



FORM 10-K

ADVANCED MICRO DEVICES INC - amd

Filed: March 09, 2004 (period: December 28, 2003)

Annual report which provides a comprehensive overview of the company for the past year

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the fiscal year ended December 28, 2003

OR

[] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the transition period from _____ to _____

Commission File Number 1-7882

ADVANCED MICRO DEVICES, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

94-1692300
(I.R.S. Employer Identification No.)

One AMD Place, Sunnyvale, California
(Address of principal executive offices)

94088
(Zip Code)

(408) 749-4000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Table with 2 columns: (Title of each class) and (Name of each exchange on which registered). Row 1: \$.01 Par Value Common Stock, New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No []

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. []

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes [X] No []

Aggregate market value of the voting stock held by non-affiliates based on the closing price on March 1, 2004 (\$14.89), as reported on the New York Stock Exchange:

\$5,238,679,476

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

351,825,351 shares as of March 1, 2004

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Annual Meeting of Stockholders to be held on April 29, 2004, are incorporated into Part II and III hereof.

AMD, Advanced Micro Devices, AMD Athlon, AMD Duron, AMD Opteron, AMD PowerNow!, Alchemy, and Geode are either our trademarks or our registered trademarks in the United States and/or other jurisdictions. Spanion, FASL, MirrorBit, and combinations thereof, are trademarks of FASL LLC in the United States and/or other jurisdictions. Vantis is a trademark of Lattice Semiconductor Corporation. Legerity is a trademark of Legerity, Inc. Microsoft, Windows, Windows NT and MS-DOS are either registered trademarks or trademarks of Microsoft Corporation in the United States and/or other jurisdictions. MIPS is a registered trademark of MIPS Technologies, Inc. in the United States and/or other jurisdictions. HyperTransport is a licensed trademark of the HyperTransport Technology Consortium. NetWare is a registered trademark of Novell, Inc. in the United States and/or other jurisdictions. Other terms used to identify companies and products may be trademarks of their respective owners.

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PART I

ITEM 1. BUSINESS

Cautionary Statement Regarding Forward-Looking Statements

The statements in this report include forward-looking statements. These forward-looking statements are based on current expectations and beliefs and involve numerous risks and uncertainties that could cause actual results to differ materially from expectations. These forward-looking statements should not be relied upon as predictions of future events as we cannot assure you that the events or circumstances reflected in these statements will be achieved or will occur. You can identify forward-looking statements by the use of forward-looking terminology including “believes,” “expects,” “may,” “will,” “should,” “seeks,” “approximately,” “intends,” “plans,” “pro forma,” “estimates,” or “anticipates” or the negative of these words and phrases or other variations of these words and phrases or comparable terminology. The forward-looking statements relate to, among other things, our ability to be profitable, our revenues, depreciation and amortization, operating results; anticipated cash flows; capital expenditures; gross margins; adequacy of resources to fund operations and capital investments; customer and market acceptance of our AMD Opteron™ and AMD Athlon™ 64 microprocessors, and the AMD64 technology upon which they are based; customer and market acceptance of FASL LLC’s Spansion™ Flash memory products based on MirrorBit™ and floating gate technology; the ability to produce these products in the volumes required by the market at acceptable yields and on a timely basis; our and FASL LLC’s ability to maintain the level of investment in research and development that is required to remain competitive; our and FASL LLC’s ability to transition to new products and technologies in a timely and effective way; our and FASL LLC’s ability to achieve cost reductions in the amounts and in the timeframes anticipated; our ability to produce microprocessors in the volume required by customers on a timely basis; our ability to maintain or improve average selling prices of our products despite aggressive marketing and pricing strategies of our competitors; our ability, and the ability of third parties, to provide timely infrastructure solutions, such as motherboards and chipsets, to support our microprocessors; the process technology transitions in our wafer fabrication facilities located in Dresden, Germany (Fab 30) and FASL LLC’s wafer fabrication facilities in Austin, Texas (Fab 25) and in Aizu-Wakamatsu, Japan (JV1, JV2 and JV3); and the financing and construction of our 300-millimeter wafer fabrication facility (Fab 36) in Dresden, Germany. For a discussion of the factors that could cause actual results to differ materially from the forward-looking statements, see the “Financial Condition” and “Risk Factors” sections set forth in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” beginning on page 20 below and such other risks and uncertainties as set forth below in this report or detailed in our other Securities and Exchange Commission reports and filings.

General

We are a semiconductor manufacturer with manufacturing facilities in the United States, Europe and Asia and sales offices throughout the world. We design, manufacture and market industry-standard digital integrated circuits that are used in many diverse product applications such as desktop and mobile personal computers, or PCs, workstations, servers, communications equipment and automotive and consumer electronics. Our products include microprocessors, Flash memory devices and embedded microprocessors for personal connectivity devices, which we refer to as our Personal Connectivity Solutions, or PCS, products.

Developments in 2003

During 2003, we endeavored to position our company to take advantage of anticipated growth opportunities within the semiconductor market and anticipated increased demand for semiconductor products in 2004. In April 2003, we introduced our AMD Opteron microprocessors for servers and workstations, and in September 2003, we introduced our AMD Athlon 64 microprocessors for desktop and mobile PCs. We designed these high-performance microprocessors for both 32-bit and 64-bit processing, enabling users to protect their information technology investments by continuing to use their 32-bit software applications while implementing 64-bit software applications on the timetable of their choice.

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In order to meet anticipated demand for these and other advanced microprocessor products, we are constructing a new 300-millimeter wafer fabrication facility. This facility, Fab 36, will be located in Dresden, Germany, adjacent to our existing manufacturing facility, Fab 30.

In addition, in order to respond more quickly to changes in market trends in the Flash memory market and improve efficiencies in the production, marketing and design of our Flash memory products, we and Fujitsu Limited formed a new entity named FASL LLC, effective June 30, 2003. We own 60 percent of FASL LLC while Fujitsu owns 40 percent. Accordingly, as of June 30, 2003, we began consolidating the results of FASL LLC's operations. FASL LLC is headquartered in Sunnyvale, California, and its manufacturing, research, test, and assembly operations are in the United States and Asia. FASL LLC engages in the research, development, manufacture, marketing, and promotion of Flash memory products, which it markets under the Spansion global product brand name. We and Fujitsu are the distributors of FASL LLC's Spansion Flash memory products. As part of this transaction, we contributed to FASL LLC our Flash memory inventory, our manufacturing facility located in Austin, Texas, known as Fab 25, our Flash memory research and development facility in Sunnyvale, California, known as the Submicron Development Center, or SDC, and our Flash memory assembly and test operations in Thailand, Malaysia and China. Fujitsu contributed its Flash memory division, including related inventory, cash, and its Flash memory assembly and test operations in Malaysia. In addition, both we and Fujitsu contributed our respective investments in our previous manufacturing joint venture, Fujitsu AMD Semiconductor Limited, located in Aizu-Wakamatsu, Japan, which became part of a wholly owned subsidiary of FASL LLC named FASL JAPAN LIMITED, or FASL JAPAN. In this report we refer to the previous manufacturing joint venture with Fujitsu as the Manufacturing Joint Venture.

As part of the transaction, we entered into various contracts with FASL LLC and Fujitsu, including a non-competition agreement pursuant to which we agreed that we would not engage in the development, production, manufacture, marketing, distribution, promotion or sale of Flash memory devices outside of FASL LLC; a patent cross-license agreement pursuant to which each party has been granted a non-exclusive license under the other party's respective licensed patents for the manufacture and sale of semiconductor products worldwide; services agreements pursuant to which we agreed to provide, among other things, certain information technology, facilities, logistics, legal, tax, finance, human resources, and environmental, health and safety services to FASL LLC; and a distribution agreement pursuant to which we obtained the right to distribute Spansion Flash memory products. The term of the distribution agreement is indefinite, subject to termination by mutual agreement of the parties, upon failure to cure a material breach or upon termination of the limited liability company operating agreement that governs FASL LLC, unless otherwise agreed to by the parties.

Additional Information

We were incorporated under the laws of Delaware on May 1, 1969. Our mailing address and executive offices are located at One AMD Place, Sunnyvale, California 94088, and our telephone number is (408) 749-4000. With the exception of the sections of this report that discuss financial data, which is presented on a consolidated basis, references in this report to "AMD," "we" and "us" include our subsidiaries, but, unless otherwise indicated, do not include FASL LLC or its subsidiaries. We post on the Investor Relations page of our Web site, www.amd.com, our filings with the SEC, our Corporate Governance Guidelines, our Code of Ethics for our Chief Executive Officer, Chief Financial Officer, Corporate Controller and other senior finance executives, our other Code of Ethics entitled "Worldwide Standards of Business Conduct," for our directors and employees, and the charters of our Audit, Nominating and Corporate Governance and Compensation Committees. Our filings with the SEC are posted as soon as reasonably practical after they are filed electronically with the SEC. You can also obtain copies of these documents by writing to us at: Corporate Secretary, AMD, One AMD Place, M/S 68, Sunnyvale, California 94088, or emailing us at Corporate.Secretary@amd.com. All such documents and filings are available free of charge.

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For financial information about geographic areas and for segment information with respect to sales and operating results, refer to the information set forth in Note 9 of our consolidated financial statements on page 83, below.

For a discussion of the risk factors related to our business operations, please see the sections entitled, "Cautionary Statement Regarding Forward-Looking Statements," above, and the "Risk Factors" and "Financial Condition" sections set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations," beginning on page 20, below.

The Integrated Circuit Market

The integrated circuit market has grown dramatically over the past two decades, driven primarily by the demand for electronic business and consumer products. Today, virtually all electronic products use integrated circuits, including PCs and related peripherals, wired and wireless voice and data communications and networking products, including cellular phones, facsimile and photocopy machines, printers, home entertainment equipment, industrial control equipment and automobiles.

The market for integrated circuits can be divided into separate markets for digital and analog devices. We participate in the market for digital integrated circuits. The three types of digital integrated circuits used in most electronic systems are:

- microprocessors, which are used for control and computing tasks, and complementary chipset devices, which perform essential logic functions that support the microprocessors;
- memory circuits, which are used to store data and programming instructions; and
- logic circuits, which are employed to manage the interchange and manipulation of digital signals.

Within the digital integrated circuit market, we participate primarily in the microprocessor and Flash memory markets. In addition, we participate in the embedded processor market for personal connectivity devices.

Computation Products

The Microprocessor Market

A microprocessor is a silicon integrated circuit that serves as the central processing unit, or CPU, of a computer. It generally consists of millions of transistors that process data and control other devices in the system, acting as the brain of the computer. The performance of a microprocessor is typically a critical factor impacting the performance of a PC and other similar devices. The indicators of microprocessor performance are work-per-cycle, or how many instructions are executed per cycle, and clock speed, representing the rate at which its internal logic operates, measured in units of hertz, or cycles processed per second. Other factors of microprocessor performance include the amount of memory storage and the speed at which data stored in memory can be accessed. Developments in circuit design and manufacturing process technologies have resulted in dramatic advances in microprocessor performance over the past two decades. With the introduction of our AMD Athlon XP processor in October 2001, we began positioning our processors based on overall performance, which is a function of both architecture and clock speed. We believe overall performance is a better indicator of CPU capability than simply clock speed.

Improvements in the performance characteristics of microprocessors and decreases in production costs resulting from advances in manufacturing process technology as well as a corresponding decrease in selling prices have increased the demand for microprocessors over time. The greatest demand for microprocessors today is from PC manufacturers. With few exceptions, these manufacturers require x86 microprocessors that are compatible with the Microsoft® Windows® operating system.

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The microprocessor market is characterized by short product life cycles and migration to ever-higher-performance microprocessors. To compete successfully in this market, we must transition to new process technologies at a fast pace and offer higher-performance microprocessors in significantly greater volumes. We also must achieve manufacturing yield and volume goals while producing these microprocessors in order to sell them at competitive prices. For more information about competition in the microprocessor market, see the section entitled "Competition," below.

We believe that worldwide demand for PC microprocessors will increase in 2004 compared with 2003. Factors that we believe will stimulate growth in the demand for PC microprocessors include an anticipated replacement cycle for older PC systems, lower-priced PC systems, enhanced product features, strategic purchases of new PC systems to deploy new tools and technologies, and improved economic conditions.

Microprocessor Products

We currently offer microprocessor products for desktop and mobile PCs, servers and workstations. Our microprocessors are based on the x86 architecture. In addition, we design them based on a superscalar reduced instruction set computer, or RISC, architecture. RISC architecture allows microprocessors to perform fewer types of computer instructions thereby allowing the microprocessor to operate at a higher speed. We also design our microprocessors to be compatible with operating system software such as Windows XP, Windows 2000, Windows NT[®], Windows 98 (and Windows predecessor operating systems), Linux, NetWare[®] and UNIX.

Our microprocessors for desktop PCs consist of four product brands: AMD Athlon 64 FX, AMD Athlon 64, AMD Athlon XP, and AMD Duron[™] processors. We introduced the first Windows-compatible, x86 architecture-based 64-bit PC processor, the AMD Athlon 64 microprocessor, in September 2003, an introduction date that we changed from our originally stated date due to a combination of factors, including the features and functionality of these new processors in comparison to our existing PC processors, AMD Athlon XP, the fact that demand for our AMD Athlon XP processors was greater than expected, and the state of the microprocessor market at the time the introduction was planned. AMD Athlon 64 processors are based on the AMD64 technology platform, which extends the industry-standard x86 instruction set architecture to 64-bit computing. We designed our AMD Athlon 64 processors to run both 32-bit and 64-bit applications simultaneously, enabling users to protect their information technology investments by continuing to use their 32-bit software applications while implementing 64-bit applications on the timetable of their choice. We design our AMD Athlon 64 processors for sophisticated PC users and businesses that seek to access large amounts of data and physical memory. Simultaneously with our introduction of the AMD Athlon 64 processor, we introduced the AMD Athlon 64 FX processor, designed specifically for gamers, PC enthusiasts and digital content creators who require products that can perform graphic-intensive tasks. We design our AMD Athlon XP processors for the value market and offer PC users and small to medium businesses affordable processors that can meet their core computing needs. We also design AMD Duron processors, which we sell primarily in cost-sensitive emerging markets. Most of our microprocessor product sales in 2003 were of our AMD Athlon XP microprocessors.

Our microprocessors for the mobile computing market consist of mobile AMD Athlon 64 processors and AMD Athlon XP-M processors. Our original equipment manufacturer, or OEM, customers incorporate these processors into a variety of notebook designs, including full-size and thin-and-light notebooks. We have designed mobile processor products for high-performance computing and wireless connectivity. They feature advanced power management from AMD PowerNow![™] technology which offers reduced power consumption and extended system battery life. During 2003, we primarily provided mobile computing products for the full-size or desktop-replacement segment of the mobile computing market. Our strategy for 2004 is to expand our product portfolio to address the thin-and-light segment of the mobile computing market and increase our share in the full-size segment of this market.

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Our x86 microprocessors for servers and workstations consist of the AMD Opteron and AMD Athlon MP processors. A server is a powerful computer on a network that is dedicated to a particular purpose and stores large amounts of information and performs the critical functions for that purpose. A workstation is essentially a heavy-duty desktop, designed for tasks like computer-aided design. We introduced our first 64-bit microprocessor for servers and workstations, the AMD Opteron processor, in April 2003, an introduction date that we changed from our originally planned date due to a combination of factors, including the state of the microprocessor market at the time the introduction was planned and our plans to introduce these products on 130-nanometer silicon-on-insulator, or SOI, manufacturing process technology. Like the AMD Athlon 64 processors, the AMD Opteron processors for servers and workstations are based on the AMD64 technology and are designed to run both 32-bit and 64-bit applications simultaneously. AMD Opteron processors are the first processors to extend the industry-standard x86 instruction set architecture to 64-bit computing. AMD Opteron processors are available in one- to eight-way servers that can be used in a variety of server applications, including business processing (enterprise resource planning, customer relationship management, and supply chain management) and business intelligence. AMD Opteron processors are also available in one- to four-way workstation solutions that can be used in workstation applications such as engineering and digital content creation software, and other information technology infrastructure applications such as intensive Web serving and messaging.

Our AMD Opteron and AMD Athlon 64 processors support HyperTransport™ technology, which is a high-bandwidth communications interface we developed, as well as integrated memory controllers that enable substantially higher performance than existing, non-integrated memory controller architectures. We expect our advanced architecture to provide users with even greater performance improvements as operating systems and software applications begin leveraging the benefits of our 64-bit architecture. To that end, in April 2002, we announced a collaboration with Microsoft to incorporate 64-bit support into the Windows operating system. Microsoft has indicated that they intend to release the 64-bit version of Windows XP in 2004. We believe that the backward compatibility of these processors will allow users to migrate more easily from current 32-bit operating systems and applications to future 64-bit operating systems and applications on a common hardware platform.

We also sell chipset products and make available motherboard reference design kits, designed to support our microprocessors for use in PCs and embedded products. A chipset provides the interface between all of a PC's subsystems and sends data from the microprocessor to all the input/output and storage devices, such as the keyboard, mouse, monitor and hard drive. The primary reason we offer these products to our customers is to provide them with a solution that will allow them to use our microprocessors and develop and introduce their products into the market more quickly. We report the revenue from sales of our chipset products in our Computation Products segment.

We believe the key factors impacting our ability to increase microprocessor revenues in 2004 are: our ability to increase market acceptance of our AMD Opteron and AMD Athlon 64 processors and to produce them in a timely manner on new process technologies, including 90-nanometer SOI technology, in the volume and with the performance and feature set required by customers; market acceptance of the newest versions of our AMD Athlon XP processors; growth in unit shipments of our microprocessor products; and our ability to maintain or increase average selling prices for our microprocessor products.

In 2004, one of our goals is to increase market acceptance of our AMD64 technology, particularly in the enterprise segment. To that end we intend to focus on developing and introducing products for the server and workstation markets and increasing our share of these markets. Although we will continue to provide our AMD Athlon MP products pursuant to market demand, we intend to concentrate on developing and producing new versions of our AMD Opteron microprocessors for these markets.

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Memory Products

Flash Memory Market

Memory circuits store data and instructions and are characterized as either volatile or non-volatile. Volatile devices lose stored information after electrical power is shut off while non-volatile devices retain stored information. Volatile memory integrated circuits primarily consist of Dynamic Random Access Memory, or DRAM, devices and Static Random Access Memory, or SRAM, devices. Non-volatile memory integrated circuits include Flash memory, Read-Only Memory, or ROM, Erasable Programmable Read-Only Memory, or EPROM, and Electrically Erasable Programmable Read-Only Memory, or EEPROM, devices.

Flash memory devices have a size and cost advantage over EEPROM devices, which utilize a larger, more expensive memory cell. Flash memory devices also provide greater flexibility and ease of use when compared to other non-volatile memory devices, such as ROM and EPROM, because Flash memory devices can be electrically rewritten to update parameters or system software. ROM devices cannot be rewritten and EPROM devices require information to be erased using ultraviolet light before they can be rewritten. The Flash memory market has grown significantly in recent years. In particular, the increasing use and functionality of consumer electronics such as cellular phones, MP3 players, DVD players, digital cameras, and personal storage USB drives has contributed to an increasing demand for Flash memory devices.

There are two major types of Flash memory employed in the non-volatile memory market today: Boolean logic-based NOR (Not Or) Flash memory and NAND (Not And) Flash memory. NOR Flash memory is generally more reliable than NAND and less prone to data corruption. NOR Flash memory is typically used to store program code in communication devices such as cellular telephones, and consumer products such as DVD players. NAND Flash memory has generally been less expensive to manufacture and is typically used in devices that require high-capacity data storage such as memory cards for digital cameras and MP3 players. Within the Flash memory market, we sell primarily NOR Spansion Flash memory-based products. In 2003, we also sold a very limited number of our EPROM devices. Sales of EPROM devices have been steadily declining for the past few years as customers switch over to Flash memory devices. In 2004, we will continue to sell our existing inventory of EPROM products. However, we expect these sales to be minimal and we do not intend to manufacture any new EPROM products in 2004.

Flash Memory Products

Our Spansion Flash memory products encompass a broad spectrum of densities and features to address the wireless mobile handset and embedded systems markets. These products are used in cellular telephones, consumer electronics, automotive electronics, networking equipment and other applications that require memory to be non-volatile and electrically rewritten. Our Spansion Flash memory products may be categorized into two main technologies: floating gate technology and MirrorBit technology.

Spansion Flash memory products using conventional floating gate technology are available in densities from one megabit to 128 megabits. A conventional memory cell includes a transistor having a source and a drain and a control gate to regulate the current flow between the source and the drain, thereby defining whether the memory cell stores a "0" bit or a "1" bit. Floating gate technology is memory cell technology in which the memory cell includes a "floating gate" between the control gate and the source and drain. Adding or removing charge from the floating gate changes the threshold voltage of the cell. Products using conventional floating gate technology are typically used for their non-volatile code storage and code execution as well as their ease of in-system re-programmability. These products are designed to meet the requirements of a range of Flash memory market segments, from the low-end, low-density value segment to the high-performance, high-density wireless segment.

Spansion Flash memory products also include devices based on MirrorBit technology, a proprietary technology that stores two bits of data in a single memory cell thereby doubling the density, or storage capacity, of each memory cell. Products based on MirrorBit technology require fewer wafer fabrication process steps to

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manufacture and have simpler layouts compared to products based on single-bit-per-cell or multi-level-cell floating gate technology. As a result, MirrorBit technology can contribute to a smaller die size and improved production yields. Due to these characteristics, for a given density, products based on MirrorBit technology can be less expensive to produce than products based on conventional floating gate single-bit-per-cell or multi-level cell technology. We believe MirrorBit technology gives us an advantage in the manufacturing of these products equivalent to one lithography node over multi-level cell solutions and two lithography nodes over single-bit-per-cell solutions. Lithography is a process technology used in the manufacture of integrated circuits. In addition, we believe MirrorBit technology enables the production of NOR Flash memory products at higher densities than are commercially viable using single bit-per-cell technology.

