminent building block supplier to the worldwide Internet economy.

Principal products

■ **Intel® architecture platform products.** Microprocessors, also called central processing units (CPUs) or chips, are frequently described as the “brains” of a computer, because they control the central processing of data in personal computers (PCs), servers, workstations and other computers. Intel offers microprocessors optimized for each segment of the computing market:

- Pentium® III Xeon™ processor for mid-range to high-end servers and workstations
- Pentium® III processor for entry-level servers and workstations and performance desktop PCs
- Intel® Celeron™ processor for value PC desktop systems
- Mobile Pentium® II and Pentium III processors for performance in mobile PC systems

Chipsets perform essential logic functions surrounding the CPU in computers, and support and extend the graphics, video and other capabilities of many Intel processor-based systems.

Motherboards combine Intel microprocessors and chipsets to form the basic subsystem of a PC or server.

■ **Wireless communications and computing products.** These products are component-level hardware and software focusing on digital cellular communications and other applications needing both low-power processing and reprogrammable, retained memory capability (flash memory). These products are used in mobile phones, handheld devices, two-way pagers and many other products.

■ **Networking and communications products.** System-level products consist of hardware, software and support services for e-Business data centers and building blocks for communications access solutions. These products include e-Commerce infrastructure appliances; hubs, switches and routers for Ethernet networks; and computer telephony components.

Component-level products include communications silicon components and embedded control chips designed to perform specific functions in networking and communications applications, such as telecommunications, hubs, routers and wide area networking. Embedded control chips are also used in laser printers, imaging, storage media, automotive systems and other applications.

■ **Solutions and services.** These products and services include e-Commerce data center services as well as connected peripherals and security access software.

Major customers

Intel’s major customers include:

- **Original equipment manufacturers (OEMs)** of computer systems, telecommunications and data communications equipment, and peripherals.
- **PC users**—including individuals, large and small businesses, and Internet service providers—who buy Intel’s PC enhancements, business communications products and networking products through reseller, retail and OEM channels.
- **Other manufacturers**, including makers of a wide range of industrial and communications equipment.

We would like to thank Compaq Computer Corporation, Dell Computer Corporation, International Business Machines Corporation, Nokia Corporation and Psion Incorporated for the use of their products and/or images shown in this report. We would also like to thank International Data Corporation (IDC) for data provided.

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