Spansion Flash memory products using first-generation MirrorBit technology are manufactured using 230-nanometer process technology and are available in densities ranging from 16 megabits through 256 megabits. In September 2003, FASL LLC announced the availability of engineering samples of the first 512 megabit NOR Flash memory product based on its second-generation MirrorBit technology. We believe this high density product will enable designers to create large memory arrays, simplify existing designs by using only a single device, and reduce costs by migrating from floating gate technology-based products. In 2004, products based on second-generation MirrorBit technology will be manufactured using primarily 110-nanometer process technology. We believe manufacturing costs for NOR Flash memory products based on MirrorBit technology that are manufactured using 110-nanometer process technology are similar to or lower than manufacturing costs for comparable products based on conventional floating gate multi-level cell technology that are manufactured using 90-nanometer process technology.

Spansion Flash memory products implement different architectures to address different customer requirements. These different architectures may be supported on floating gate technology as well as on MirrorBit technology. We address demand for lower-performance customer applications by providing asynchronous access products with slower read speeds. We address demand for higher-performance products by providing advanced architecture products that support faster burst-mode and page-mode read interfaces. Burst-mode products allow fast access to data in a continuous sequential operation, while page-mode products allow fast random access to data within a page. The wireless market in particular currently demands such high-performance solutions. We intend to continue to address the growing performance requirements of our customers in this market by expanding our product offerings and improving our products' performance. In addition to a high-performance architecture, Spansion products may also include benefits such as Advanced Sector Protection, which improves security, and simultaneous read/write, which improves system performance.

We also offer Flash memory in multi-chip packages, or MCPs, across a range of densities. Currently, the largest consumers of Flash memory devices are mobile phone manufacturers. Mobile phone manufacturers require devices that allow them to make feature-rich products in small packages. They are especially interested in MCPs due to the single, space-saving package, low power consumption, and high performance. Our MCP products incorporate Spansion Flash memory devices ranging from 16 megabits to 128 megabits and non-Flash memory die, such as SRAM devices, which FASL LLC purchases from outside vendors, ranging from two megabits to 64 megabits. We intend to continue to provide new products for this growing market, and we expect sales of MCP products to increase in 2004 in comparison to 2003.

We believe that the key factors impacting our ability to increase Flash memory product revenues in 2004 are the continued market acceptance of MirrorBit technology, our ability to maintain or increase average selling prices for Spansion Flash memory products, and growth in unit shipments of these Flash memory products. In addition, FASL LLC's ability to successfully transition to 110-nanometer process technologies for specified Flash memory products and its ability to successfully increase manufacturing capacity at its fabrication, assembly and test facilities are key factors impacting our ability to increase Flash memory product revenues.

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Other Products and Services

Personal Connectivity Solutions Products

We offer low-power, high-performance embedded microprocessor products for personal connectivity devices. Our PCS products include low-power x86 and MIPS[®] architecture-based embedded processors. We design these processors to address customer needs in the non-PC Internet appliance market. Typically these processors are used in products that require high to moderate levels of performance where key features include reduced cost, mobility and compactness. Products that use our embedded processors also often have limited user interfaces and programmability when compared to PCs and servers.

In August 2003, we acquired the Geode[™] family of microprocessor products from National Semiconductor Corporation. The Geode technology integrates complex functionality, such as processing, system logic, graphics, and audio and video decompression on to one integrated device. AMD Geode microprocessors are based on the x86 architecture and are optimized for power and performance. We target our AMD Geode processors for four main market segments: computer systems commonly referred to as “enterprise-thin clients” with low power consumption and minimal memory that leverage application software from a centralized server; low-cost network appliances; set-top boxes; and personal access devices. With the AMD Geode family of microprocessors, we are able to extend the range of our x86-based product offerings to serve markets from embedded appliances to high-end servers.

We develop our AMD Alchemy[™] embedded processors for portable media players, Internet access points, and gateways in which low-power consumption is a key factor. All of these products have an architecture that provides a 32-bit MIPS instruction set. They support Microsoft Windows, CE.NET, Linux, VxWorks, and other operating systems.

We believe that our PCS products offer our customers faster time to market and lower product costs. Our strategy is to continue providing cost-effective PCS products that our customers can deploy quickly in their applications.

Foundry Services

Prior to 2003, we provided foundry services to our former voice communications products subsidiary, Legerity, Inc., and to our former programmable logic devices subsidiary, Vantis Corporation. We had no revenue from these services in 2003 and will not have any revenue for these services in the future.

Research and Development; Manufacturing Process Technology

Manufacturing process technology is a key determinant in the improvement of most semiconductor products. Each new generation of manufacturing process technology has resulted in products with greater performance. We have devoted significant resources to developing and improving manufacturing process technologies used in the production of our products. In order to remain competitive, we must continue to maintain our process technology leadership. In particular, we have made and continue to make significant investments in manufacturing process technologies and in strategic relationships with industry-leading companies relating to manufacturing process technology development. We may not realize our expected return on these investments if we fail to increase market acceptance for our products, if the market for our microprocessor or Flash memory products should significantly deteriorate or if we are unable to realize the full benefit of our strategic relationships. In addition, if we are unable to remain competitive with respect to process technology, we will be materially and adversely affected.

Our efforts concerning research and development of advanced process technologies are focused on logic technology used for manufacturing our microprocessors. FASL LLC's efforts concerning research and development of advanced process technologies are focused on non-volatile memory technology used for

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manufacturing Spansion Flash memory products. In December 2002, we executed an agreement with IBM to jointly develop new logic process technologies, particularly 65- and 45-nanometer technologies to be implemented on 300-millimeter silicon wafers, for use in producing future high-performance microprocessor products. The joint development agreement terminates on December 31, 2005 and may be extended by the mutual agreement of the parties. The agreement can also be terminated immediately by either party if the other party permanently ceases doing business, becomes bankrupt or insolvent, liquidates or undergoes a change of control, or terminated upon 30 days written notice upon a failure to perform a material obligation thereunder. The new process technologies are being developed at an IBM facility in New York and are aimed at improving microprocessor performance and reducing power consumption. The new process technologies will be based on advanced structures and materials such as high-speed SOI transistors, copper interconnects and improved "low-k dielectric" insulation. During 2002 and 2003, we paid approximately \$190 million to IBM in connection with agreements and services related to research and development activities. In addition, in December 2003, we entered into license and consulting services agreements with IBM pursuant to which we licensed technology and know-how developed by IBM in connection with manufacturing products on 300-millimeter silicon wafers. In addition, some development work for logic process technologies took place at Fab 30. Research and development with respect to non-volatile memory technology used for manufacturing Spansion Flash memory products is conducted primarily at FASL LLC's SDC facility located in Sunnyvale, California and at its facilities in Japan. Currently, FASL LLC is developing new non-volatile memory process technology, including 90-nanometer floating gate technology and 90-nanometer MirrorBit technology utilizing three-layer copper interconnect.

Our expenses for research and development were \$852 million in 2003, \$816 million in 2002, and \$651 million in 2001. These expenses represented 24 percent of consolidated net sales in 2003, 30 percent of consolidated net sales in 2002, and 17 percent of consolidated net sales in 2001.

As of year-end 2003, all of our microprocessors were manufactured using our 130-nanometer process technology on 200-millimeter wafers at Fab 30. In 2004, we expect to convert our microprocessor manufacturing to primarily 90-nanometer process technology. We believe that use of 90-nanometer technology will allow us to provide products that are higher performing, use less power, and that cost less to manufacture.

In November 2003, we announced our intention to construct and facilitate a 300-millimeter wafer fabrication facility, Fab 36. Fab 36 will be owned by a newly created partnership named AMD Fab 36 Limited Liability Company & Co. KG, or AMD Fab 36, and will be located in Dresden, Germany, adjacent to Fab 30. We control the management of AMD Fab 36 through a wholly owned Delaware subsidiary, AMD Fab 36 LLC, which is a general partner of AMD Fab 36. We expect that Fab 36 will produce future generations of our microprocessor products, and that it will be in volume production in 2006. We believe using 300-millimeter wafers will decrease the manufacturing costs for certain of our microprocessor products and increase our capacity for producing these products because it allows us to produce more equivalent chips per wafer than 200-millimeter wafers.

FASL LLC's Flash memory device production at year-end 2003 was on 130-, 170-, 230- and 320-nanometer process technologies. During 2004, FASL LLC intends to transition some of its Flash memory devices to production on 110-nanometer process technology with the goal that by the end of 2004, Fab 25 and JV3 will employ mostly 110-nanometer technology. In addition, we believe that the demand for our Flash memory products will increase in 2004. Therefore, FASL LLC intends to increase manufacturing capacity at its wafer fabrication facilities.

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Manufacturing, Assembly and Test Facilities

Our microprocessor fabrication and FASL LLC's Flash memory fabrication is conducted at the facilities described in the chart below:

Facility Location	Wafer Size (Diameter in Inches)	Production Technology (in Nanometers)	Approximate Clean Room (Square Footage)
<i>Computation Products</i>			
Dresden, Germany Fab 30	8	130	150,000
<i>Flash Memory Products</i>			
Austin, Texas Fab 25	8	130 and 170	120,000
Aizu-Wakamatsu, Japan JV1	8	230 and 320	70,000
JV2	8	230	91,000
JV3	8	130 and 170	118,000

We also have foundry arrangements with third parties for the production of our Personal Connectivity Solutions and chipset products.

The current assembly and test facilities for our microprocessor products are described in the chart set forth below:

Facility Location	Approximate Facility Square Footage	Activity
Penang, Malaysia	239,000 ⁽¹⁾	Assembly & Test
Singapore	234,000 ⁽²⁾	Test

(1) Of the total 239,000 square feet, approximately 127,000 square feet is devoted to administrative offices.

(2) Of the total 234,000 square feet, approximately 40,000 square feet is devoted to administrative and sales offices.

Some assembly and final testing of our microprocessor products is also performed by subcontractors in the United States and Asia.

The current assembly and test facilities for FASL LLC's Spansion Flash memory products are described in the chart set forth below:

Facility Location	Approximate Assembly & Test Square Footage	Activity
Bangkok, Thailand	78,000	Assembly & Test
Kuala Lumpur, Malaysia	71,300	Assembly & Test
Penang, Malaysia	71,000	Assembly & Test
Suzhou, China	30,250	Assembly & Test

Some assembly and final testing of FASL LLC's products is performed by subcontractors in Asia, including Fujitsu's final assembly and testing facility in Kyushu, Japan.

The political and economic risks associated with operations in foreign countries include:

- expropriation;
- changes in a specific country or region's political or economic conditions;

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- trade protection measures and import or export licensing requirements;
- difficulty in protecting our intellectual property;
- changes in foreign currency exchange rates and currency controls, which may impact, among other things our gross margins;
- changes in freight and interest rates;
- disruption in air transportation between the United States and our overseas facilities; and
- loss or modification of exemptions for taxes and tariffs.

In 2004, we plan to make additional capital investments in our assembly and test facilities.

Certain Material Agreements. Descriptions of certain material contractual relationships we have relating to FASL LLC are set forth on page 2, above, and page 14, below, and relating to Fab 30 are set forth on page 34, below. A description of our principal contractual relationships with IBM is set forth on page 9, above.

Competition

The integrated circuit industry is intensely competitive. Products compete on performance, quality, reliability, price, adherence to industry standards, software and hardware compatibility, marketing and distribution capability, brand recognition and availability. Technological advances in the industry result in frequent product introductions, regular price reductions, short product life cycles and increased product capabilities that may result in significant performance improvements.

In each area of the digital integrated circuit markets in which we participate, we face competition from different companies.

Competition in the Microprocessor Market

Intel has dominated the market for microprocessors used in desktop and mobile PCs for many years. Intel is also a significant competitor in the server segment of the microprocessor market. Because of its dominant position, Intel has also been able to control x86 microprocessor and PC system standards and dictate the type of products the microprocessor market requires of Intel's competitors. In addition, Intel's significant financial resources allow it to market its products aggressively, to target our customers and our channel partners with special incentives, and to discipline customers who do business with us. These aggressive activities can result in lower unit sales and average selling prices for us and adversely affect our margins and profitability. Intel also exerts substantial influence over PC manufacturers and their channels of distribution through the "Intel Inside" brand program and other marketing programs. As long as Intel remains in this dominant position, we may be materially and adversely affected by its:

- pricing and allocation strategies and actions;
- product mix and introduction schedules;
- product bundling, marketing and merchandising strategies;
- exclusivity payments to its current and potential customers;
- control over industry standards, PC manufacturers and other PC industry participants, including motherboard, chipset and basic input/output system, or BIOS, suppliers; and
- user brand loyalty.

Intel also dominates the PC system platform. As a result, PC OEMs are highly dependent on Intel, less innovative on their own and, to a large extent, are distributors of Intel technology. In marketing our

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microprocessors to OEMs, we depend on third-party companies other than Intel for the design and manufacture of core-logic chipsets, graphics chips, motherboards, BIOS software and other components. In recent years, many of these third-party designers and manufacturers have lost significant market share to Intel or exited the business. In addition, these companies produce chipsets, motherboards, BIOS software and other components to support each new generation of Intel's microprocessors, and Intel has significant leverage over their business opportunities.

We do not currently plan to develop microprocessors that are bus interface protocol compatible with Intel microprocessors because our patent cross-license agreement with Intel does not extend to microprocessors that are bus interface protocol compatible with Intel's sixth and subsequent generation processors. Thus, our microprocessors are not designed to function with motherboards and chipsets designed to work with Intel microprocessors. Our ability to compete with Intel in the market for microprocessors will depend on our ability to continue to develop relationships with infrastructure providers and ensure that these third-party designers and manufacturers design PC platforms to support new generations of our microprocessors. A failure of the designers and producers of motherboards, chipsets and other system components to support our microprocessor offerings, particularly our new AMD Athlon 64 and AMD Opteron processors, would have a material adverse effect on us.

Similarly, we offer OEMs and partners motherboard reference design kits designed to support our processors. The primary reason we offer these products is to provide our customers with a solution that will allow them to use our microprocessors and develop and introduce their products in the market more quickly. We cannot be certain, however, that our efforts will be successful.

We expect Intel to maintain its dominant position in the microprocessor market and to continue to invest heavily in research and development, new manufacturing facilities and other technology companies. Intel has substantially greater financial resources than we do and accordingly spends substantially greater amounts on research and development than we do. We expect competition from Intel to increase in 2004 and beyond to the extent Intel reduces the prices for its products and as Intel introduces new products. For example, in February 2004, Intel announced that it intends to introduce 64-bit processors for servers and workstations that will be able to run existing 32-bit software applications in mid-2004. We believe that these processors will compete with our AMD Opteron microprocessors. In addition, Intel announced that it will offer 64-bit processors for the desktop market and other market segments that will be able to run existing 32-bit software applications in a time frame based on both timing and availability of the infrastructure required to support them, and customer demand. These products would compete with our AMD Athlon 64 microprocessors. Moreover, Intel currently manufactures certain of its microprocessor products on 300-millimeter wafers using 90-nanometer process technology. Use of 90-nanometer technology can result in products that are higher performing, use less power and that cost less to manufacture. Use of 300-millimeter wafers can decrease manufacturing costs and increase capacity by yielding more equivalent chips per wafer than 200-millimeter wafers. We have not yet made comparable transitions at our microprocessor manufacturing facilities. As a result, we may be more vulnerable to Intel's aggressive pricing strategies for microprocessor products. Intel's strong position in the microprocessor market, its existing relationships with top-tier OEMs and its aggressive pricing strategies could result in lower unit sales and average selling prices for our products, which could adversely affect our revenues.

Competition in the Flash Memory Market

With respect to Flash memory products, our principal competitors are Intel, Samsung, Toshiba, STMicroelectronics N.V., Sharp Electronics Corporation, Renesas Technology, Silicon Storage Technology, and Macronix International. We expect competition in the market for Flash memory devices to increase in 2004 and beyond as existing manufacturers introduce new products and industry-wide production capacity increases. Furthermore, in 2003, NAND vendors gained an increasing share of the overall Flash memory market. If further significant improvements in NAND technology occur in the future, applications currently using NOR technology may transition to NAND technology. As a result, NAND vendors may gain a substantial share of the overall Flash memory market.

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Competition With Respect to Our Other Products

With respect to PCS products, our principal competitors are Hitachi, Intel, Motorola, Inc., NEC Corporation, Toshiba, Transmeta, and Via Technologies. We expect competition in the market for PCS devices to increase in 2004 as our principal competitors focus more resources on developing low-power embedded solutions.

Marketing and Sales

We market and sell our products, other than Flash memory products, under the AMD trademark. We employ a direct sales force through our principal facilities in Sunnyvale, California, and field sales offices throughout the United States and abroad, primarily Europe and Asia Pacific. We also sell our products through third-party distributors and independent representatives in both domestic and international markets pursuant to non-exclusive agreements. Distributors also sell products manufactured by our competitors. In 2003, one of our distributors, Avnet, Inc., accounted for approximately 13 percent of our consolidated net sales. Avnet primarily purchases our microprocessor products. Also in 2003, Fujitsu Limited accounted for approximately 13 percent of our consolidated net sales. Fujitsu primarily purchases Spansion Flash memory products from FASL LLC. No distributor accounted for ten percent or more of our consolidated net sales in 2002 and 2001. No OEM customer accounted for ten percent or more of our consolidated net sales in 2003, 2002 or 2001.

FASL LLC's Flash memory products are marketed and sold under the Spansion trademark. We and Fujitsu act as distributors of Spansion Flash memory products and receive a commission from FASL LLC. We distribute Spansion products in the same manner as we sell our other products, through our direct sales force and through third-party distributors and independent representatives.

We market our products through our direct marketing and co-marketing programs. Our direct marketing activities include print and Web-based advertising as well as consumer and trade events and other industry and consumer communications. In 2003, we primarily focused our direct marketing activities on the launch of our AMD Opteron and AMD Athlon 64 microprocessor products and the AMD64 technology platform. In addition, we have cooperative advertising and marketing programs with our customers, including market development programs. Under these programs, eligible customers can use market development funds in partial reimbursement for advertisements and marketing programs related to our products.

We intend to build upon our position as a global supplier of integrated circuits by expanding our focus to include emerging global markets. In 2003, we focused on expanding our participation in China's microprocessor, embedded processor and Flash memory markets, and we expect to continue these efforts in 2004. For example, in order to strengthen and consolidate our efforts in China, effective in February 2004, we established a new entity, Advanced Micro Devices (China) Co., Ltd., which will serve as our regional headquarters in the region. We also established relationships with OEMs such as Dawning Information Industry Corp. Ltd., a server manufacturer in China. These activities expanded on our existing investments in China, including FASL LLC's Flash memory assembly and test facility in Suzhou.

Distributors typically maintain an inventory of our products. Generally, we sell to distributors under terms allowing the distributors certain rights of return and price protection on any inventory of our products held by them. We defer the gross margin on these sales to distributors, resulting from both our deferral of revenue and related product costs, until the applicable products are re-sold by the distributors. The price protection and return rights we offer to our distributors could materially and adversely affect us if there is an unexpected significant decline in the price of our products.

In 2003, international sales as a percent of net sales were 80 percent. Our international sales operations entail political and economic risks, including expropriation, currency controls, exchange rate fluctuations, changes in freight rates and changes in rates and exemptions for taxes and tariffs.

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Raw Materials

Certain raw materials we use in the manufacture of our products and FASL LLC uses in the manufacture of its products are available from a limited number of suppliers. For example, we are dependent on key chemicals from a limited number of suppliers and rely on a few foreign companies to supply the majority of certain types of the integrated circuit packages we purchase. Similarly, FASL LLC purchases commercial non-Flash memory die, such as SRAM, from third-party suppliers and incorporates these die into its MCP products. Interruption of supply or increased demand in the industry could cause shortages and price increases in various essential materials. If we or FASL LLC were unable to procure certain of these materials, we or FASL LLC might have to reduce manufacturing operations. Such a reduction could have a material adverse effect on us. To date, neither we nor FASL LLC have experienced significant difficulty in obtaining the raw materials required for our manufacturing operations.

In June 2002, we formed Advanced Mask Technology Center GmbH and Co., KG (AMTC) and Maskhouse Building Administration GmbH and Co., KG, (BAC), two joint ventures with Infineon Technologies AG and Dupont Photomasks, Inc., for the purpose of constructing and operating an advanced photomask facility in Dresden, Germany. Photomasks are used during the production of integrated circuits. The purpose of the AMTC is to conduct research, development and pilot production of optical photomasks for advanced lithography technology. In October 2003, the AMTC announced the official commencement of pilot production of optical photomasks. In 2004, we intend to procure advanced photomasks from the AMTC pursuant to the terms of our joint venture arrangement and use these photomasks in the manufacture of certain of our microprocessor products.

Environmental Regulations

Many aspects of our and FASL LLC's business operations and products are regulated by domestic and international environmental regulations. These regulations include limitations on discharges to air and water; remediation requirements; product chemical content limitations; chemical use and handling restrictions; pollution control requirements; waste minimization considerations; and hazardous materials transportation, treatment and disposal restrictions. If we or FASL LLC fail to comply with any of the applicable environmental regulations we may be subject to fines, suspension of production, alteration of our manufacturing processes, sales limitations, and criminal and civil liabilities. Existing or future regulations could require us or FASL LLC to procure expensive pollution abatement or remediation equipment, to modify product designs or to incur other expenses to comply with environmental regulations. Any failure to control the use, disposal or storage, or adequately restrict the discharge of hazardous substances could subject us to future liabilities and could have a material adverse effect on our business.

Intellectual Property and Licensing

As of March 1, 2004, we had over 5,900 United States patents and had over two thousand patent applications pending in the United States. In certain cases, we have filed corresponding applications in foreign jurisdictions. We expect to file future patent applications in both the United States and abroad on significant inventions, as we deem appropriate. FASL LLC also has patents and pending patent applications in the United States and Japan. In certain cases, FASL LLC filed corresponding applications in foreign jurisdictions. We expect FASL LLC to file future patent applications in both the United States and abroad on significant inventions, as it deems appropriate.

In May 2001, we signed a ten-year cross-license agreement with Intel Corporation. In addition, we have entered into numerous cross-licensing and technology exchange agreements with other companies under which we both transfer and receive technology and intellectual property rights. As part of the FASL LLC transaction we entered into a patent cross-license agreement with FASL LLC whereby each party has been granted a non-exclusive license under the other party's respective licensed patents for the manufacture and sale of

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semiconductor products worldwide. In addition, FASL LLC has granted us the right to sublicense FASL LLC patents and patent applications. FASL LLC has entered into a similar cross-license agreement (without the grant of sublicense rights) with Fujitsu Limited. These patent cross-license agreements terminate upon the later of July 1, 2013 or upon the transfer of all of the respective party's ownership or economic interest in FASL LLC, unless earlier terminated upon 30 days notice following a change of control of the other party. We have also entered into a patent cross-license with Fujitsu Limited whereby each party has been granted a non-exclusive license under certain of the other party's respective semiconductor-related patents. This patent cross-license agreement terminates upon the tenth anniversary of the agreement, unless earlier terminated upon 30 days notice following a change of control of the other party.

Although we attempt to protect our intellectual property rights, in the United States and abroad through patents, copyrights, trade secrets and other measures, we may not be able to adequately protect our technology or other intellectual property or prevent others from independently developing similar technology. Any patent licensed by us or issued to us could be challenged, invalidated or circumvented, or rights granted thereunder may not provide a competitive advantage to us. Furthermore, patent applications that we file may not be issued. Despite our efforts to protect our rights, others may independently develop similar products, duplicate our products or design around our patents and other rights. In addition, it is difficult to cost-effectively monitor compliance with, and enforce, our intellectual property rights on a worldwide basis.

From time to time, we have been notified that we may be infringing intellectual property rights of others. If any such claims are asserted against us, we may seek to obtain a license under the third party's intellectual property rights. We cannot assure you that we will be able to obtain all necessary licenses on satisfactory terms, or at all. We could decide, in the alternative, to resort to litigation to challenge such claims. Such challenges could be extremely expensive and time-consuming and could have a material adverse effect on us. We cannot assure you that litigation related to the intellectual property rights of us or others will always be avoided or successfully concluded.

Backlog

We manufacture and market standard lines of products. Consequently, a significant portion of our sales are made from inventory on a current basis. Sales are made primarily pursuant to purchase orders for current delivery or agreements covering purchases over a period of time, which orders or agreements may be revised or canceled without penalty. Generally, in light of current industry practice and experience, we do not believe that such agreements provide meaningful backlog figures or are necessarily indicative of actual sales for any succeeding period.

Employees

As of March 1, 2004, we (excluding FASL LLC and its subsidiaries) employed approximately 7,400 employees, none of whom are represented by collective bargaining arrangements. Also, as of March 1, 2004, FASL LLC and its subsidiaries employed approximately 6,900 employees. In addition, approximately an aggregate of 180 individuals remained employed by us or Fujitsu but were made available on a full-time basis to FASL LLC or its subsidiaries. FASL LLC expects that substantially all of these individuals will become employees of FASL LLC or its subsidiaries in 2004 and 2005. Certain employees of FASL JAPAN are represented by a company union. We believe that our relationship with our employees is good and that FASL LLC's relationship with its employees is good.

ITEM 2. PROPERTIES

Our principal engineering, manufacturing, warehouse and administrative facilities comprise approximately 3.3 million square feet and are located in the United States, Germany, Singapore, and Malaysia. Approximately 2.2 million square feet of this space is in buildings we own. We acquired approximately 115 acres of land in Dresden, Germany for Fab 30. Fab 30 is encumbered by a lien securing AMD Saxony's obligations under the Dresden Loan Agreements. For more detail regarding the Dresden Loan Agreements, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Dresden Term Loan and Dresden Term Loan Guarantee," below.

We have an operating lease on property containing two buildings with an aggregate of approximately 364,000 square feet, located on 45.6 acres of land in Sunnyvale, California (One AMD Place). This operating lease ends in December 2018. In 2000, we entered into a lease agreement for three buildings, totaling 175,000 square feet, located adjacent to One AMD Place, which we call AMD Square, to be used as engineering offices and lab facilities. During 2002, we determined that we no longer required AMD Square. As of December 28, 2003, AMD Square is vacant, and we are actively marketing it for sublease. During 2003, we also vacated approximately 75,000 square feet of leased administrative office space in Austin, Texas. We continue to have lease obligations with respect to these facilities ranging from 18 to 24 months, and we are marketing these facilities for sublease.

In addition to principal engineering, manufacturing, warehouse and administrative facilities, we lease sales office facilities in 20 locations globally, totalling approximately 150,000 square feet. These facilities are generally located in commercial centers near our customers, principally in Latin America, Europe and the Asia Pacific region.

FASL LLC's principal engineering, manufacturing, warehouse and administrative facilities comprise approximately four million square feet and are located in the United States, Japan, Malaysia, Thailand and China. Over 3.9 million square feet of this space is in buildings FASL LLC owns. The remainder of this space is leased, primarily from us. FASL LLC leases approximately 15 acres of land in Suzhou, China for its assembly and test facility. In addition, FASL LLC also leases approximately 90 acres of land in Japan for its wafer fabrication facilities. Its Fab 25 facility in Austin, Texas is encumbered by a lien securing the July 2003 FASL Term Loan. For more detail regarding the July 2003 FASL Term Loan, see, "Management's Discussion and Analysis of Financial Condition and Results of Operations—July 2003 FASL Term Loan and Guarantee," below.

Our and FASL LLC's leases cover facilities with expiration terms of generally one to 20 years. We currently do not anticipate difficulty in either retaining occupancy of any of our facilities through lease renewals prior to expiration or through month-to-month occupancy, or replacing them with equivalent facilities.

ITEM 3. LEGAL PROCEEDINGS

Environmental Matters

We are named as a responsible party on Superfund clean-up orders for three sites in Sunnyvale, California that are on the National Priorities List. Since 1981, we have discovered hazardous material releases to the groundwater from former underground tanks and proceeded to investigate and conduct remediation at these three sites. The chemicals released into the groundwater were commonly used in the semiconductor industry in the United States in the wafer fabrication process prior to 1979.

In 1991, we received four Final Site Clean-up Requirements Orders from the California Regional Water Quality Control Board relating to the three sites. We have entered into settlement agreements with other responsible parties on two of the orders. Under these agreements other parties have assumed the costs and primary responsibility for conducting remediation activities under the orders. We remain responsible for these costs in the event that the other parties do not fulfill their obligations under the settlement agreements.

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To address anticipated future remediation costs under the orders, we have computed and recorded an estimated environmental liability of approximately \$3.3 million in accordance with applicable accounting rules and have not recorded any potential insurance recoveries in determining the estimated costs of the cleanup. The progress of future remediation efforts cannot be predicted with certainty, and these costs may change. Environmental charges to earnings have not been material during any of the last three fiscal years. We believe that the potential liability, if any, in excess of amounts already accrued, will not have a material adverse effect on our financial condition or results of operation.

In 1998, the U.S. Environmental Protection Agency (EPA) identified us as one of hundreds of Superfund “potentially responsible parties” as a result of disposal of waste at a regulated landfill in Santa Barbara County, California that was later abandoned by its owners and designated as a Superfund site by the EPA. We have reached a settlement with EPA and completed payment. However, the public notification, judicial review and issuance of a consent decree remain pending. The amount of the settlement did not have a material adverse effect on our financial condition or results of operations.

Other Matters

We are a defendant or plaintiff in various other actions that arose in the normal course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on our financial condition or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock (symbol "AMD") is listed on the New York Stock Exchange. On March 1, 2004, there were 8,041 registered holders of our common stock. We have never paid cash dividends on our stock and may be restricted from doing so pursuant to the loan agreements that we entered into with several domestic financial institutions. See discussion in the "Notes Payable to Banks" section set forth in, "Management's Discussion and Analysis of Financial Condition and Results of Operations," beginning on page 20, below. The high and low sales price per share of common stock were as follows:

	<u>High</u>	<u>Low</u>
Fiscal year ended December 29, 2002		
First quarter	\$ 20.60	\$ 12.63
Second quarter	15.30	7.95
Third quarter	10.88	5.20
Fourth quarter	9.60	3.10
	<u>High</u>	<u>Low</u>
Fiscal year ended December 28, 2003		
First quarter	\$ 7.79	\$ 4.78
Second quarter	8.59	5.80
Third quarter	12.87	6.25
Fourth quarter	18.50	10.52

The information under the caption, "Equity Compensation Plan Information," in our Proxy Statement for our Annual Meeting of Stockholders to be held April 29, 2004 (2004 Proxy Statement) is incorporated herein by reference.

During 2003, we did not sell any of our equity securities that were not registered under the Securities Act of 1933, as amended.

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ITEM 6. SELECTED FINANCIAL DATA

Five Years Ended December 28, 2003
(Thousands except per share amounts)

	2003 ⁽¹⁾	2002	2001	2000	1999
Net Sales	\$ 3,519,168	\$ 2,697,029	\$ 3,891,754	\$ 4,644,187	\$ 2,857,604
Expenses:					
Cost of sales	2,327,063	2,105,661	2,589,747	2,514,637	1,964,434
Research and development	852,075	816,114	650,930	641,799	635,786
Marketing, general and administrative	587,307	670,065	620,030	599,015	540,070
Restructuring and other special charges, net	(13,893)	330,575	89,305	—	38,230
	3,752,552	3,922,415	3,950,012	3,755,451	3,178,520
Operating income (loss)	(233,384)	(1,225,386)	(58,258)	888,736	(320,916)
Gain on sale of Vantis	—	—	—	—	432,059
Gain on sale of Legerity	—	—	—	336,899	—
Interest income and other, net	21,116	32,132	25,695	86,301	31,735
Interest expense	(109,960)	(71,349)	(61,360)	(60,037)	(69,253)
Income (loss) before income taxes, minority interest, equity in net income of joint venture and extraordinary item	(322,228)	(1,264,603)	(93,923)	1,251,899	73,625
Minority interest in (income) loss of subsidiary	44,761	—	—	—	—
Provision (benefit) for income taxes	2,936	44,586	(14,463)	256,868	167,350
Income (loss) before equity in net income of joint venture and extraordinary item	(280,403)	(1,309,189)	(79,460)	995,031	(93,725)
Equity in net income of joint venture	5,913	6,177	18,879	11,039	4,789
Income (loss) before extraordinary item	(274,490)	(1,303,012)	(60,581)	1,006,070	(88,936)
Extraordinary item—debt retirement, net of tax benefit	—	—	—	(23,044)	—
Net income (loss)	\$ (274,490)	\$ (1,303,012)	\$ (60,581)	\$ 983,026	\$ (88,936)
Net income (loss) per share					
Basic—income (loss) before extraordinary item	\$ (0.79)	\$ (3.81)	\$ (0.18)	\$ 3.25	\$ (0.30)
Diluted—income (loss) before extraordinary item	\$ (0.79)	\$ (3.81)	\$ (0.18)	\$ 2.95	\$ (0.30)
Basic—income (loss) after extraordinary item	\$ (0.79)	\$ (3.81)	\$ (0.18)	\$ 3.18	\$ (0.30)
Diluted—income (loss) after extraordinary item	\$ (0.79)	\$ (3.81)	\$ (0.18)	\$ 2.89	\$ (0.30)
Shares used in per share calculation					
Basic	346,934	342,334	332,407	309,331	294,577
Diluted	346,934	342,334	332,407	350,000	294,577
Long-term debt, capital lease obligations and other, less current portion	\$ 2,328,435	\$ 1,892,404	\$ 672,945	\$ 1,167,973	\$ 1,427,282
Total assets	\$7,094,345	\$ 5,710,318	\$ 5,647,242	\$ 5,767,735	\$ 4,377,698

(1) 2003 includes consolidated FASL LLC results and is not comparable to prior years.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the consolidated financial statements and related notes as of December 28, 2003 and December 29, 2002, and for each of the three years in the period ended December 28, 2003, which are included in this annual report. Certain prior period amounts have been reclassified to conform to the current period presentation.

Overview

We design, manufacture and market industry-standard digital integrated circuits that are used in diverse product applications such as desktop and mobile PCs, workstations and servers, communications equipment, and automotive and consumer electronics. Our products include microprocessors, Flash memory devices, and Personal Connectivity Solutions products.

The semiconductor industry has recently shown signs of recovery from the downturn experienced during 2001 and 2002, which contributed to an improvement in our operating results during 2003 compared to 2002. Total net sales for 2003 of \$3,519 million increased 30 percent compared with net sales of \$2,697 million for 2002. This increase was driven primarily by increased sales of microprocessors and Flash memory products across all geographies as well as the consolidation of FASL LLC's results of operations, which include sales by FASL LLC to Fujitsu. In addition, the restructuring and cost-cutting measures that we initiated in 2002 contributed to significant cost savings in 2003. These cost savings, combined with the increase in revenues, contributed to a 79 percent decrease in net loss from a net loss of \$1,303 million in 2002 to a net loss of \$274 million in 2003.

During 2003, we reached an agreement with Fujitsu to form FASL LLC. The formation of FASL LLC has allowed us to combine our and Fujitsu's product manufacturing and technology development efforts to respond more quickly to the demands of our Flash memory product customers. As a result of the transaction, we began consolidating FASL LLC's results of operations on June 30, 2003. However, as FASL LLC did not exist prior to June 30, 2003, the results of operations for prior periods did not include the consolidation of FASL LLC's operations. Accordingly, the segment operating information for our Memory Products segment for the year ended December 28, 2003, is not fully comparable to the segment information for all prior periods presented.

In addition, we introduced our 64-bit microprocessor products during 2003 with the launch of our AMD Opteron processor for servers and workstations in April and our AMD Athlon 64 processor for desktop and mobile PCs in September. In November 2003, we began construction of a new 300-millimeter wafer fabrication facility in Dresden, Germany, which we expect to be in volume production in 2006. We believe the new capacity provided by this facility will allow us to satisfy anticipated demand for our 64-bit microprocessors. In addition to providing increased capacity, we believe that manufacturing our 64-bit processors on 300-millimeter silicon wafers, and employing advanced manufacturing process technologies, will allow us to reduce our manufacturing costs.

For 2004, we believe critical success factors include: increasing market acceptance of 64-bit computing; our and FASL LLC's ability to successfully develop and transition to the latest manufacturing process technologies; our ability to develop and introduce new products for the server and workstation markets on a timely basis and increasing our share of those markets; expanding our participation in emerging global markets, including China, Latin America, India, and Eastern Europe; improving our share of the Flash memory market, including enabling the increased adoption of MirrorBit technology; and maximizing the synergies of FASL LLC.

We intend the discussion of our financial condition and results of operations that follows to provide information that will assist you in understanding our financial statements, the changes in certain key items in those financial statements from year to year, the primary factors that resulted in those changes, and how certain accounting principles, policies and estimates affect our financial statements.

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Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts in our consolidated financial statements. We evaluate our estimates on an on-going basis, including those related to our revenues, inventories, asset impairments, restructuring charges, income taxes and commitments and contingencies. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Although actual results have historically been reasonably consistent with management's expectations, the actual results may differ from these estimates or our estimates may be affected by different assumptions or conditions.

We believe the following critical accounting policies are the most significant to the presentation of our financial statements and require the most difficult, subjective and complex judgments.

Revenue Reserves. We record a provision for estimated sales returns and allowances on product sales and a provision for estimated future price reductions in the same period that the related revenues are recorded. We base these estimates on management judgment while considering actual historical sales returns, historical price reductions, market activity, allowances, and other known or anticipated trends and factors. Actual provisions could be different from our estimates and current provisions, resulting in future adjustments to our revenues and operating results.

Inventory Valuation. At each balance sheet date, we evaluate our ending inventories for excess quantities and obsolescence. This evaluation includes analysis of sales levels by product and projections of future demand. These projections assist us in determining the carrying value of our inventory and are also used for near-term factory production planning. Inventories on hand in excess of forecasted demand of generally six months or less, are not valued. In addition, we write off inventories that are considered obsolete. Among other factors, management considers forecasted demand in relation to the inventory on hand, competitiveness of product offerings, market conditions and product life cycles when determining obsolescence and net realizable value. We adjust remaining inventory balances to approximate the lower of our standard manufacturing cost or market value. If we anticipate future demand or market conditions to be less favorable than our projections as forecasted, additional inventory write-downs may be required, and would be reflected in cost of sales in the period the revision is made. This would have a negative impact on our gross margins in that period. If in any period we are able to sell inventories that were not valued or that had been written off in a previous period, related revenues would be recorded without any offsetting charge to cost of sales, resulting in a net benefit to our gross margin in that period. To the extent these factors materially affect our gross margins, we would disclose them.

Impairment of Long-Lived Assets. We consider no less frequently than quarterly whether indicators of impairment of long-lived assets are present. These indicators may include, but are not limited to, significant decreases in the market value of an asset and significant changes in the extent or manner in which an asset is used. If these or other indicators are present, we determine whether the estimated undiscounted cash flows attributable to the assets in question are less than their carrying value. If less, we recognize an impairment loss based on the excess of the carrying amount of the assets over their respective fair values. Fair value is determined by discounted future cash flows, appraisals or other methods. If the asset determined to be impaired is to be held and used, we recognize an impairment loss through a charge to our operating results to the extent the present value of anticipated net cash flows attributable to the asset is less than the asset's carrying value, which we depreciate over the remaining estimated useful life of the asset. We may incur additional impairment losses in future periods if factors influencing our estimates of the undiscounted cash flows change.

Restructuring Charges. We record and account for our restructuring activities following formally approved plans that identify the actions and timeline over which the restructuring activities will occur. Restructuring charges include estimates pertaining to employee severance and fringe benefit costs, facility exit

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costs, subleasing assumptions and facility and equipment decommissioning costs resulting from exiting certain facilities. We review remaining restructuring accruals on a quarterly basis and adjust these accruals when changes in facts and circumstances suggest actual amounts will differ from our estimates. Although we do not anticipate significant changes, actual costs may be different than our original or revised estimates. These changes in estimates can result in increases or decreases to our results of operations in future periods and would be presented on the restructuring and other special charges, net, line of our consolidated operating statements.

Income Taxes. In determining taxable income for financial statement reporting purposes, we must make certain estimates and judgments. These estimates and judgments are applied in the calculation of certain tax liabilities and in the determination of the recoverability of deferred tax assets, which arise from temporary differences between the recognition of assets and liabilities for tax and financial statement reporting purposes.

We must assess the likelihood that we will be able to recover our deferred tax assets. If recovery is not likely, we must increase our provision for taxes by recording a charge to income tax expense, in the form of a valuation allowance, for the deferred tax assets that we estimate will not ultimately be recoverable. We consider past performance, future expected taxable income and prudent and feasible tax planning strategies in determining the need for a valuation allowance. In fiscal 2002, we recorded a valuation allowance against all of our U.S. deferred tax assets, net of deferred tax liabilities, based on past performance and the likelihood of realization of our deferred tax assets at the time. In fiscal 2003, we continued to provide a valuation allowance against all of our U.S. deferred tax assets, net of deferred tax liabilities. If we later determine that it is more likely than not that the net deferred tax assets will be realized, an appropriate amount of the previously provided valuation allowance will be reversed, resulting in a benefit to our earnings. Such benefits would be recorded on the income tax provision (benefit) line of our statement of operations.

In addition, the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax rules and the potential for future adjustment by the Internal Revenue Service or other taxing jurisdiction. If our estimates of these taxes are greater or less than actual results, an additional tax benefit or charge will result.

Commitments and Contingencies. From time to time we are a defendant or plaintiff in various legal actions that arise in the normal course of business. We are also a party to environmental matters, including local, regional, state and federal government cleanup activities at or near locations where we currently or have in the past conducted our business. We are also a guarantor of various third-party obligations and commitments. We are required to assess the likelihood of any adverse judgments or outcomes to these matters as well as potential ranges of probable losses. A determination of the amount of reserves required for these commitments and contingencies, if any, that would be charged to earnings includes assessing the probability of adverse outcomes and estimating the amount of potential losses. The required reserves may change in the future due to new developments in each matter or changes in circumstances, such as a change in settlement strategy. Changes in required reserves could increase or decrease our earnings in the period the changes are made.

Results Of Operations

As discussed above in the section entitled, "Developments in 2003," on page 1, effective June 30, 2003, we and Fujitsu formed FASL LLC. As a result of the transaction, we began consolidating FASL LLC's results of operations on June 30, 2003. Prior to June 30, 2003, we accounted for our share of the Manufacturing Joint Venture's operating results under the equity method. As FASL LLC did not exist prior to June 30, 2003, the results of our operations for periods prior to the third quarter of 2003 do not include the consolidation of FASL LLC's results of operations. Accordingly, our operating results for the year ended December 28, 2003 are not fully comparable with our results for prior periods. As we have a 60 percent controlling interest in FASL LLC, Fujitsu's 40 percent share in the net income (loss) of FASL LLC is reflected as a minority interest adjustment to our consolidated financial statements. This minority interest adjustment will not correspond to Memory Products segment operating income (loss) because Memory Products segment operating income (loss) includes operations incremental to those of FASL LLC. In addition, the minority interest calculation is based on FASL LLC's net income (loss) rather than operating income (loss).

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We review and assess operating performance using segment revenues and operating income before interest, taxes and minority interest. These performance measures include the allocation of expenses to the operating segments based on management judgment. Prior to the third quarter of 2003, we had two reportable segments: the Core Products and Foundry Services segments. Primarily as a result of the formation of FASL LLC, we re-evaluated our reportable segments.

Beginning in the third quarter of 2003, we changed our reportable segments to: the Computation Products segment, which includes microprocessor products for desktop and mobile PCs, servers and workstations and chipset products, and the Memory Products segment, which includes Flash memory products. We believe that separate reporting of these operating segments, given our new focus on FASL LLC as a separate operating company and its separate market brand—Spanion, provides more useful information to our stockholders.

In addition to our reportable segments, we also have the All Other category that is not a reportable segment, but rather it includes other small operating segments that are neither individually nor in the aggregate greater than ten percent of our consolidated revenues or assets. This category also includes certain operating expenses and credits that are not allocated to the operating segments. Prior period segment information has been reclassified to conform to the current period presentation. However, as FASL LLC did not exist prior to June 30, 2003, the results of operations for prior periods did not include the consolidation of FASL LLC's operations. Accordingly, the segment operating information for the Memory Products segment for the year ended December 28, 2003, is not fully comparable to the reclassified segment information for all prior periods presented.

We use a 52- to 53-week fiscal year ending on the last Sunday in December. The years ended December 28, 2003, December 29, 2002, and December 30, 2001, each included 52 weeks.

The following is a summary of our net sales for 2003, 2002 and 2001.

	2003	2002	2001
		(Millions)	
Computation Products	\$ 1,960	\$ 1,756	\$ 2,466
Memory Products	1,419	741	1,133
All Other	140	200	293
Total	\$ 3,519	\$ 2,697	\$ 3,892

Net Sales Comparison for Years Ended December 28, 2003 and December 29, 2002

Total net sales of \$3,519 million in 2003 increased 30 percent compared to net sales of \$2,697 million in 2002.

Computation Products net sales of \$1,960 million in 2003 increased 12 percent compared to net sales of \$1,756 million in 2002. The increase in net sales was primarily due to a 15 percent increase in microprocessor unit shipments due primarily to increased demand from our OEM customers, partially offset by a decline of four percent in the average selling prices of our microprocessor products. Unit shipment growth was particularly strong in Latin America and China, which accounted for 77 percent of overall unit growth.

Memory Products net sales of \$1,419 million in 2003 increased 92 percent compared to net sales of \$741 million in 2002. The increase in net sales was primarily attributable to the effect of consolidating FASL LLC's results of operations, which include FASL LLC's sales to Fujitsu, and increased demand for Flash memory products. Further quantification of the breakdown in the increase in net sales is not practical due to the reorganization of geographical sales territories between AMD and Fujitsu.

All Other net sales of \$140 million in 2003 decreased 30 percent compared to net sales of \$200 million in 2002 and consisted primarily of net sales of our Personal Connectivity Solutions products. The decrease was due

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to a \$53 million decrease in revenue resulting from discontinued production of selected mature embedded processors and networking products and a \$34 million decrease in Foundry Services revenue, offset by a \$28 million increase in revenues from sales of AMD Geode and wireless products.

Net Sales Comparison for Years Ended December 29, 2002 and December 30, 2001

Total net sales of \$2,697 million in 2002 decreased 31 percent compared to net sales of \$3,892 million in 2001.

Computation Products net sales of \$1,756 million in 2002 decreased 29 percent compared to net sales of \$2,466 million in 2001. This decrease was almost wholly due to a decrease in unit sales of 16 percent, and a decrease in average selling prices of 13 percent, reflecting industry-wide weakness in PC sales, competitive pricing pressure, and the execution of our plan to align our microprocessor inventory in the supply chain with forecasted customer demand, which included our decision to limit shipments and accept receipt of product returns from certain customers.

Memory Products net sales of \$741 million in 2002 decreased 35 percent compared to net sales of \$1,133 million in 2001. The decrease was primarily due to a decrease in average selling prices of 36 percent, reflecting continued weakness in the telecommunications and networking equipment industries.

All Other net sales of \$200 million in 2002 decreased 32 percent compared to net sales of \$293 million in 2001. The decrease was primarily due to a decrease in Foundry Services revenues of approximately \$64 million and a decrease in net sales of \$31 million from embedded processors and networking products as a result of sustained market declines in the communications and networking equipment industries.

Comparison of Gross Margin Percentage, Expenses, Interest Income and Other, Net, and Interest Expense

The following is a summary of gross margin percentage, expenses and interest income and other, net, and interest expense for 2003, 2002 and 2001:

	2003	2002	2001
	(Millions except for gross margin percentage)		
Cost of sales	\$ 2,327	\$ 2,106	\$ 2,590
Gross margin percentage	34%	22%	33%
Research and development	852	816	651
Marketing, general and administrative	587	670	620
Restructuring and other special charges, net	(14)	331	89
Interest income and other, net	21	32	26
Interest expense	110	71	61
Income tax provision (benefit)	3	45	(14)

Gross margin percentage increased to 34 percent in 2003 compared to 22 percent in 2002. The increase in gross margin was primarily due to an increase in net sales of 30 percent, accompanied by an increase in cost of sales of only ten percent. Our cost of sales increased at a lower rate than net sales primarily due to cost reductions from the 2002 Restructuring Plan and other cost reduction initiatives. In addition, microprocessor unit sales increased 15 percent while average selling prices of microprocessor products decreased by four percent, and we realized \$63 million, or approximately two percentage points resulting from the sale of microprocessor products that had been previously written off. Further quantification of the improvement in gross margin percentage is not practical due to the consolidation of FASL LLC's operating results on June 30, 2003.

We amortize capital grants and allowances, interest subsidies and research and development subsidies that we receive from the State of Saxony and the Federal Republic of Germany for Fab 30 as they are earned. The

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amortization of these grants and subsidies is recognized as credits to research and development expenses and cost of sales. The credits to cost of sales totaled \$46.2 million in 2003 and \$37.5 million in 2002.

Gross margin percentage decreased to 22 percent in 2002 compared to 33 percent in 2001. This decrease was primarily due to a 31 percent decrease in the combined sales of PC processors and Flash memory products, as a result of lower unit demand and average selling prices due to weakened customer demand and industry-wide excess inventory, partially offset by cost savings realized from the closure of certain facilities pursuant to the 2001 Restructuring Plan, which is discussed below.

Research and development expenses of \$852 million in 2003 increased four percent from \$816 million in 2002 due primarily to an increase in expenses as a result of the FASL LLC transaction, \$23 million in research and development efforts related to new microprocessors, and \$58 million in expenses related to amounts paid to IBM to jointly develop new logic process technologies for use in future high-performance microprocessor products. These increases were offset by a \$35 million reduction in internal research and development costs from 2002 to 2003, primarily due to the reduction of research and development activities associated with our PCS products and the absence of the \$42 million charge representing amounts paid to IBM in 2002 in exchange for consulting services relating to optimizing the performance of our manufacturing processes.

We amortize capital grants and allowances, interest subsidies and research and development subsidies that we receive from the State of Saxony and the Federal Republic of Germany for Fab 30 as they are earned. The amortization of these grants and subsidies is recognized as credits to research and development expenses and cost of sales. The credits to research and development expenses totaled \$29.0 million in 2003 and \$21.8 million in 2002.

Research and development expenses of \$816 million in 2002 increased 25 percent compared to \$651 million in 2001. This increase was primarily due to an overall increase in research and development efforts directed to our microprocessors. In addition, research and development expenses in 2002 included a \$42 million charge for amounts paid to IBM in exchange for consulting services relating to optimizing the performance of our manufacturing processes in the fourth quarter of 2002, as well as the reallocation of \$30 million from manufacturing resources, previously included in costs of goods sold, to research and development activities for microprocessors.

Marketing, general and administrative expenses of \$587 million in 2003 decreased 12 percent compared to \$670 million in 2002. The decrease was primarily due to decreased cooperative advertising and marketing expenses of \$55 million and cost reductions from the 2002 Restructuring Plan and other cost reduction initiatives.

Marketing, general and administrative expenses of \$670 million in 2002 increased eight percent compared to \$620 million in 2001 primarily as a result of increased advertising and marketing expenses associated with the launch of our branding campaign.

In December 2002, we began implementing a restructuring plan (the 2002 Restructuring Plan) to further align our cost structure to industry conditions resulting from weak customer demand and industry-wide excess inventory.

As part of this plan, and as a result of our agreement with IBM to jointly develop future generations of our logic process technology, we ceased logic research and development in the SDC and eliminated most of those related resources, including the sale or abandonment of certain equipment used in the SDC.

The 2002 Restructuring Plan resulted in the consolidation of facilities, primarily at our Sunnyvale, California site and at sales offices worldwide. We vacated and are attempting to sublease certain facilities

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currently occupied under long-term operating leases through 2013. We also terminated the implementation of certain partially completed enterprise resource planning (ERP) software and other information technology implementation activities, resulting in the abandonment of certain software, hardware and capitalized development costs.

Pursuant to the 2002 Restructuring Plan, we recorded restructuring costs and other special charges of \$330.6 million in the fourth quarter of 2002, consisting primarily of \$68.8 million of anticipated severance and fringe benefit costs, an asset impairment charge of \$32.5 million relating to a license that has no future use because of its association with discontinued logic development activities, asset impairment charges of \$30.6 million resulting from the abandonment of equipment previously used in logic process development and manufacturing activities, anticipated exit costs of \$138.9 million almost wholly related to vacating and consolidating our facilities and a charge of \$55.5 million resulting from the abandonment of partially completed ERP software and other information technology implementation activities.

During 2003, management approved the sale of additional equipment, primarily equipment used in the SDC, that was identified as no longer useful in our operations. As a result, we recorded approximately \$11 million of asset impairment charges in the first quarter of 2003, including \$3.3 million of charges for decommission costs necessary to complete the sale of the equipment.

During 2003, we revised our estimates of the number of positions to be eliminated pursuant to the 2002 Restructuring Plan from 2,000 to 1,800 in response to the additional resources required due to the FASL LLC transaction. As a result, we reversed \$8.9 million of the estimated severance and fringe benefit accrual. As of December 28, 2003, 1,736 employees had been terminated pursuant to the 2002 Restructuring Plan resulting in cumulative cash payments of \$53 million in severance and employee benefit costs. The remaining accrual of \$6.7 million represents the severance benefits cost obligations for individuals whose employments terminated but who elected to defer receipt of severance benefits until 2004 and for employees who were pre-notified in 2003 of their employment terminations, which will occur in 2004.

With the exception of exit costs consisting primarily of remaining lease payments on abandoned facilities, net of estimated sublease income that are payable through 2011, we have substantially completed the activities associated with the 2002 Restructuring Plan as of December 28, 2003. As a result of the 2002 Restructuring Plan, we realized overall cost reductions of approximately \$150 million in 2003. We also implemented other cost reduction initiatives incremental to the specific expense reductions resulting from the 2002 Restructuring Plan.

The following table summarizes activities under the 2002 Restructuring Plan through December 28, 2003:

	Severance and employee benefits	Asset impairment	Exit costs	Other restructuring charges	Total
			(Thousands)		
2002 provision	\$ 68,770	\$ 118,590	\$ 138,900	\$ 4,315	\$ 330,575
Non-cash charges	—	(118,590)	—	—	(118,590)
Cash charges	(14,350)	—	(795)	—	(15,145)
Accrual at December 29, 2002	54,420	—	138,105	4,315	196,840
2003 Provision	—	7,791	3,314	—	11,105
Cash charges	(38,816)	—	(20,796)	(4,300)	(63,912)
Non-cash charges	—	(7,791)	—	—	(7,791)
Non-cash adjustment	(8,864)	—	—	(15)	(8,879)
Accrual at December 28, 2003	\$ 6,740	\$ —	\$ 120,623	\$ —	\$ 127,363

In 2001, we announced a restructuring plan (the 2001 Restructuring Plan) due to the continued slowdown in the semiconductor industry and a resulting decline in revenues. We substantially completed our execution of the

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2001 Restructuring Plan as of December 28, 2003. During 2003, we reduced the estimated accrual of the facility and equipment decommission costs by \$12.2 million based on the most current information available. During 2003, we also realized a recovery of approximately \$3.9 million for the excess of the sale price over the estimated fair value of equipment that was determined to be impaired as a result of the 2001 Restructuring Plan. Both amounts were included in restructuring and other special charges, net. As a result of the 2001 Restructuring Plan, we have realized overall cost reductions of \$211 million as of December 28, 2003.

The following table summarizes activity under the 2001 Restructuring Plan through December 28, 2003:

	Severance and employee benefits	Facility and equipment impairment	Facilities and equipment decommission costs	Other facilities exit costs	Total
			(Thousands)		
2001 provision	\$ 34,105	\$ 39,000	\$ 15,500	\$ 700	\$ 89,305
2001 cash charges	(7,483)	—	—	(54)	(7,537)
2001 non-cash charges	—	(39,000)	—	—	(39,000)
Accrual at December 30, 2001	26,622	—	15,500	646	42,768
2002 cash charges	(26,622)	—	(445)	—	(27,067)
Accrual at December 29, 2002	—	—	15,055	646	15,701
Non-cash adjustments	—	—	(11,574)	(646)	(12,220)
Cash charges	—	—	(2,485)	—	(2,485)
Accrual at December 28, 2003	\$ —	\$ —	\$ 996	\$ —	\$ 996

Interest income and other, net, of approximately \$21 million in 2003 decreased 34 percent from \$32 million in 2002. The decrease was primarily due to a decrease in investment income of \$16 million caused by lower cash equivalents and short-term investment balances and \$2.3 million in charges in 2003 for other-than-temporary declines in our equity investments. This decrease was offset by a gain of approximately \$6 million based on the difference between the carrying value and fair value of assets contributed by us to FASL LLC. Fujitsu now owns a 40 percent interest in these assets. The gain on the deemed sale of these assets to FASL LLC was limited to the difference in carrying value of our interest in the assets following the completion of the transaction and the carrying value of the assets immediately prior to the transaction.

Interest income and other, net, of \$32 million increased \$6 million or 23 percent in 2002 compared to \$26 million in 2001. The increase was primarily due to \$4.7 million in charges for other-than-temporary declines in our equity investments as compared to \$27 million in charges in 2001, offset by a decrease of \$20 million in interest income as a result of lower interest rates on our investment portfolio and lower cash equivalents and short term investment balances.

Interest expense of \$110 million in 2003 increased 55 percent compared to \$71 million in 2002. The increase was due primarily to the effect of our 4.50% Convertible Senior Notes due 2007 (4.50% Notes), issued in November 2002, which resulted in annual interest charges of \$18 million, interest of \$5 million on \$110 million drawn at the end of September 2002 under our July 2003 Loan Agreement, and the FASL LLC transaction, which resulted in additional interest expense of approximately \$9 million in 2003. In addition, in 2002 we capitalized interest of \$10.7 million on continued expansion and facilitization of Fabs 25 and 30 compared to only \$1.5 million in 2003.

Interest expense of \$71 million in 2002 increased 16 percent compared to \$61 million in 2001. The increase was due primarily to the effect of interest expense incurred on our 4.75% Convertible Senior Debentures Due 2022 (4.75% Debentures), issued in January 2002, which resulted in interest charges of \$22 million, partially offset by an increase in capitalized interest associated with conversion of Fab 25 to a Flash memory facility, facilitization activities at Fab 30, and a decrease of \$11 million in interest expense due to a partial repayment of the outstanding loans under the Dresden Loan Agreements in 2002.

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We recorded an income tax provision of \$3 million in 2003, an income tax provision of \$45 million in 2002 and an income tax benefit of \$14 million in 2001. The income tax provision in 2003 primarily reflected income tax expense generated in certain foreign tax jurisdictions, offset by a benefit of a U.S. federal tax refund from a carryback claim we filed in 2003. No net tax benefit was recorded in 2003 on pre-tax losses due to continuing operating losses. Our tax provision for 2003 does not reflect an increase in our net deferred tax liability of approximately \$46 million. This net deferred tax liability was recognized by the Japanese subsidiary of FASL LLC, FASL JAPAN, as tax expense in periods prior to our consolidation of FASL LLC on June 30, 2003, and therefore has not been recorded as a component of our tax expense for 2003. The 2002 income tax provision was recorded primarily for taxes due on income generated in certain state and foreign tax jurisdictions. No tax benefit was recorded in 2002 on pre-tax losses due to the establishment of a valuation allowance against the remainder of our U.S. deferred tax assets, net of U.S. deferred tax liabilities in the fourth quarter, due to the incurrence of continuing substantial operating losses in the U.S. The effective benefit rate of 15.4 percent for 2001 was less than the statutory rate because of a lower than U.S. statutory 24 percent tax benefit rate on the 2001 restructuring charges, reflecting the allocation of the charges between the U.S. and foreign lower-taxed jurisdictions, and a provision for U.S. taxes on certain previously undistributed earnings of lower-taxed foreign subsidiaries.

Other Items

International sales as a percent of net sales were 80 percent in 2003, compared to 73 percent in 2002 and 67 percent in 2001. During 2003, approximately 15 percent of our net sales were denominated in currencies other than the U.S. dollar, primarily the Japanese yen, as compared to one percent during 2002. The increase was primarily due to the consolidation of FASL LLC's results of operations, which include sales by FASL LLC to Fujitsu, which are denominated in yen. Our foreign exchange risk exposure resulting from these sales is partially mitigated as a result of our yen-denominated manufacturing costs. In addition, we are subject to foreign currency risk related to our manufacturing costs in Fab 30, which are denominated in euros. We use foreign currency forward and option contracts to reduce our exposure to the euro, but future exchange rate fluctuations may cause increases or decreases to our Fab 30 manufacturing costs. The impact on our operating results from changes in foreign currency rates individually and in the aggregate has not been material, principally as a result of our foreign currency hedging activities.

Comparison of Operating Income (Loss)

The following is a summary of operating income (loss) for 2003, 2002 and 2001:

	2003	2002	2001
		(Millions)	
Computation Products	\$ (23)	\$ (661)	\$ (191)
Memory Products	(189)	(159)	268
All Other	(21)	(405)	(135)
Total	\$ (233)	\$ (1,225)	\$ (58)

Computation Products operating loss of \$23 million in 2003 improved by \$638 million compared to \$661 million in 2002. The improvement was primarily due to incremental net sales of \$204 million and a decrease in both manufacturing costs of \$330 million and marketing, general and administrative expenses of \$39 million, which resulted primarily from our cost reduction initiatives and the 2002 Restructuring Plan. In addition, cooperative advertising and marketing expenses decreased by \$55 million from 2002.

Computation Products operating loss of \$661 million in 2002 increased by \$470 million compared to \$191 million in 2001 primarily due to a decrease in net sales. The decrease was primarily due to a decline in average selling prices of 13 percent and a decline in unit sales of 16 percent for microprocessors as a result of the sustained downturn in the PC industry.

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Memory Products operating loss of \$189 million in 2003 increased \$30 million from 2002. Further quantification of the changes is not practical due to the consolidation of FASL LLC on June 30, 2003.

Memory Products operating loss was \$159 million in 2002 compared to \$268 million of operating income in 2001. The change in the operating result was primarily due to decrease in net sales of \$392 million as a result of a 36 percent decline in average selling prices due to continued weakness in the Flash memory market.

Our All Other operating loss of \$21 million in 2003 improved by \$384 million compared to 2002, primarily due to \$331 million of restructuring and other special charges included in the 2002 results, and a \$14 million credit adjustment to the restructuring charge in 2003.

Our All Other operating loss of \$405 million in 2002 increased by \$270 million compared to 2001. The operating loss included \$331 million of restructuring and other special charges in 2002 compared to approximately \$89 million in 2001. The remaining increase of operating loss was primarily due to an increase in operating loss of Personal Connectivity Solutions products, partially offset by approximately \$27 million of improvement of operating results in Foundry Services.

Financial Condition

Our cash, cash equivalents and short-term investments at December 28, 2003 totaled \$1.1 billion, which included approximately \$330 million in cash, cash equivalents, and short-term investments maintained by FASL LLC. FASL LLC's operating agreement governs its ability to use this cash balance for operations or to distribute it to us and Fujitsu. Pursuant to the operating agreement, and subject to restrictions contained in third party loan agreements, FASL LLC must first distribute any cash balance to us and Fujitsu in an amount sufficient to cover each party's estimated tax liability, if any, related to FASL LLC's taxable income for each fiscal year. Any remaining cash balance after the tax liability distribution would be used by FASL LLC to fund its operations in accordance with its budget. If any cash remains, it must be used to repay FASL LLC's outstanding debt to us and Fujitsu. Any remaining cash after such distributions is distributed at the discretion of FASL LLC's Board of Managers, to us and Fujitsu, pro rata, based on each party's membership interest at the time of distribution, which currently is 60 percent and 40 percent.

Net cash provided by operating activities was approximately \$296 million in 2003. Although we had a net loss of \$274 million for the year, adjustments for non-cash charges, which were primarily depreciation and amortization, resulted in a positive cash flow from operations. The net changes in operating assets in 2003 as compared to 2002 included an increase in accounts receivable due to higher net sales and the consolidation of FASL LLC's results of operations, which include FASL LLC's sales to Fujitsu, and an increase in net inventory due to the consolidation of FASL LLC's results of operations. At December 28, 2003, Fujitsu accounted for approximately 31 percent of our consolidated net accounts receivable and approximately 13 percent of our consolidated net sales. The net changes in payables and accrued liabilities included payments in 2003 of \$90 million for a technology license from IBM, approximately \$64 million of payments in 2003 under the 2002 Restructuring Plan and an accrual of \$29 million in December 2003 related to our license from IBM for technology and know-how related to manufacturing products on 300-millimeter silicon wafers.

Net cash used in operating activities was \$120 million in 2002, primarily as a result of our net loss of \$1,303 million, adjusted by non-cash related charges. Changes in operating assets and liabilities in 2002 as compared to 2001 were attributable to a decrease in accounts receivable due to a 31 percent decrease in net sales. At December 29, 2002, inventory increased as compared to December 29, 2001 due to an increase of products to support anticipated 2003 sales, a change in the mix of inventory, and the impact of Flash memory production from Fab 25 following its conversion from logic manufacturing.

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Net cash provided by operating activities was \$168 million in 2001. Although we had a net loss of \$61 million, adjustments for non-cash charges resulted in a positive cash flow from operations. These adjustments included: \$623 million of depreciation and amortization expense, \$82 million of restructuring charges, \$27 million of impairment charges on equity investments and \$10 million of provision for doubtful accounts, offset by non-cash credits of \$98 million from net charges in deferred income taxes and foreign grant and subsidy income, and other uses of cash in operating activities of approximately \$423 million due to net changes in operating assets and liabilities.

Net cash provided by investing activities was \$83 million in 2003, primarily as a result of net cash inflow of \$482 million from sales and purchases of available-for-sale securities, \$148 million of cash acquired from the FASL LLC transaction and \$30 million in proceeds from sale of property, plant and equipment, offset by \$570 million used to purchase property, plant and equipment.

Net cash used in investing activities was \$854 million in 2002, including \$705 million used for purchases of property, plant and equipment primarily for Fab 30 and Fab 25, \$27 million, net of cash acquired, to acquire Alchemy Semiconductor, Inc., and \$131 million from net purchases of available-for-sale securities, offset by \$9 million of proceeds from the sale of property, plant and equipment.

Net cash used in investing activities was \$554 million in 2001, primarily due to \$679 million used for the purchases of property, plant, and equipment, primarily for Fab 30 and our assembly and test facilities in Asia, and \$122 million for additional equity investments in the Manufacturing Joint Venture, offset by \$246 million of net proceeds from sales and maturities of available-for-sale securities.

Net cash provided by financing activities was \$267 million in 2003, primarily due to \$245 million received from equipment sale and leaseback transactions completed by FASL LLC, a \$40 million cash note to FASL LLC from Fujitsu as part of the FASL LLC transaction, \$155 million of capital investment allowances received from the Federal Republic of Germany as part of the Fab 30 project and \$35 million of proceeds from sale of stock under our Employee Stock Purchase Plan and employee stock option exercises, offset by \$141 million in payments on debt and capital lease obligations, and a \$74 million increase in a compensating cash balance. The compensating cash balance represents the minimum cash balance that must be maintained by AMD Saxony in order to comply with the minimum liquidity covenant set forth in the Dresden Loan Agreements.

Net cash provided by financing activities was \$907 million in 2002, primarily due to \$486 million in proceeds, net of \$14 million in debt issuance costs, from issuing our 4.75% Debentures, \$391 million in proceeds, net of \$11 million in debt issuance costs, from issuing our 4.50% Notes, \$108 million drawn pursuant to the September 2002 Term Loan Agreement (currently referred to as the July 2003 FASL Term Loan), net of \$2 million in debt issuance costs, \$120 million drawn pursuant to the Loan and Security Agreement dated July 13, 1999 (currently referred to as the July 2003 Loan Agreement), \$21 million in proceeds from equipment lease financing, \$29 million in proceeds from the sale of stock under our Employee Stock Purchase Plan and employee stock option exercises, and \$76 million of net capital investment allowances and interest subsidies received from the Federal Republic of Germany and the State of Saxony as part of the Fab 30 project. These amounts were offset by \$325 million in payments on debt and capital lease obligations.

Net cash provided by financing activities was \$141 million in 2001, primarily due to \$63 million in proceeds from the issuance of notes payable to banks, \$308 million drawn pursuant to the Dresden Loan Agreements, \$38 million in capital investment allowances and interest subsidies received from the Federal Republic of Germany and the State of Saxony as part of the Fab 30 project, and \$37 million in proceeds from the sale of stock under our Employee Stock Purchase Plan and employee stock option exercises, offset by \$137 million in payments on debt and capital lease obligations, \$77 million used to repurchase our common stock and a \$91 million increase in the compensating cash balance discussed above.

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Notes Payable to Banks

On July 7, 2003, we amended and restated our 1999 Loan and Security Agreement with a consortium of banks led by a domestic financial institution (the July 2003 Loan Agreement). We further amended the July 2003 Loan Agreement on October 3, 2003. The July 2003 Loan Agreement currently provides for a secured revolving line of credit of up to \$125 million that expires in July 2007. We can borrow, subject to amounts set aside by the lenders, up to 85 percent of our eligible accounts receivable from OEMs and 50 percent of our eligible accounts receivable from distributors. As of December 28, 2003, no amount was outstanding under the July 2003 Loan Agreement. We have to comply, among other things, with the following financial covenants if our net domestic cash (as defined in the July 2003 Loan Agreement) declines below \$125 million:

- restrictions on our ability to pay cash dividends on our common stock;
- maintain an adjusted tangible net worth (as defined in the July 2003 Loan Agreement) as follows:

Measurement Date	Amount
December 31, 2003	\$1.25 billion
Last day of each calendar quarter in 2004	\$1.425 billion
Last day of each calendar quarter in 2005	\$1.85 billion
March 31, 2006 and on the last day of each fiscal quarter thereafter	\$2.0 billion

- achieve EBITDA (earnings before interest, taxes, depreciation and amortization) according to the following schedule:

Period	Amount
Four fiscal quarters ending December 31, 2003	\$400 million
Four fiscal quarters ending March 31, 2004	\$550 million
Four fiscal quarters ending June 30, 2004	\$750 million
Four fiscal quarters ending September 30, 2004	\$850 million
Four fiscal quarters ending December 31, 2004	\$950 million
Four fiscal quarters ending March 31, 2005 and on each fiscal quarter thereafter	\$1,050 million

As of December 28, 2003, net domestic cash, as defined, totaled \$567 million and the preceding financial covenants were not applicable. Our obligations under the July 2003 Loan Agreement are secured by all of our accounts receivable, inventory, general intangibles (excluding intellectual property) and the related proceeds, excluding FASL LLC's accounts receivable, inventory, and general intangibles.

Contractual Cash Obligations and Guarantees

The following tables summarize our principal contractual cash obligations that are recorded on our consolidated balance sheets and principal guarantees of such indebtedness at December 28, 2003, and are supplemented by the discussion following the tables.

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Principal contractual cash obligations that are recorded on our consolidated balance sheets at December 28, 2003 were:

	Payments due by period						
	Total	2004	2005	2006	2007	2008	2009 and beyond
(Thousands)							
4.75% Convertible Senior Debentures Due 2022	\$ 500,000	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 500,000
4.50% Convertible Senior Notes Due 2007	402,500	—	—	—	402,500	—	—
Dresden Term Loan	664,056	37,307	335,759	290,990	—	—	—
July 2003 FASL Term Loan	72,500	27,500	27,500	17,500	—	—	—
FASL JAPAN Term Loan	167,926	44,780	44,780	44,780	33,586	—	—
Fujitsu cash note	40,000	—	10,000	30,000	—	—	—
Capital lease obligations	245,958	83,680	84,022	74,228	3,899	129	—
Other long-term liabilities	116,091	—	33,911	15,262	15,555	16,123	35,240
Total Principal Contractual Cash Obligations	\$ 2,209,031	\$ 193,267	\$ 535,972	\$ 472,760	\$ 455,540	\$ 16,252	\$ 535,240

Guarantees of Indebtedness Recorded on our Consolidated Balance Sheets

The following table summarizes the principal guarantees issued as of December 28, 2003 related to underlying liabilities that are already recorded on our consolidated balance sheets as of December 28, 2003 and their expected expiration dates by year:

	Amounts Guaranteed*	Amounts of guarantee expiration per period					
		2004	2005	2006	2007	2008	2009 and Beyond
(Thousands)							
Dresden intercompany guarantee	\$ 332,028	\$ 18,653	\$ 167,880	\$ 145,495	\$ —	\$ —	\$ —
July 2003 FASL Term Loan guarantee	43,500	16,500	16,500	10,500	—	—	—
FASL JAPAN Term Loan guarantee	100,756	26,868	26,868	26,868	20,152	—	—
FASL capital lease guarantees	147,303	53,655	49,494	40,422	3,732	—	—
Total guarantees	\$ 623,587	\$ 115,676	\$ 260,742	\$ 223,285	\$ 23,884	\$ —	\$ —

* Represent the principal amount of the underlying obligations guaranteed and are exclusive of obligations for interest, fees and expenses.

4.75% Convertible Senior Debentures Due 2022

On January 29, 2002, we issued \$500 million of our 4.75% Convertible Senior Debentures Due 2022 (the 4.75% Debentures) in a private offering pursuant to Rule 144A and Regulation S of the Securities Act.

The interest rate payable on the 4.75% Debentures will reset on August 1, 2008, August 1, 2011 and August 1, 2016 to a rate per annum equal to the interest rate payable 120 days prior to the reset dates on 5-year U.S. Treasury Notes, plus 43 basis points. The interest rate will not be less than 4.75 percent and will not exceed 6.75 percent. Holders have the right to require us to repurchase all or a portion of our 4.75% Debentures on February 1, 2009, February 1, 2012, and February 1, 2017. The holders of the 4.75% Debentures also have the ability to require us to repurchase the 4.75% Debentures in the event that we undergo specified fundamental changes, including a change of control. In each such case, the redemption or repurchase price would be 100 percent of the principal amount of the 4.75% Debentures plus accrued and unpaid interest. The 4.75% Debentures are convertible by the holders into our common stock at a conversion price of \$23.38 per share at any

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time. At this conversion price, each \$1,000 principal amount of the 4.75% Debentures will be convertible into approximately 43 shares of our common stock. Issuance costs incurred in the amount of approximately \$14 million are amortized ratably, which approximates the effective interest method, over the term of the 4.75% Debentures, as interest expense.

Beginning on February 5, 2005, the 4.75% Debentures are redeemable by us for cash at specified prices expressed as a percentage of the outstanding principal amount plus accrued and unpaid interest at our option, provided that we may not redeem the 4.75% Debentures prior to February 5, 2006, unless the last reported sale price of our common stock is at least 130 percent of the then effective conversion price for at least 20 trading days within a period of 30 consecutive trading days ending within five trading days of the date of the redemption notice.

The redemption prices for the specified periods are as follows:

<u>Period</u>	<u>Price as percentage of principal amount</u>
Beginning on February 5, 2005 through February 4, 2006	102.375%
Beginning on February 5, 2006 through February 4, 2007	101.583%
Beginning on February 5, 2007 through February 4, 2008	100.792%
Beginning on February 5, 2008	100.000%

We may elect to purchase or otherwise retire our bonds with cash, stock or assets from time to time in open market or privately negotiated transactions, either directly or through intermediaries when we believe that market conditions are favorable to do so. Such purchases may have a material effect on our liquidity, financial condition and results of operations.

4.50% Convertible Senior Notes Due 2007

On November 25, 2002, we sold \$402.5 million of 4.50% Convertible Senior Notes Due 2007 (the 4.50% Notes) in a registered offering. Interest on the 4.50% Notes is payable semiannually in arrears on June 1 and December 1 of each year, beginning June 1, 2003. Beginning on December 4, 2005, the 4.50% Notes are redeemable by us at our option for cash at specified prices expressed as a percentage of the outstanding principal amount plus accrued and unpaid interest provided that we may not redeem the 4.50% Notes unless the last reported sale price of our common stock is at least 150 percent of the then effective conversion price for at least 20 trading days within a period of 30 trading days ending within five trading days of the date of the redemption notice.

The redemption prices for the specified periods are as follows:

<u>Period</u>	<u>Price as percentage of principal amount</u>
Beginning on December 4, 2005 through November 30, 2006	101.8%
Beginning on December 1, 2006 through November 30, 2007	100.9%
On December 1, 2007	100.0%

The 4.50% Notes are convertible at the option of the holder at any time prior to the close of business on the business day immediately preceding the maturity date of December 1, 2007, unless previously redeemed or repurchased, into shares of common stock at a conversion price of \$7.37 per share, subject to adjustment in certain circumstances. At this conversion price, each \$1,000 principal amount of the 4.50% Notes will be convertible into approximately 135 shares of our common stock. Issuance costs incurred in the amount of approximately \$12 million are amortized ratably, over the term of the 4.50% Notes, as interest expense, approximating the effective interest method.

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Holders have the right to require us to repurchase all or a portion of our 4.50% Notes in the event that we undergo specified fundamental changes, including a change of control. In each such case, the redemption or repurchase price would be 100 percent of the principal amount of the 4.50% Notes plus accrued and unpaid interest.

Dresden Term Loan and Dresden Term Loan Guarantee

AMD Saxony, our indirect, wholly owned German subsidiary, continues to facilitate Fab 30, which began production in the second quarter of 2000. AMD, the Federal Republic of Germany, the State of Saxony and a consortium of banks are providing financing for the project. We currently estimate that the construction and facilitization costs of Fab 30 will be \$2.5 billion when it is fully equipped by the end of 2005. As of December 28, 2003, we had invested \$2.3 billion in AMD Saxony and we currently estimate that during 2004 we will invest approximately \$160 million.

In March 1997, AMD Saxony entered into a loan agreement and other related agreements (the Dresden Loan Agreements) with a consortium of banks led by Dresdner Bank AG, a German financial institution, in order to finance the project. AMD Saxony has pledged substantially all of its property as security under the Dresden Loan Agreements. The Dresden Loan Agreements were amended in February 2004 to accommodate the construction, facilitization, and operation of Fab 36.

Because most of the amounts under the Dresden Loan Agreements are denominated in deutsche marks (converted to euros), the dollar amounts are subject to change based on applicable exchange rates. We used the exchange rate that was permanently fixed on January 1, 1999, of 1.95583 deutsche marks to one euro for the conversion of deutsche marks to euros, and then used exchange rate as of December 28, 2003, of 0.804 euro to one U.S. dollar to translate the amounts denominated in deutsche marks into U.S. dollars.

The Dresden Loan Agreements, as amended, provide for the funding of the construction and facilitization of Fab 30. The funding consists of:

- equity contributions, subordinated and revolving loans and loan guarantees from, and full cost reimbursement through, AMD;
- loans from a consortium of banks; and
- investment grants, investment allowances, interest subsidies, and loan guarantees from the Federal Republic of Germany and the State of Saxony.

The Dresden Loan Agreements require that we partially fund Fab 30 project costs in the form of subordinated and revolving loans to, or equity investments in, AMD Saxony. In accordance with the terms of the Dresden Loan Agreements, as of December 28, 2003 we had provided \$179 million of subordinated loans and \$286 million of equity investments in AMD Saxony. These amounts have been eliminated in our consolidated financial statements.

In addition to support from us, the consortium of banks referred to above made available \$954 million in loans to AMD Saxony to help fund Fab 30 project costs. The loans have been fully drawn and a portion has been repaid. AMD Saxony had \$664 million of such loans outstanding as of December 28, 2003, which are included in our consolidated balance sheet.

Finally, pursuant to a Subsidy Agreement, the Federal Republic of Germany and the State of Saxony are supporting the Fab 30 project, in accordance with the Dresden Loan Agreements, in the form of:

- guarantees equal to 65 percent of AMD Saxony bank debt, or \$432 million;
- capital investment grants and allowances totaling up to approximately \$453 million; and
- interest subsidies totaling \$191 million.

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Of these amounts, AMD Saxony received approximately \$412 million in capital investment grants and allowances and \$131 million in interest subsidies. In addition, AMD Saxony has received advance payments for interest subsidies amounting to \$22 million as of December 28, 2003. AMD Saxony also received \$55 million in research and development subsidies through December 28, 2003. Amounts received under the Subsidy Agreement are recorded as a long-term liability on our financial statements and are being amortized to operations ratably over the contractual life of the Subsidy Agreement as a reduction to operating expenses through December of 2008. Historical exchange rates in effect at the time these investment grants and allowances and interest subsidies were received were used to translate amounts denominated in deutsche marks (converted to euros) into U.S. dollars.

Under the Subsidy Agreement, for the construction and financing of Fab 30, AMD Saxony undertook to attain a certain employee headcount by December 2003 and to maintain such headcount until December 2008. Noncompliance with the conditions of the grants, allowances and subsidies contained in the Subsidy Agreement could result in the forfeiture of all or a portion of the future amounts to be received, as well as the repayment of all or a portion of amounts received to date. In December 2002, AMD Saxony reduced its anticipated employment levels as a result of the 2002 Restructuring Plan. Consequently, as of December 2003, headcount was below the level agreed to by AMD Saxony at which AMD Saxony would be entitled to receive the maximum amount of capital investment grants and allowances available. However, the aggregate amount of grants and allowances actually received by AMD Saxony to date, calculated as a percentage of the maximum amount of grants and allowances available, does not exceed the actual headcount at AMD Saxony at December 2003, calculated as a percentage of the headcount target undertaken in the Subsidy Agreement. Accordingly, AMD Saxony does not believe it has received grants and allowances in excess of its entitlement under the Subsidy Agreement. However, we anticipate that the maximum amount of capital investment grants and allowances available under the Subsidy Agreement will be reduced from an originally anticipated amount of \$517 million to approximately \$453 million. We adjusted the quarterly amortization of these amounts accordingly.

The Dresden Loan Agreements, as amended, also require that we:

- provide interim funding to AMD Saxony if either the remaining capital investment grants and allowances or the remaining interest subsidies are delayed, such funding to be repaid to AMD, as AMD Saxony receives the investment grants and allowances or subsidies from the State of Saxony and the Federal Republic of Germany;
- fund shortfalls in government subsidies resulting from any default under the Subsidy Agreement caused by AMD Saxony or its affiliates; and
- guarantee of up to 50 percent of AMD Saxony's obligations under the Dresden Loan Agreements, which guarantee must not be less than \$138 million or more than \$373 million, until the bank loans are repaid in full. As of December 28, 2003, the amount outstanding under the guarantee was \$332 million.

As AMD Saxony's obligations under the Dresden Loan Agreements are included in our consolidated financial statements, no incremental liability is recorded under the Dresden guarantee.

AMD Saxony would be in default under the Dresden Loan Agreements if we, AMD Saxony or AMD Saxony Holding GmbH (AMD Holding) fail to comply with certain obligations thereunder or upon the occurrence of certain events and if, after the occurrence of the event, the lenders determine that their legal or risk position is materially adversely affected. Circumstances that could result in a default include:

- our failure to fund equity contributions or loans or otherwise comply with our obligations relating to the Dresden Loan Agreements;
- the sale of shares in AMD Saxony or AMD Holding;
- the failure to pay material obligations;

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- the occurrence of a material adverse change or filings or proceedings in bankruptcy or insolvency with respect to us, AMD Saxony or AMD Holding;
- the occurrence of a default under the July 2003 Loan Agreement; and
- AMD Saxony's noncompliance with certain financial covenants, including minimum tangible net worth, minimum interest cover ratio, asset cover ratio and a minimum liquidity covenant.

Generally, any default with respect to borrowings made or guaranteed by AMD that results in recourse to us of more than \$2.5 million, and that is not cured by us, would result in a cross-default under the Dresden Loan Agreements. As of December 28, 2003, we were in compliance with all conditions of the Dresden Loan Agreements.

In the event we are unable to meet our obligations to AMD Saxony as required under the Dresden Loan Agreements and the lenders determine that their legal or risk position is materially adversely affected, we will be in default under the Dresden Loan Agreements, which would permit acceleration of the outstanding loans of approximately \$664 million. The occurrence of a default under these agreements would likely result in a cross-default under the Indentures governing our 4.75% Debentures and 4.50% Notes. We cannot assure that we would be able to obtain the funds necessary to fulfill these obligations. Any such failure would have a material adverse effect on us.

July 2003 FASL Term Loan and Guarantee

On July 11, 2003, we amended our September 2002 Loan Agreement and assigned it to FASL LLC. Under the Amended and Restated Term Loan Agreement (the July 2003 FASL Term Loan), amounts borrowed bear interest at a variable rate of LIBOR plus four percent, which was 5.14 percent at December 28, 2003. Repayment occurs in equal, consecutive, quarterly principal and interest installments ending in September 2006. As of December 28, 2003, \$72.5 million was outstanding under the July 2003 FASL Term Loan, of which 60 percent is guaranteed by us and 40 percent is guaranteed by Fujitsu. FASL LLC has granted a security interest in certain property, plant and equipment as security under the July 2003 FASL Term Loan.

The July 2003 FASL Term Loan Agreement restricts FASL LLC's ability to pay cash dividends in respect of membership interests if FASL LLC's net domestic cash balance (as defined in the July 2003 FASL Term Loan) declines below \$130 million through the first quarter of 2004, \$120 million from the second quarter of 2004 to the end of 2005 and \$100 million during 2006. FASL LLC must also comply with additional financial covenants if its net domestic cash balance declines below \$130 million through the first quarter of 2004, \$120 million from the second quarter of 2004 to the end of 2005 and \$100 million during 2006. At any time that net domestic cash falls below these thresholds, FASL LLC must comply with, among other things, the following financial covenants:

- maintain an adjusted tangible net worth (as defined in the July 2003 FASL Term Loan) of not less than \$850 million;
- achieve EBITDA according to the following schedule:

Period	Amount
For the six months ending December 2003	\$75 million
For the nine months ending March 2004	\$170 million
For the four quarters ending June 2004	\$285 million
For the four quarters ending September 2004	\$475 million
For the four quarters ending December 2004	\$550 million
For the four quarters ending in 2005	\$640 million
For the four quarters ending in 2006	\$800 million

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- maintain a fixed charge coverage ratio (as defined in the July 2003 FASL Term Loan) according to the following schedule:

Period	Ratio
Fourth fiscal quarter of 2003	0.2 to 1.00
First fiscal quarter of 2004	0.25 to 1.00
Period ending June 2004	0.4 to 1.00
Period ending September 2004	0.8 to 1.00
Period ending December 2004	1.0 to 1.00
Full fiscal year 2005	1.0 to 1.00
Full fiscal year 2006	0.9 to 1.00

At December 28, 2003, FASL LLC's net domestic cash totaled \$208 million, and the preceding financial covenants were not applicable.

FASL JAPAN Term Loan and Guarantee

Because most amounts under the FASL JAPAN Term Loan are denominated in yen, the dollar amounts are subject to change based on applicable exchange rates. We used the exchange rate as of December 28, 2003 of 107.19 yen to one U.S. dollar to translate the amounts denominated in yen into U.S. dollars.

As a result of the FASL LLC transaction, the Manufacturing Joint Venture's third-party loans were refinanced from the proceeds of a term loan in the aggregate principal amount of 18 billion yen (approximately \$168 million on December 28, 2003) entered into between FASL JAPAN and a Japanese financial institution. Under the agreement, the amounts borrowed bear an interest rate of TIBOR plus a spread that is determined by Fujitsu's current debt rating and FASL JAPAN's non-consolidated net asset value as of the last day of its fiscal year. The interest rate was 0.98 percent as of December 28, 2003. Repayment occurs in equal, consecutive, quarterly principal installments ending in June 2007. FASL JAPAN's assets are pledged as security for its borrowings under this agreement. Also, Fujitsu guaranteed 100 percent of the amounts outstanding under this facility. We agreed to reimburse Fujitsu 60 percent of any amount paid by Fujitsu under its guarantee of this loan. Under this loan agreement, FASL JAPAN is required to comply with the following financial covenants:

- Ensure that assets exceed liabilities as of the end of each fiscal year and each six-month period during such fiscal year;
- Maintain an adjusted tangible net worth (as defined in the loan agreement), as of the last day of each fiscal quarter, of not less than 60 billion yen;
- Maintain total net income plus depreciation, as of the last day of each fiscal period, as follows:

Period	Amount
Fiscal year 2003	\$78 million
First fiscal quarter of 2004	\$23 million
First and second fiscal quarters of 2004	\$68 million
Fiscal year 2004	\$214 million
Fiscal year 2005	\$197 million
Fiscal year 2006	\$182 million

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- Ensure that as of the last day of any fiscal quarter, the ratio of (a) net income plus depreciation to (b) the sum of (i) interest expense for such period plus (ii) scheduled amortization of debt for borrowed money (as defined in the loan agreement) for such period, including lease rentals plus (iii) maintenance capital expenditures for FASL JAPAN's existing and after acquired real property and improvements at its manufacturing facilities located in Aizu-Wakamatsu, Japan, is not less than:

Period	Percentage
First through Fourth Fiscal Quarters of 2003	90%
First Fiscal Quarter of 2004	100%
Second Fiscal Quarter of 2004	110%
Third and Fourth Fiscal Quarters of 2004	120%
Fiscal Year 2005	120%
Fiscal Year 2006	120%

As of December 28, 2003, FASL JAPAN was in compliance with these financial covenants.

Fujitsu Cash Note

As a result of the FASL LLC transaction, Fujitsu also loaned \$40 million to FASL LLC pursuant to a promissory note. The note bears an interest rate of LIBOR plus four percent, which was 5.14 percent as of December 28, 2003, and has a term of three years. The note is repayable in four equal payments, including interest, on September 30, 2005, December 31, 2005, March 31, 2006 and June 30, 2006.

Capital Lease Obligations

On July 16, 2003, FASL JAPAN entered into a sale-leaseback transaction for certain equipment with a third-party financial institution in the amount of 12 billion yen (approximately \$100 million on July 16, 2003) in cash proceeds. Upon execution of the agreement, the equipment had a net book value of approximately \$168 million. As the term on the leaseback transaction is more than 75 percent of the remaining economic lives of the equipment, we are accounting for the transaction as a capital lease. We recognized an immediate loss of \$16 million on the transaction due to the fact that the fair market value of the equipment was less than its net book value at the time of the transaction. We also recorded a deferred loss of approximately \$52 million which is being amortized over the term of the lease in proportion to the amortization of the underlying leased assets. We guaranteed 50 percent of the outstanding obligations, under the lease arrangement. As of December 28, 2003, the outstanding lease obligations under this agreement were approximately \$86 million. In addition, FASL LLC and its subsidiaries also entered into other capital lease and leaseback transactions during the third quarter of 2003, which resulted in additional capital lease obligations of \$159 million as of December 28, 2003. Accordingly, as of December 28, 2003, FASL LLC had aggregate outstanding capital lease obligations of approximately \$245 million. Obligations under these lease agreements are collateralized by the assets leased and are payable through 2007. Leased assets consist principally of machinery and equipment. We guaranteed approximately \$147 million of FASL LLC's aggregate outstanding capital lease obligations as of December 28, 2003.

Other Long-term Liabilities

Included in other long-term liabilities as of December 28, 2003 is approximately \$99 million of restructuring accrual that will be paid through 2011 and approximately \$18 million in customer cash deposits related to multi-year supply agreements for Spansion Flash memory products that will be paid through 2005, which guarantee customers' purchases of these products. Excluded from contractual cash obligations is approximately \$263 million of deferred grants and subsidies related to the Fab 30 project and a \$23 million deferred gain as a result of the sale and leaseback of our corporate marketing, general and administrative facility in Sunnyvale, California in 1998, as these liabilities do not require cash payments.

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Guarantees of Indebtedness not Recorded on Our Consolidated Balance Sheets

The following table summarizes the principal guarantees issued as of December 28, 2003 for which the related underlying liabilities are not recorded on our consolidated balance sheets as of December 28, 2003 and their expected expiration dates:

	Amounts Guaranteed*	Amounts of guarantee expiration per period					
		2004	2005	2006	2007	2008	2009 and Beyond
		(In Thousands)					
FASL LLC operating lease guarantees	\$ 26,604	\$ 12,279	\$ 8,367	\$ 5,958	\$ —	\$ —	\$ —
AMTC payment guarantee	39,793	—	—	—	39,793	—	—
AMTC term loan guarantee	31,088	31,088	—	—	—	—	—
AMTC rental guarantee	145,811	—	—	—	—	—	145,811**
Total guarantee	\$ 243,296	\$ 43,367	\$ 8,367	\$ 5,958	\$ 39,793	\$ —	\$ 145,811

* Amounts guaranteed represent the principal amount of the underlying obligations and are exclusive of obligations for interest, fees and expenses.

** Amounts outstanding will diminish until the expiration of the guarantee.

We have not recorded any liability in our consolidated financial statements associated with the guarantees because they were issued prior to the effective date of FIN 45.

FASL LLC Operating Lease Guarantees

We guaranteed certain operating leases entered into by FASL LLC and its subsidiaries totaling approximately \$27 million as of December 28, 2003. The amounts guaranteed are reduced by the actual amount of lease payments paid by FASL LLC over the lease terms.

AMTC and BAC Guarantees

The Advanced Mask Technology Center GmbH & Co. KG (AMTC) and Maskhouse Building Administration GmbH & Co., KG (BAC) are joint ventures formed by us, Infineon Technologies AG and DuPont Photomasks, Inc. for the purpose of constructing and operating a new advanced photomask facility in Dresden, Germany. To finance the project, BAC and AMTC entered into a \$149 million revolving credit facility and a \$93 million term loan in December 2002. Also in December 2002, in order to occupy the photomask facility, AMTC entered into a rental agreement with BAC. With regard to these commitments by BAC and AMTC, we guaranteed up to approximately \$31 million plus interest and expenses under the term loan, up to approximately \$40 million plus interest and expenses under the revolving loan, and up to approximately \$17 million, initially, under the rental agreement. The obligations under the rental agreement guarantee diminish over time through 2011 as the term loan is repaid. However, under certain circumstances of default by the other tenant of the photomask facility under its rental agreement with BAC and certain circumstances of default by more than one joint venture partner under its rental agreement guarantee obligations, the maximum potential amount of our obligations under the rental agreement guarantee is approximately \$146 million. As of December 28, 2003, \$73 million was drawn under the revolving credit facility, and \$81 million was drawn under the term loan. These borrowings are subject to the aforementioned guarantees except that our guarantee obligations with respect to the term loan terminated in February 2004 because the AMTC occupied the photomask facility under the rental agreement during 2003 and the rental guarantee replaced the term loan guarantee.

Other Financial Matters

Fab 36. A significant amount of the costs of the Fab 36 project are denominated in euro. We used the exchange rate of 0.804 euro to one U.S. dollar as of December 28, 2003 to translate the amounts set forth below into U.S. dollars. We expect that over the next four years capital expenditures for Fab 36 will be approximately

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\$2.5 billion, of which approximately \$600 million will occur in 2004. In connection with the Fab 36 project, we expect to obtain external financing of approximately \$870 million in the form of loans from a consortium of banks, and up to approximately \$675 million in grants and allowances from the Federal Republic of Germany and the State of Saxony. We also expect to obtain financing of approximately \$398 million from the State of Saxony, through an investment entity, and a group of European investors led by the project engineer and general contractor, M+W Zander. We will provide the balance of the funding to construct and facilitate Fab 36. In addition, upon the execution of final documentation, which we expect will occur in the first half of 2004, we will be required to guarantee 100 percent of the obligations of AMD Fab 36 under the loan agreements with the banks and to fund any shortfalls in government grants and allowances. As of December 28, 2003, we have invested approximately \$25 million in exchange for our equity interest in AMD Fab 36.

FASL LLC. During the four-year period commencing on June 30, 2003, we are obligated to provide FASL LLC with additional funding to finance operations shortfalls, if any. Generally, FASL LLC is first required to seek any required financing from external sources. However, if such third-party financing is not available, we must provide funding to FASL LLC equal to our pro-rata ownership interest in FASL LLC, which is currently 60 percent. At this time, we believe that FASL LLC would be able to obtain such external financing when needed. However, there is no assurance that this will happen and currently we cannot estimate the amount of such additional funding, if any, that we are required to provide during this four-year period.

Outlook

In general, as we look ahead to 2004, we are encouraged by a recovering economy and positive projections for the semiconductor industry. During 2004 we expect to take advantage of additional cost efficiencies from our FASL LLC integration and from FASL LLC's conversion to 110-nanometer manufacturing process technology on certain of its products and our conversion to 90-nanometer manufacturing process technology for our microprocessor products. During the first quarter of 2004, for our Computation Products segment, we expect net sales to decline slightly in accordance with industry seasonal patterns. For our Memory Products segment, notwithstanding typical seasonal patterns, we expect net sales to be approximately flat for the quarter due to our position in the market and improving average selling prices, which we expect will be driven by increased average bit densities in the products sold and increased shipments of products based on MirrorBit technology. In the aggregate, we believe seasonal patterns will prevail and aggregate net sales will decline slightly in the first quarter of 2004.

We expect our capital investments in 2004 to increase in comparison with 2003. We plan to make capital investments of approximately \$1.5 billion during 2004, including Fab 36 construction and some equipment purchases, equipment purchases for FASL LLC's wafer fabrication and assembly and test facilities and to complete the transition to 90-nanometer manufacturing process technology at Fab 30. We expect depreciation and amortization expense to be approximately \$1.2 billion for 2004.

We believe that we will be profitable for fiscal 2004 and that gross margins will improve in comparison to 2003. However, economic and industry conditions remain uncertain and continue to make it particularly difficult to forecast product demand. If economic conditions do not continue to improve in the near term in accordance with our expectations, or if the semiconductor industry experiences a significant downturn, our revenues and profitability will be adversely affected.

We believe that cash flows from operations and current cash balances, together with external financing will be sufficient to fund operations and capital investments in the short term. Should additional funding be required such as to meet payment obligations of our long term debts when due, or to finance the construction and facilitization of Fab 36, we may need to raise the required funds through borrowings or public or private sales of debt or equity securities. Such funding may be obtained through bank borrowings or from the issuance of additional debt or equity securities, which may be issued from time to time under an effective registration

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statement; through the issuance of securities in a transaction exempt from registration under the Securities Act of 1933; or a combination of one or more of the foregoing. We believe, that in the event of such requirements, we will be able to access the capital markets on terms and in amounts adequate to meet our objectives. However, given the possibility of changes in market conditions or other occurrences, there can be no certainty that such funding will be available in quantities or on terms favorable to us.

Supplementary Stock-Based Incentive Compensation Disclosures

Section I. Option Program Description

Our stock option programs are intended to attract, retain and motivate highly qualified employees. We have several stock option plans under which key employees have been granted incentive (ISOs) and nonqualified (NSOs) stock options to purchase our common stock. Generally, options vest and become exercisable over a four year period from the date of grant and expire five to ten years after the date of grant. ISOs granted under the plans have exercise prices of not less than 100 percent of the fair market value of the common stock on the date of grant. Exercise prices of NSOs range from \$0.01 to the fair market value of the common stock on the date of grant.

Section II. General Option Information

The following is a summary of stock option activity for the years ended December 28, 2003 and December 29, 2002:

	Year Ended December 28, 2003		Year Ended December 29, 2002	
	Number of Shares	Weighted- Average Exercise Price	Number of Shares	Weighted- Average Exercise Price
(Thousands except share price)				
Options:				
Outstanding at beginning of period	60,408	\$ 18.58	52,943	\$ 20.44
Granted	5,575	9.46	11,829	5.62
Canceled	(22,642)	27.69	(3,413)	20.34
Exercised	(2,372)	7.86	(951)	6.23
Outstanding at end of period	40,969	\$ 12.92	60,408	\$ 18.58
Exercisable at end of period	28,624	\$ 13.66	33,807	\$ 19.55
Available for grant at beginning of period	13,019		21,146	
Available for grant at end of period	29,613		13,019	

In-the-money and out-of-the-money stock option information as of December 28, 2003, was as follows:

As of End of Quarter	Exercisable		Unexercisable		Total	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
(Thousands except share price)						
In-the-Money	20,981	\$ 9.21	8,933	N/A ⁽³⁾	29,914	\$ 8.99
Out-of-the-Money ⁽¹⁾	7,643	25.88	3,412	N/A ⁽³⁾	11,055	23.55
Total Options Outstanding	28,624	13.66	12,345		40,969 ⁽²⁾	12.92

(1) Out-of-the-money stock options have an exercise price equal to or above \$14.70, the market value of AMD's common stock, on the last trading day of the year, December 26, 2003.

(2) Includes 404,344 shares outstanding from treasury stock as non-plan grants.

(3) Weighted average exercise price information is not available.

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Section III. Distribution and Dilutive Effect of Options

Options granted to employees, including officers, and non-employee directors were as follows:

	2003	2002	2001
Net grants ⁽¹⁾ during the period as % of outstanding shares ⁽²⁾	(4.87)%	2.44%	3.71%
Grants to listed officers ⁽³⁾ during the period as % of total options granted	11.77%	14.33%	7.87%
Grants to listed officers ⁽³⁾ during the period as % of outstanding shares ⁽²⁾	0.19%	0.49%	0.33%
Cumulative options held by listed officers ⁽³⁾ as % of total options outstanding	22.90%	17.93%	16.51%

(1) Options grants are net of options canceled.

(2) Outstanding shares as of December 28, 2003, December 29, 2002 and December 30, 2001.

(3) The "listed officers" are those executive officers listed in the summary compensation table in our proxy statements for our annual meeting of stockholders held in 2004, 2003 and 2002.

On June 27, 2003, we filed a Tender Offer Statement with the SEC and made an offer, which was approved by our stockholders, to exchange certain stock options to purchase shares of our common stock, outstanding under eligible option plans and held by eligible employees, for replacement options to be granted no sooner than six months and one day from the cancellation of the surrendered options. The offer to exchange expired on July 25, 2003. Options to purchase approximately 19 million shares of our common stock were tendered for exchange and cancelled on July 28, 2003. On January 30, 2004, we granted options to purchase 12,111,371 shares of our common stock at an exercise price of \$14.86, which represented the closing price of our common stock on that date, in exchange for options cancelled. On that date, we also granted additional options to purchase 25,165 shares of our common stock at an exercise price of \$15.55 to employees of one of our foreign subsidiaries in exchange for options cancelled. We did not record compensation expense as a result of the exchange.

Recently Issued Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board issued Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46). Variable interest entities are often created for a single specified purpose, for example, to facilitate securitization, leasing, hedging, research and development, or other transactions or arrangements. In December 2003, the FASB issued Interpretation No. 46 (revised December 2003) (FIN 46R) which replaces FIN 46. This interpretation of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," defines what these variable interest entities are and provides guidelines on identifying them and assessing an enterprise's interests in a variable interest entity to decide whether to consolidate that entity. FIN 46R applies at different dates to different types of enterprises and entities, and special provisions apply to enterprises that have fully or partially applied FIN 46 prior to issuance of FIN 46R. Generally, application of FIN 46R is required in financial statements of public entities that have interests in variable interest entities or potential variable interest entities commonly referred to as special-purpose entities for periods ending after December 15, 2003. Application by public entities for all other types of entities is required in financial statements for periods ending after March 15, 2004. The adoption of FIN 46 or FIN 46R did not have a material impact on our results of operations or financial condition.

Risk Factors

We must achieve further market acceptance for our AMD Opteron and AMD Athlon 64 microprocessors, or we will be materially adversely affected. We introduced our AMD Opteron processors in April 2003, and we

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introduced our AMD Athlon 64 processors in September 2003. We designed these processors to provide users with the ability to take advantage of 64-bit applications while preserving their ability to run existing 32-bit applications on servers and workstations and on desktop and mobile PCs. The success of these processors is subject to risks and uncertainties including:

- market acceptance of our new 64-bit technology, AMD64, including the willingness of users to purchase products with 64-bit capability prior to having transitioned to 64-bit computing;
- our ability to produce these processors in a timely manner on new process technologies, including 90-nanometer silicon-on-insulator technology, in the volume and with the performance and feature set required by customers;
- our ability to successfully transition to 90-nanometer manufacturing process technology on a timely basis;
- the availability, performance and feature set of motherboards and chipsets designed for these processors; and
- the support of operating system and application program providers for our 64-bit instruction set, including timely development of 64-bit applications.

We cannot be certain that our substantial investments for research and development of process technologies will lead to timely improvements in technology and equipment used to fabricate our products or that we will have sufficient resources to invest in the level of research and development that is required to remain competitive. We make substantial investments in research and development for process technologies in an effort to improve the technologies and equipment used to fabricate our products. In December 2002 we executed an agreement with IBM to jointly develop new logic process technologies, particularly 65- and 45-nanometer technologies to be implemented on 300-millimeter silicon wafers, for use in producing future high-performance microprocessor products. The successful and timely development and implementation of silicon-on-insulator technology and the achievement of other milestones set forth in this agreement are critical to our AMD Opteron and AMD Athlon 64 microprocessors and to our ability to commence operations at Fab 36 in accordance with our planned schedule. During 2002 and 2003, we paid approximately \$190 million to IBM in connection with agreements and services related to research and development activities. We cannot be certain that we will be able to develop, or obtain or successfully implement leading-edge process technologies needed to fabricate future generations of our products profitably or on a timely basis. Furthermore, we cannot assure you that we will have sufficient resources to maintain the level of investment in research and development that is required for us to remain competitive or that our partnerships will be successful.

We have experienced substantial fluctuations in revenues since 2001, and we may experience declines in revenues and increases in operating losses in the future. Our historical financial results have been, and our future financial results are anticipated to be, subject to substantial fluctuations. Our total revenues were \$3,519 million for 2003 and \$2,697 million for 2002 compared to \$3,892 million for 2001. The decline from 2001 to 2002 was due primarily to a decrease in unit sales and in average selling prices for our Computation Products, resulting from the industry-wide weakness in PC sales, and a decrease in average selling prices for our Memory Products, reflecting continued weakness in the telecommunications and networking equipment industries, and the execution of our plan to align our microprocessor inventory in the supply chain with forecasted demand, which included our decision, primarily in the third and fourth quarters of 2002, to limit shipments and to accept receipt of product returns from certain customers. We incurred a net loss of \$274 million for the fiscal year ended December 28, 2003, and \$1.3 billion for 2002, compared to a net loss of \$61 million for 2001. If conditions do not continue to improve in the microprocessor or Flash memory markets in accordance with our expectations we may experience declines in revenue and operating losses. We cannot assure you that we will be able to return to profitability or that, if we do, we will be able to sustain it.

The semiconductor industry is highly cyclical and has until recently been in a severe downturn that adversely affected, and may in the future adversely affect, our business. The highly cyclical semiconductor industry has experienced significant downturns, often in connection with maturing product cycles, manufacturing overcapacity and declines in general economic conditions. The most recent downturn, which began in the fourth

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quarter of 2000, was severe and prolonged, and future downturns may also be severe and prolonged. Our financial performance has been negatively affected by these downturns, including the incurrence of substantial losses during the most recent downturn, as a result of:

- the cyclical nature of the supply/demand imbalances in the semiconductor industry;
- a decline in demand for end-user products that incorporate our semiconductors;
- excess inventory levels in the channels of distribution, including our customers;
- excess production capacity; and
- accelerated declines in average selling prices.

If conditions do not continue to improve in the near term in accordance with our expectations, or if these conditions in the semiconductor industry occur in the future, as they likely will to a lesser or greater degree, our business will be adversely affected.

Fluctuations in the personal computer market may continue to materially adversely affect us. The Computation Products segment of our business is dependent upon the PC market. Industry-wide fluctuations in the PC marketplace have materially adversely affected us in the past and may materially adversely affect us in the future. Depending on the growth rate of PCs sold, sales of our microprocessors may not grow and may even decrease. If end user demand for PCs is below our expectations, we may be adversely affected.

In addition, current trends of consolidation within the personal computer industry, as evidenced by the Hewlett-Packard/Compaq merger, as well as potential market share increases by customers who exclusively purchase microprocessors from Intel Corporation, such as Dell, Inc., could further materially adversely affect us.

We plan for significant capital expenditures in 2004, and if we cannot generate the capital required for these capital expenditures and other ongoing operating expenses through operating cash flow and external financing activities, we may be materially adversely affected. We plan for capital expenditures of approximately \$1.5 billion in 2004. Our ability to fund these expenditures depends on generating sufficient cash flow from operations and the availability of external financing, including third-party loans and investments for the Fab 36 project and third-party financing for FASL LLC's expansion plans. Our capital expenditures for 2004 include approximately \$600 million for the Fab 36 project and approximately \$160 million for the Fab 30 project. In addition, FASL LLC expects to spend approximately \$583 million in connection with its plans to increase the manufacturing capacity of its wafer fabrication and assembly and test facilities and for other research and development activities.

During the four-year period commencing on June 30, 2003, we are also obligated to provide FASL LLC with additional funding to finance operational cash flow needs. Generally, FASL LLC is first required to seek any required financing from external sources. However, if such third-party financing is not available, we must provide funding to FASL LLC equal to our pro-rata ownership interest in FASL LLC, which is currently 60 percent.

In addition, a significant amount of the costs of the Fab 36 project are denominated in euro. When we initially forecasted our budget for the Fab 36 project, we modeled certain financial assumptions, including that the foreign exchange rate, over time, would be one euro to one U.S. dollar. Since our initial forecast, the U.S. dollar has depreciated against the euro. If the U.S. dollar continues to depreciate against the euro, the costs of the Fab 36 project would be higher than we planned, which could have a material adverse effect on us.

These capital expenditures, together with ongoing operating expenses, will be a substantial drain on our cash flow and will decrease our cash balances. The timing and amount of our capital requirements cannot be precisely determined at this time and will depend on a number of factors, including demand for products, product mix, changes in semiconductor industry conditions and competitive factors. We regularly assess markets for external

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financing opportunities, including debt and equity. Additional debt or equity financing may not be available when needed or, if available, may not be available on satisfactory terms. Our inability to obtain needed debt and/or equity financing or to generate sufficient cash from operations may require us to abandon planned projects or curtail capital expenditures. If we abandon projects such as the Fab 36 project, we may have to write off related costs that we capitalized and we may be required to continue to make payments or otherwise be liable pursuant to then-existing contracts that we cannot terminate at will or without significant penalties, which would have a material adverse effect on us.

We have a substantial amount of debt and debt service obligations, and may incur additional debt, which could adversely affect our financial position and prevent us from fulfilling our obligations under the agreements governing our indebtedness. We have a substantial amount of debt and we may incur additional debt in the future. At December 28, 2003, our total debt was \$2.1 billion and stockholders' equity was \$2.4 billion. In addition, at December 28, 2003, we had up to \$125 million of availability under our July 2003 Loan Agreement (subject to our borrowing base). We had also guaranteed approximately \$243 million of debt, which is not reflected as debt on our balance sheet.

Our high degree of leverage may:

- limit our ability to use our cash flow or obtain additional financing for future working capital, capital expenditures, acquisitions or other general corporate purposes;
- require a substantial portion of our cash flow from operations to make debt service payments;
- limit our flexibility to plan for, or react to, changes in our business and industry;
- place us at a competitive disadvantage compared to our less leveraged competitors; and
- increase our vulnerability to the impact of adverse economic and industry conditions.

Our ability to make payments on and to refinance our debt or our guarantees of other parties' debts will depend on our financial and operating performance, which may fluctuate significantly from quarter to quarter and is subject to prevailing economic conditions and to financial, business and other factors many of which are beyond our control.

We cannot assure you that we will continue to generate sufficient cash flow or that we will be able to borrow funds under our credit facilities in amounts sufficient to enable us to service our debt, or meet our working capital and capital expenditure requirements. If we are not able to generate sufficient cash flow from operations or to borrow sufficient funds to service our debt, due to borrowing base restrictions or otherwise, we may be required to sell assets or equity, reduce capital expenditures, refinance all or a portion of our existing debt or obtain additional financing. We cannot assure you that we will be able to refinance our debt, sell assets or equity, or borrow more funds on terms acceptable to us, if at all.

If we are not successful in integrating the operations of FASL LLC, we could be materially adversely affected. Effective June 30, 2003, we and Fujitsu Limited executed several agreements that resulted in the integration of our and Fujitsu's Flash memory operations. We contributed Flash memory inventory, Fab 25 in Austin, Texas, the SDC, and our Flash memory assembly and test operations in Thailand, Malaysia and China. Fujitsu contributed its Flash memory division, including related inventory, cash, and its Flash memory assembly and test operations in Malaysia. In addition, both we and Fujitsu contributed our respective investments in our previous Manufacturing Joint Venture, Fujitsu AMD Semiconductor Limited, located in Aizu-Wakamatsu, Japan, which became a wholly owned subsidiary of FASL LLC.

Our anticipated benefits from this transaction are subject to, among other things, the following risks:

- the possibility that FASL LLC will not be successful because of problems integrating the operations and employees of the two companies or achieving the efficiencies and other advantages intended by the transaction; and

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- the possibility that global business and economic conditions will worsen, resulting in lower than currently expected demand for Flash memory products.

We cannot assure you that we will be able to successfully integrate these operations or that we will be able to achieve and sustain any benefit from FASL LLC's creation.

Intel Corporation's dominance of the microprocessor market, its position in the Flash memory market and its business practices may limit our ability to compete effectively. Intel has dominated the market for microprocessors used in desktop and mobile PCs for many years. Intel is also a significant competitor in the server segment of the microprocessor market and in the Flash memory market. Because of its dominant position, Intel has been able to control x86 microprocessor and PC system standards and dictate the type of products the microprocessor market requires of Intel's competitors. In addition, Intel's significant financial resources allow it to market its products aggressively, to target our customers and our channel partners with special incentives, and to discipline customers who do business with us. These aggressive activities can result in lower unit sales and average selling prices for our products and adversely affect our margins and profitability. Intel also exerts substantial influence over PC manufacturers and their channels of distribution through the "Intel Inside" brand program and other marketing programs. As long as Intel remains in this dominant position, we may be materially adversely affected by its:

- pricing and allocation strategies and actions;
- product mix and introduction schedules;
- product bundling, marketing and merchandising strategies;
- exclusivity payments to its current and potential customers;
- control over industry standards, PC manufacturers and other PC industry participants, including motherboard, chipset and basic input/output system, or BIOS, suppliers; and
- user brand loyalty.

Intel also dominates the PC system platform. As a result, PC OEMs are highly dependent on Intel, less innovative on their own and, to a large extent, are distributors of Intel technology. In marketing our microprocessors to OEMs we depend on third-party companies other than Intel for the design and manufacture of core-logic chipsets, graphics chips, motherboards, BIOS software and other components. In recent years, many of these third-party designers and manufacturers have lost significant market share to Intel or exited the business. In addition, these companies produce chipsets, motherboards, BIOS software and other components to support each new generation of Intel's microprocessors, and Intel has significant leverage over their business opportunities.

We do not currently plan to develop microprocessors that are bus interface protocol compatible with Intel microprocessors because our patent-cross license agreement with Intel does not extend to microprocessors that are bus interface protocol compatible with Intel's six and subsequent generation processors. Thus, our microprocessors are not designed to function with motherboards and chipsets designed to work with Intel microprocessors. Our ability to compete with Intel in the market for microprocessors will depend on our ability to develop relationships with infrastructure providers and ensure that these third-party designers and manufacturers design PC platforms to support new generations of our microprocessors. A failure of the designers and producers of motherboards, chipsets and other system components to support our microprocessor offerings, particularly our new AMD Athlon 64 and AMD Opteron microprocessors, would have a material adverse effect on us.

We expect Intel to maintain its dominant position in the microprocessor market as well as to continue to invest heavily in research and development, new manufacturing facilities and other technology companies. Intel has substantially greater financial resources than we do and accordingly spends substantially greater amounts on research and development than we do. We expect competition from Intel to increase in 2004 and beyond to the

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extent Intel reduces prices for its products and as Intel introduces new competitive products. For example, in February 2004, Intel announced that it intends to introduce 64-bit processors for servers and workstations that will be able to run existing 32-bit software applications in mid-2004. We believe that these processors will compete with our AMD Opteron microprocessors. In addition, Intel announced that it will offer 64-bit processors for the desktop market and other market segments that will be able to run existing 32-bit software applications in a time frame based on both timing and availability of the infrastructure required to support them, and customer demand. These products would compete with our AMD Athlon 64 microprocessors. Moreover, Intel currently manufactures certain of its microprocessor products on 300-millimeter wafers using 90-nanometer process technology. Use of 90-nanometer technology can result in products that are higher performing, use less power and that cost less to manufacture. Use of 300-millimeter wafers can decrease manufacturing costs and increase capacity by yielding more equivalent chips per wafer than 200-millimeter wafers. We have not yet made comparable transitions at our microprocessor manufacturing facilities. As a result, we may be more vulnerable to Intel's aggressive pricing strategies for microprocessor products. Intel's strong position in the microprocessor market, its existing relationships with top-tier OEMs and its aggressive pricing strategies could result in lower unit sales and average selling prices for our products, which could adversely affect our revenues.

If we are unable to develop, produce and successfully market higher-performing microprocessor products, we may be materially adversely affected. The microprocessor market is characterized by short product life cycles and migration to ever-higher performance microprocessors. To compete successfully, we must transition to new process technologies at a fast pace and offer higher-performance microprocessors in significantly greater volumes at competitive prices. If we fail to achieve yield and volume goals or to offer higher-performance microprocessors in significant volume on a timely basis and at competitive prices, we could be materially adversely affected.

To be successful, we must increase sales of our x86 microprocessor products to existing customers and develop new customers in both consumer and commercial markets, particularly the latter. Our production and sales plans for microprocessors are subject to other risks and uncertainties, including:

- market acceptance for the AMD Opteron and AMD Athlon 64 microprocessors, which rely on market acceptance and demand for our AMD64 technology;
- our ability to fund our planned 300-millimeter wafer fabrication facility and develop associated process technologies that will be required for long-term competitiveness;
- our ability to increase our share of the enterprise market with tier-one OEM customers in order to have the demand necessary to utilize the capacity of our planned 300-millimeter wafer fabrication facility;
- our ability to successfully market the AMD Athlon XP, AMD Opteron, AMD Athlon 64 and AMD Duron processors, which rely in part on market acceptance of a metric based on overall processor performance versus processor clock speed (measured in megahertz frequency);
- the pace at which we expect to be able to convert production in Fab 30 to 90-nanometer process technology;
- our ability to maintain adequate selling prices of microprocessors despite increasingly aggressive Intel pricing strategies, marketing programs, new product introductions and product bundlings of microprocessors, motherboards and chipsets;
- our ability, on a timely basis, to produce microprocessors in the volume and with the performance and feature set required by customers;
- our ability to attract and retain engineering and design talent;
- our ability to expand system design capabilities; and
- the availability and acceptance of motherboards and chipsets designed for our microprocessors.

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Our ability to increase microprocessor product revenues and benefit fully from the substantial investments we have made and continue to make related to microprocessors depends on the success of our AMD Opteron and AMD Athlon 64 processors and the continuing success of our AMD Athlon XP and AMD Duron microprocessors. If we fail to achieve continued and expanded market acceptance of our microprocessors, we may be materially adversely affected.

If we were to lose Microsoft Corporation's support for our products, our ability to market our processors would be materially adversely affected. Our ability to innovate beyond the x86 instruction set controlled by Intel depends on Microsoft's designing and developing its operating systems to run on or support our microprocessor products. If Microsoft does not continue to design and develop its operating systems so that they work with our x86 instruction sets, including our AMD64 technology introduced with our AMD Opteron and AMD Athlon 64 processors, independent software providers may forego designing their software applications to take advantage of our innovations and customers may not purchase PCs with our microprocessors. If we fail to retain the support of Microsoft, our ability to market our processors could be materially adversely affected.

The loss of a significant customer for our Spansion Flash memory products in the high-end mobile telephone market, or a lack of market acceptance of FASL LLC's MirrorBit technology may have a material adverse effect on us. Since the third quarter of 2002, our Flash memory product sales growth was almost entirely based on strength in the high-end mobile phone market. To date, our sales in that market have been concentrated with a few customers. In addition, we expect competition in the market for Flash memory devices to continue to increase as new competitors enter the Flash memory market, particularly the NOR segment, existing competing manufacturers introduce new products or pursue aggressive pricing strategies and industry-wide production capacity increases. We may be unable to maintain or increase our market share in Flash memory devices as the market develops and other competitors introduce new competing products. A decline in unit sales of our Flash memory devices, lower average selling prices, a downturn in the mobile phone market or a loss of a significant mobile phone customer, would have a material adverse effect on us.

In July 2002, we commenced production shipments of the first product with MirrorBit technology. MirrorBit technology is a memory cell architecture that enables Flash memory products to hold twice as much data as standard Flash memory devices. A lack of customer or market acceptance, or any substantial difficulty in transitioning Flash memory products, including those based on MirrorBit technology, to any future process technology could reduce FASL LLC's ability to be competitive in the market and could have a material adverse effect on us.

Spansion Flash memory products are based on the NOR architecture, and a significant market shift to the NAND architecture could materially adversely affect us. Spansion Flash memory products are based on the Boolean logic-based NOR (Not Or) architecture, which is typically used for code execution. FASL LLC does not manufacture products based on NAND (Not And) architecture, which typically offers greater storage capacity. During 2003, sales of products based on NAND architecture have grown at higher rates than sales of NOR products. This has resulted in the NAND vendors gaining a greater share of the overall Flash market. Any significant shift in the marketplace to products based on NAND architecture or other architectures may reduce the total market available to us and therefore reduce our market share, which could have a material adverse effect on us.

Worldwide economic and political conditions may affect demand for our products and slow payment by our customers. The recent economic slowdown in the United States and worldwide, exacerbated by the occurrence and threat of terrorist attacks and consequences of sustained military action in the Middle East, adversely affected demand for our products. Although economic conditions began to improve in the second half of 2003, another decline of the worldwide semiconductor market or a future decline in economic conditions in any significant geographic area would likely decrease the overall demand for our products, which could have a material adverse effect on us. If the economic slowdown returns as a result of terrorist activities, military action or otherwise, it could adversely impact our customers' ability to pay us in a timely manner.

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Manufacturing capacity constraints and manufacturing capacity utilization rates may adversely affect us. There may be situations in which our manufacturing facilities are inadequate to meet the demand for certain of our products. Our inability to obtain sufficient manufacturing capacity to meet demand, either in our own facilities or through foundry or similar arrangements with others, could have a material adverse effect on us. If we do not transition to 90-nanometer manufacturing process technology at Fab 30 on a timely basis, we may not be able to meet the demand for certain of our microprocessor products. In addition, FASL LLC's manufacturing facilities may be inadequate to meet our demand for certain Flash memory products. As a result, FASL LLC may not be able to provide us with sufficient quantities of these products to allow us to meet demand for these products from our customers.

At times we may underutilize our manufacturing facilities as a result of reduced demand for certain of our products. We are substantially increasing our manufacturing capacity by building Fab 36, transitioning to smaller manufacturing process technologies and making significant capital investments in Fab 30. In addition, FASL LLC is increasing its manufacturing capacity by transitioning to smaller manufacturing process technologies, expanding Fab 25, JV1, JV2, and JV3 and increasing the capacity of its assembly and test facilities to accommodate both a growth in units that transition to higher densities and an increase in MCP products. If the increase in demand for our products is not consistent with our expectations, we and FASL LLC may underutilize manufacturing facilities, and we could be materially adversely affected. This has in the past had, and in the future may have, a material adverse effect on our earnings and cash flow.

We believe that at this time, the most significant risk is manufacturing capacity constraint.

Unless we maintain manufacturing efficiency, our future profitability could be materially adversely affected. Manufacturing semiconductor components involves highly complex processes that require advanced equipment. We and our competitors continuously modify these processes in an effort to improve yields and product performance, and decrease costs. During 2004, we plan to transition our microprocessor production to 90-nanometer process technology, and FASL LLC intends to transition the production of certain of its memory products to 110-nanometer process technology. During periods when we or FASL LLC are implementing new process technologies, our or FASL LLC's manufacturing facilities may not be fully productive. Substantial delay in the technology transitions in Fab 30 to smaller process technologies employing silicon-on-insulator technology and in FASL LLC's wafer fabrication facilities to smaller geometries could have a material adverse effect on us, particularly if our competitors transition to more cost effective technologies earlier than we do. For example, Intel currently manufactures certain microprocessor products on 300-millimeter wafers using 90-nanometer process technology. Use of 90-nanometer technology can result in products that are higher performing, use less power and that cost less to manufacture. Use of 300-millimeter wafers can decrease manufacturing costs and increase capacity by yielding more equivalent chips per wafer than 200-millimeter wafers. We have not yet made comparable transitions at our microprocessor manufacturing facilities. Furthermore, impurities or other difficulties in the manufacturing process can lower yields. Our manufacturing efficiency will be an important factor in our future profitability, and we cannot be sure that we will be able to maintain our manufacturing efficiency or increase manufacturing efficiency to the same extent as our competitors.

We may experience manufacturing problems in achieving acceptable yields or product delivery delays in the future as a result of, among other things, capacity constraints, construction delays, delays in meeting the milestones set forth in our joint development agreement with IBM, upgrading or expanding existing facilities, or changing our process technologies, which could result in a loss of future revenues. Our results of operations could also be adversely affected by the increase in fixed costs and operating expenses related to increases in production capacity if revenues do not increase proportionately.

External factors, such as the SARS virus, bird flu and potential terrorist attacks and other acts of violence or war, may materially adversely affect us. In early 2003, the severe acute respiratory syndrome (SARS) virus

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had an adverse effect upon the Asian economies and affected demand for our products in Asia. A new outbreak of the virus, or a new virus such as the recent bird flu virus, could have a similar impact on demand for our products in Asia. In addition, if there were to be a case of SARS discovered in any of our operations in Asia, the measures to prevent the spread of the virus could disrupt our operations at that location.

Terrorist attacks may negatively affect our operations directly or indirectly and such attacks or related armed conflicts may directly impact our physical facilities or those of our suppliers or customers. Furthermore, these attacks may make travel and the transportation of our products more difficult and more expensive, and ultimately affect our sales.

Also as a result of terrorism, the United States may be involved in armed conflicts that could have a further impact on our sales, our supply chain and our ability to deliver products to our customers. Political and economic instability in some regions of the world may also result and could negatively impact our business. The consequences of armed conflicts are unpredictable, and we may not be able to foresee events that could have an adverse effect on our business.

More generally, any of these events could cause consumer confidence and spending to decrease or result in increased volatility to the United States economy and worldwide financial markets. Any of these occurrences could have a significant impact on our operating results and financial condition, and also may result in the volatility of the market price for our securities and on the future prices of our securities.

Intense competition in the integrated circuit industry may materially adversely affect us. The integrated circuit industry is intensely competitive. Products compete on performance, quality, reliability, price, adherence to industry standards, software and hardware compatibility, marketing and distribution capability, brand recognition, and availability. After a product is introduced, costs and average selling prices normally decrease over time as production efficiency improves, competitors enter the market, and successive generations of products are developed and introduced for sale. Failure to reduce our costs on existing products or to develop and introduce, on a cost-effective and timely basis, new products or enhanced versions of existing products with higher margins, would have a material adverse effect on us.

If our microprocessors are not compatible with some or all industry-standard software and hardware, we could be materially adversely affected. Our microprocessors may not be fully compatible with some or all industry-standard software and hardware. Further, we may be unsuccessful in correcting any such compatibility problems in a timely manner. If our customers are unable to achieve compatibility with software or hardware after our products are shipped in volume, we could be materially adversely affected. In addition, the mere announcement of an incompatibility problem relating to our products could have a material adverse effect on us.

Our debt instruments impose restrictions on us that may adversely affect our ability to operate our business. Our July 2003 Loan Agreement, as amended, contains restrictive covenants and also requires us to maintain specified financial ratios and satisfy other financial condition tests when our net domestic cash is below specified amounts, and the Dresden Loan Agreements impose restrictive covenants on AMD Saxony, including a restriction on its ability to pay dividends. The July 2003 FASL Term Loan contains restrictive covenants, including a prohibition on FASL LLC's ability to pay dividends and also requires FASL LLC to maintain specified financial ratios and satisfy other financial condition tests when its net domestic cash is below specified amounts.

Our ability to satisfy the covenants, financial ratios and tests of our debt instruments, and FASL LLC's ability to satisfy the covenants, financial ratios and tests of the July 2003 FASL Term Loan, can be affected by events beyond our or FASL LLC's control. We cannot assure you that we or FASL LLC will meet those requirements. A breach of any of these covenants, financial ratios or tests could result in a default under our July 2003 Loan Agreement, the July 2003 FASL Term Loan and/or the Dresden Loan Agreements. In addition, these agreements contain cross-default provisions whereby a default under one agreement would likely result in

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cross-default under agreements covering other borrowings. For example, the occurrence of a default under the July 2003 FASL Term Loan would cause a cross-default under the July 2003 Loan Agreement and a default under the July 2003 Loan Agreement or under the indentures governing our 4.75% Debentures and our 4.50% Notes would cause a cross-default under the Dresden Loan Agreements. The occurrence of a default under any of these borrowing arrangements would permit the applicable lenders or note holders to declare all amounts outstanding under those borrowing arrangements to be immediately due and payable and would permit the lenders to terminate all commitments to extend further credit. If we or FASL LLC were unable to repay those amounts, the lenders under the July 2003 Loan Agreement, the July 2003 FASL Term Loan Agreement and the Dresden Loan Agreements could proceed against the collateral granted to them to secure that indebtedness. We have granted a security interest in substantially all of our inventory and accounts receivable under our July 2003 Loan Agreement, FASL LLC has granted a security interest in certain property, plant and equipment as security under the July 2003 FASL Term Loan Agreement, and AMD Saxony has pledged substantially all of its property as security under the Dresden Loan Agreements. If the lenders under any of the credit facilities or the note holders or the trustee under the indentures governing our 4.75% Debentures and our 4.50% Notes accelerate the repayment of borrowings, we cannot assure you that we will have sufficient assets to repay those borrowings and our other indebtedness.

Costs related to defective products could have a material adverse effect on us. One or more of our products may be found to be defective after the product has been shipped to customers in volume. The cost of a recall, software fix, product replacements and/or product returns may be substantial and could have a material adverse effect on us. In addition, modifications needed to fix the defect may impede performance of the product.

If essential raw materials are not available to manufacture our products, we could be materially adversely affected. Certain raw materials we use in the manufacture of our products and FASL LLC uses in the manufacture of its products are available from a limited number of suppliers. For example, we are dependent on key chemicals from a limited number of suppliers and rely on a few foreign companies to supply the majority of certain types of integrated circuit packages we purchase. Similarly, FASL LLC purchases commercial non-Flash memory die, such as SRAM, from third party suppliers and incorporates these die into its MCP products. Interruption of supply or increased demand in the industry could cause shortages and price increases in various essential materials. If we or FASL LLC are unable to procure certain of these materials, we or FASL LLC might have to reduce our manufacturing operations. Such a reduction could have a material adverse effect on us.

Our operations in foreign countries are subject to political and economic risks, which could have a material adverse effect on us. Nearly all product assembly and final testing of our microprocessor products are performed at our manufacturing facilities in Malaysia, and Singapore; or by subcontractors in the United States and Asia. Nearly all product assembly and final testing of Spansion products are performed at FASL LLC's facilities in Malaysia, Thailand, and China. We manufacture our microprocessors in Germany. We also depend on foreign foundry suppliers for the production of our Personal Connectivity Solutions and chipset products, international joint ventures for the manufacture of optical photomasks that we intend to use in the manufacture of our microprocessors, and we have international sales operations.

The political and economic risks associated with our operations in foreign countries include:

- expropriation;
- changes in a specific country's or region's political or economic conditions;
- trade protection measures and import or export licensing requirements;
- difficulty in protecting our intellectual property;
- changes in foreign currency exchange rates and currency controls;
- changes in freight and interest rates;
- disruption in air transportation between the United States and our overseas facilities; and
- loss or modification of exemptions for taxes and tariffs;

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Any of the above risks, should they occur, could have a material adverse effect on us.

As part of our business strategy, we are continuing to seek expansion of product sales in emerging overseas markets. Expansion into emerging overseas markets presents similar political and economic risks as described above, and we may be unsuccessful in our strategy to penetrate these emerging overseas markets.

Also, a significant portion of the manufacturing costs for our microprocessor products is denominated in euros while sales of those products are denominated primarily in U.S. dollars. If the U.S. dollar continues to depreciate against the euro in the foreign exchange market, our gross margins may deteriorate.

Our inability to continue to attract and retain key personnel may hinder our product development programs. Our future success depends upon the continued service of numerous key engineering, manufacturing, marketing, sales and executive personnel. If we are not able to continue to attract, retain and motivate qualified personnel necessary for our business, the progress of our product development programs could be hindered, and we could be otherwise materially adversely affected.

Our inability to effectively implement new modules of our enterprise resource planning system could have a material adverse effect on us. In November 2003, we restarted the implementation of the sales and distribution modules of the enterprise resource planning (ERP) system that we initially began implementing in early 2002 and postponed from September 2002 to November 2003 as part of our cost-cutting initiatives. The ERP system is intended to provide an integrated information system to serve all of AMD. We are heavily dependent on the proper function of our internal systems to conduct our business. System failure or malfunctioning may result in disruption of operations and the inability to process transactions. If we encounter unforeseen problems with regard to system operations or these additional module implementations, we could be materially adversely affected. In addition, if the semiconductor industry does not continue to improve in accordance with our expectations or undergoes another downturn or if demand for our products is lower than our expectations, we may again postpone implementation of these modules.

We rely on third parties to provide supply-chain logistics functions, including physical distribution of our products, and some information technology services. We rely on a third-party provider to deliver our products to our customers and to distribute materials for Fab 25 and the SDC. In addition, we rely on a third-party provider in India to provide certain information technology services to us, including helpdesk support, desktop application services, business and software support applications, server and storage administration, data center operations, database administration, and voice, video and remote access. Our relationships with these providers is governed by fixed term contracts. We cannot guarantee that these providers will fulfill their respective responsibilities in a timely manner in accordance with the contract terms, in which case our internal operations, the distribution of our products to our customers and the distribution of materials for Fab 25 and the SDC may be adversely affected. Also, we cannot guarantee that our contracts with these third-party providers will be renewed, in which case we would have to transition these functions in-house or secure new providers, which may have a material adverse effect on our business, results of operations and financial condition.

In addition, we decided to co-source these functions to third parties primarily to lower our operating expenses and create a more variable cost structure for the company. However, if the costs related to administration, communication and coordination of these third-party providers are greater than we expect, then we will not realize our anticipated cost savings.

Our operating results are subject to substantial seasonal fluctuations. Our operating results tend to vary seasonally. For example, our revenues are generally higher in the fourth quarter than the third quarter of each year. This seasonal pattern is largely a result of decreased demand in Europe during the summer months and higher demand in the retail sector of the PC market during the winter holiday season. In recent quarters, a substantial portion of our quarterly sales have been made in the last month of the quarter.

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Uncertainties involving the ordering, and shipment of, and payment for our products could materially adversely affect us. Our sales are typically made pursuant to individual purchase orders, and we generally do not have long-term supply arrangements with our customers. Generally, our customers may cancel orders 30 days prior to shipment without incurring a significant penalty. We base our inventory levels on customers' estimates of demand for their products, which is difficult to predict. This difficulty may be compounded when we sell to OEMs indirectly through distributors, as our forecasts for demand are then based on estimates provided by multiple parties. In addition, our customers may change their inventory practices on short notice for any reason. The cancellation or deferral of product orders, the return of previously sold products or overproduction due to failure of anticipated orders to materialize could result in excess or obsolete inventory, which could result in write-downs of inventory. While we believe inventories in the supply chain are currently at reasonable levels, market conditions are uncertain and these and other factors could materially adversely affect our revenues.

Our price-protection obligations and return rights under specific provisions in our agreements with distributors may adversely affect us. Distributors typically maintain an inventory of our products. In most instances, our agreements with distributors protect their inventory of our products against price reductions, as well as products that are slow moving or have been discontinued. These agreements, which may be canceled by either party on a specified notice, generally allow for the return of our products. We defer the gross margins on our sales to distributors, resulting from both our deferral of revenue and related product costs, until the applicable products are re-sold by the distributors. The price protection and return rights we offer to our distributors could materially adversely affect us if distributors exercise these rights as a result of an unexpected significant decline in the price of our products or otherwise.

If we cannot adequately protect our technology or other intellectual property, in the United States and abroad, through patents, copyrights, trade secrets, trademarks and other measures, we may lose a competitive advantage and incur significant expenses. We may not be able to adequately protect our technology or other intellectual property, in the United States and abroad, through patents, copyrights, trade secrets, trademarks and other measures. Any patent licensed by us or issued to us could be challenged, invalidated or circumvented or rights granted thereunder may not provide a competitive advantage to us. Furthermore, patent applications that we file may not result in issuance of a patent. Despite our efforts to protect our rights, others may independently develop similar products, duplicate our products or design around our patents and other rights. In addition, it is difficult to cost-effectively monitor compliance with, and enforce, our intellectual property on a worldwide basis.

From time to time, we have been notified that we may be infringing intellectual property rights of others. If any such claims are asserted against us, we may seek to obtain a license under the third party's intellectual property rights. We cannot assure you that all necessary licenses can be obtained on satisfactory terms, if at all. We could decide, in the alternative, to resort to litigation to challenge such claims. Such challenges could be extremely expensive and time-consuming and could have a material adverse effect on us. We cannot assure you that litigation related to the intellectual property rights of us and others will always be avoided or successfully concluded.

Failure to comply with any applicable environmental regulations could result in a range of consequences including fines, suspension of production, alteration of manufacturing process, sales limitations, and criminal and civil liabilities. Existing or future regulations could require us or FASL LLC to procure expensive pollution abatement or remediation equipment, to modify product designs or to incur other expenses associated with compliance with environmental regulations. Any failure to control the use of, disposal or storage of, or adequately restrict the discharge of, hazardous substances could subject us to future liabilities and could have a material adverse effect on our business.

Future litigation proceedings may materially affect us. From time to time we are a defendant or plaintiff in various legal actions. Litigation can involve complex factual and legal questions and its outcome is uncertain.

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Any claim that is successfully asserted against us may cause us to pay substantial damages. In addition, future litigation may result in injunctions against future product sales. Even if we were to prevail, any litigation could be costly and time-consuming and would divert the attention of our management and key personnel from our business operations, which could have a material adverse effect on us.

Our corporate headquarters in California and FASL LLC's manufacturing facilities in Japan are located in earthquake zones and these operations could be interrupted in the event of an earthquake. Our corporate headquarters are located near major earthquake fault lines in California and FASL LLC's wafer fabrication facilities are located near major earthquake fault lines in Japan. In the event of a major earthquake, we and FASL LLC could experience business interruptions, destruction of facilities and/or loss of life, all of which could materially adversely affect us.

The conversion of our outstanding 4.50% Notes could have a significant negative impact on our earnings per share and the market price of our common stock. On November 25, 2002, we sold \$402.5 million of our 4.50% Notes in a registered offering. The 4.50% Notes are convertible at the option of the holder at any time prior to the close of business on the business day immediately preceding the maturity date of December 1, 2007, unless previously redeemed or repurchased, into shares of common stock at a conversion price of \$7.37 per share, subject to adjustment in certain circumstances. At this conversion price, each \$1,000 principal amount of the 4.50% Notes will be convertible into approximately 135 shares of our common stock, for an aggregate potential issuance of approximately 54 million additional shares. On March 1, 2004, the closing price of our common stock, as reported on the New York Stock Exchange was \$14.89. If the holders of our 4.50% Notes elect to convert all or some of their notes into common stock, our existing stockholders could experience significant dilution.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Interest Rate Risk. Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio. In order to reduce this interest rate risk, we usually invest our cash in investments with short maturities. As of December 28, 2003, substantially all of our investments in our portfolio were short-term investments and consisted primarily of bank notes, short-term corporate notes, short-term money market auction rate preferred stocks and short-term federal agency notes.

The majority of our debt obligations are fixed rate and long term. We continually monitor market conditions and enter into hedges when appropriate. We do not currently have any hedges of interest rate risk in place. We do not use derivative financial instruments for speculative or trading purposes.

Default Risk. We mitigate default risk by investing in only the highest credit quality securities and by constantly positioning our portfolio to respond appropriately to a significant reduction in a credit rating of any investment issuer or guarantor. The portfolio includes only marketable securities with active secondary or resale markets to ensure portfolio liquidity. We are averse to principal loss and ensure the safety and preservation of our invested funds by limiting default risk and market risk.

We use proceeds from debt obligations primarily to support general corporate purposes, including capital expenditures and working capital needs.

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The following table presents the cost basis, fair value and related weighted-average interest rates by year of maturity for our investment portfolio and debt obligations as of December 28, 2003 and comparable fair values as of December 29, 2002:

	2004	2005	2006	2007	2008	Thereafter	Total	2003 Fair value	2002 Fair value
(Dollars in Thousands)									
Investment Portfolio									
Cash equivalents:									
Fixed rate amounts	\$ 256,558	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 256,558	\$ 256,515	\$ 14,276
Weighted-average rate	1.05%	—	—	—	—	—	—	—	—
Variable rate amounts	\$ 575,614	—	—	—	—	—	\$ 575,614	\$ 576,204	\$ 109,076
Weighted-average rate	1.01%	—	—	—	—	—	—	—	—
Short-term investments:									
Fixed rate amounts	\$ 18,331	\$ 8,387	\$ —	\$ —	\$ —	\$ —	\$ 26,718	\$ 26,703	\$ 336,494
Weighted-average rate	2.41%	2.38%	—	—	—	—	—	—	—
Variable rate amounts	\$ 100,774	—	—	—	—	—	\$ 100,774	\$ 100,860	\$ 272,463
Weighted-average rate	1.30%	—	—	—	—	—	—	—	—
Long-term investments:									
Equity investments	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 7,765	\$ 7,765	\$ 16,845	\$ 7,885
Fixed rate amounts	\$ 12,100	—	—	—	—	—	\$ 12,100	\$ 12,163	\$ 12,554
Weighted-average rate	1.30%	—	—	—	—	—	—	—	—
Total Investment Portfolio	\$ 963,377	\$ 8,387	\$ —	\$ —	\$ —	\$ 7,765	\$ 979,529	\$ 989,290	\$ 752,748
Debt Obligations									
Debt—fixed rate amounts	\$ —	\$ —	\$ —	\$ 402,500	\$ —	\$ 500,000	\$ 902,500	\$ 902,500	\$ 902,500
Weighted-average rate	—	—	—	4.50%	—	4.75%	4.64%	4.64%	—
Debt—variable rate amounts	\$ 109,586	\$ 418,040	\$ 383,270	\$ 33,586	\$ —	\$ —	\$ 944,482	\$ 944,482	\$ 697,234
Weighted-average rate	3.53%	4.90%	4.86%	0.98%	—	—	4.60%	4.60%	—
Notes payable to banks	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 913
Weighted-average rate	—	—	—	—	—	—	—	—	—
Capital leases	\$ 83,680	\$ 84,022	\$ 74,228	\$ 3,899	\$ 129	\$ —	\$ 245,958	\$ 244,641	\$ 37,229
Weighted-average rate	5.40%	5.15%	4.89%	9.59%	3.90%	—	5.50%	5.50%	—
Total Debt Obligations	\$ 193,266	\$ 502,062	\$ 457,498	\$ 439,985	\$ 129	\$ 500,000	\$ 2,092,940	\$ 2,091,623	\$ 1,637,876

Foreign Exchange Risk. We use foreign currency forward and option contracts to reduce our exposure to currency fluctuations on our foreign currency exposures in our foreign sales subsidiaries and AMD Saxony and for foreign currency denominated fixed-asset purchase commitments. The objective of these contracts is to minimize the impact of foreign currency exchange rate movements on our operating results and on the cost of capital asset acquisitions. Our accounting policy for these instruments is based on our designation of such instruments as hedges of underlying exposure to variability in cash flows. We do not use these contracts for speculative or trading purposes.

We had an aggregate of \$421 million (notional amount) of short-term foreign currency forward contracts and purchased call option contracts denominated in Japanese yen and European Union euro outstanding as of December 28, 2003.

Unrealized gains and losses related to the foreign currency forward and option contracts for the year ended December 28, 2003 were not material. We do not anticipate any material adverse effect on our consolidated financial position, results of operations or cash flows resulting from the use of these instruments in the future. However, we cannot give any assurance that these strategies will be effective or that transaction losses can be minimized or forecasted accurately.

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The following table provides information about our foreign currency forward and option contracts as of December 28, 2003 and December 29, 2002. All of our foreign currency forward contracts and option contracts mature within the next 12 months.

	2003			2002		
	Notional amount	Average contract rate	Estimated fair value	Notional amount	Average contract rate	Estimated fair value
(Thousands except contract rates)						
Foreign currency forward contracts:						
Japanese yen	\$ —	—	\$ —	\$ 30,394	123.38	\$ 872
European Union euro	199,458	1.1398	17,616	224,267	0.9344	24,328
Foreign currency option contracts:						
Japanese yen	58,260	115.00	4,605	29,600	125.00	1,326
European Union euro	163,400	1.1671	11,034	207,450	0.9430	20,064
	\$ 421,118		\$ 33,255	\$ 491,711		\$ 46,590

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Consolidated Statements of Operations

	Three Years Ended December 28, 2003		
	2003	2002	2001
	(Thousands except per share amounts)		
Net sales	\$ 3,070,228	\$ 2,697,029	\$ 3,891,754
Net sales to related party (see Note 3)	448,940	—	—
Total net sales	3,519,168	2,697,029	3,891,754
Expenses:			
Cost of sales	2,327,063	2,105,661	2,589,747
Research and development	852,075	816,114	650,930
Marketing, general and administrative	587,307	670,065	620,030
Restructuring and other special charges, net	(13,893)	330,575	89,305
	3,752,552	3,922,415	3,950,012
Operating loss	(233,384)	(1,225,386)	(58,258)
Interest income and other, net	21,116	32,132	25,695
Interest expense	(109,960)	(71,349)	(61,360)
Loss before minority interest, income taxes, and equity in net income of Manufacturing Joint Venture	(322,228)	(1,264,603)	(93,923)
Minority interest in loss of subsidiary	44,761	—	—
Loss before income taxes and equity in net income of Manufacturing Joint Venture	(277,467)	(1,264,603)	(93,923)
Provision (benefit) for income taxes	2,936	44,586	(14,463)
Loss before equity in net income of Manufacturing Joint Venture	(280,403)	(1,309,189)	(79,460)
Equity in net income of Manufacturing Joint Venture	5,913	6,177	18,879
Net loss	(274,490)	\$ (1,303,012)	\$ (60,581)
Net loss per common share:			
Basic	\$ (0.79)	\$ (3.81)	\$ (0.18)
Diluted	\$ (0.79)	\$ (3.81)	\$ (0.18)
Shares used in per share calculations:			
Basic	346,934	342,334	332,407
Diluted	346,934	342,334	332,407

See accompanying notes

Consolidated Balance Sheets

	December 28, 2003	December 29, 2002
(Thousands except par value and share amounts)		
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 968,183	\$ 289,839
Compensating balance	217,621	107,859
Short-term investments	127,563	608,957
<hr/>		
Total cash and cash equivalents, compensating balance and short-term investments	1,313,367	1,006,655
Accounts receivable	442,217	414,734
Accounts receivable from related party (see Note 3)	187,898	—
Allowance for doubtful accounts	(20,658)	(18,906)
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Total accounts receivable, net	609,457	395,828
Inventories:		
Raw materials	42,925	22,741
Work-in-process	504,861	254,957
Finished goods	149,872	154,905
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Total inventories	697,658	432,603
Deferred income taxes	102,651	91,137
Prepaid expenses and other current assets	177,145	184,592
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Total current assets	2,900,278	2,110,815
Property, plant and equipment:		
Land	61,002	34,443
Buildings and leasehold improvements	2,277,947	1,392,972
Equipment	7,581,241	5,256,502
Construction in progress	152,204	355,746
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Total property, plant and equipment	10,072,394	7,039,663
Accumulated depreciation and amortization	(6,223,902)	(4,158,854)
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Property, plant and equipment, net	3,848,492	2,880,809
Investment in Manufacturing Joint Venture	—	382,942
Other assets	345,575	335,752
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Total assets	\$ 7,094,345	\$ 5,710,318
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LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable to banks	\$ —	\$ 913
Accounts payable	460,271	352,438
Accounts payable to related party (see Note 3)	32,345	—
Accrued compensation and benefits	160,644	131,324
Accrued liabilities	327,122	435,657
Restructuring accruals, current portion	29,770	99,974
Income taxes payable	41,370	21,246
Deferred income on shipments to distributors	116,949	57,184
Current portion of long-term debt and capital lease obligations	193,266	71,348
Other current liabilities	90,533	89,428
<hr/>		
Total current liabilities	1,452,270	1,259,512
Deferred income taxes	157,690	91,137
Long-term debt and capital lease obligations, less current portion	1,859,674	1,568,707
Long-term debt payable to related party (see Note 3)	40,000	—
Other long-term liabilities	428,761	323,697
Minority interest	717,640	—
<hr/>		
Commitments and contingencies		
Stockholders' equity:		
Capital stock:		
Common stock, par value \$0.01; 750,000,000 shares authorized in 2003 and 2002; shares issued: 357,119,809 in 2003 and 351,442,331 in 2002; shares outstanding: 350,252,591 in 2003 and 344,528,152 in 2002	3,502	3,445
Capital in excess of par value	2,051,254	2,014,464
Treasury stock, at cost (6,867,218 shares in 2003 and 6,914,179 shares in 2002)	(92,421)	(93,217)
Retained earnings	217,891	492,668
Accumulated other comprehensive income	258,084	49,905
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Total stockholders' equity	2,438,310	2,467,265
Total liabilities and stockholders' equity	\$ 7,094,345	\$ 5,710,318

See accompanying notes

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Consolidated Statements of Stockholders' Equity
Three Years Ended December 28, 2003

	Common Stock		Capital in excess of par value	Treasury Stock	Retained Earnings	Accumulated other comprehensive income (loss)	Total stockholders' equity
	Number of shares	Amount					
	(Thousands)						
December 31, 2000	314,137	\$ 3,141	\$ 1,419,451	\$ (13,161)	\$ 1,856,261	\$ (94,025)	\$ 3,171,667
Comprehensive loss:							
Net loss	—	—	—	—	(60,581)	—	(60,581)
Other comprehensive loss:							
Net unrealized losses on investments, net of taxes of \$5,166	—	—	—	—	—	(9,655)	(9,655)
Plus: Reclassification adjustment for losses included in earnings	—	—	—	—	—	1,583	1,583
Net change in cumulative translation adjustments	—	—	—	—	—	(27,751)	(27,751)
Net unrealized losses on cash flow hedges	—	—	—	—	—	(3,399)	(3,399)
Total other comprehensive loss							(39,222)
Total comprehensive loss							(99,803)
Issuance of shares:							
Employee stock plans	4,734	47	47,147	(3,118)	—	—	44,076
Conversion of 6% Subordinated Notes	27,943	280	509,310	—	—	—	509,590
Common stock repurchases	(6,311)	(63)	—	(77,157)	—	—	(77,220)
Premium from put options issued in Company stock	—	—	2,153	—	—	—	2,153
Compensation recognized under employee stock plans	—	—	4,592	—	—	—	4,592
December 30, 2001	340,503	3,405	1,982,653	(93,436)	1,795,680	(133,247)	3,555,055
Comprehensive loss:							
Net loss	—	—	—	—	(1,303,012)	—	(1,303,012)
Other comprehensive income:							
Net unrealized gains on investments, net of taxes of \$1,397	—	—	—	—	—	2,415	2,415
Less: Reclassification adjustment for gains included in earnings, net of taxes of (\$3,086)	—	—	—	—	—	(5,334)	(5,334)
Net change in cumulative translation adjustments	—	—	—	—	—	153,593	153,593
Net unrealized gains on cash flow hedges, net of taxes of \$33,700	—	—	—	—	—	62,504	62,504
Less: reclassification adjustment for gains included in earnings, net of taxes of (\$16,189)	—	—	—	—	—	(30,026)	(30,026)
Total other comprehensive income							183,152
Total comprehensive loss							(1,119,860)
Issuance of shares:							
Employee stock plans	4,025	40	28,920	219	—	—	29,179
Compensation recognized under employee stock plans	—	—	2,891	—	—	—	2,891
December 29, 2002	344,528	3,445	2,014,464	(93,217)	492,668	49,905	2,467,265
Comprehensive loss:							
Net loss	—	—	—	—	(274,490)	—	(274,490)
Other comprehensive income:							
Net unrealized gains on investments, net of taxes of \$3,692	—	—	—	—	—	7,723	7,723
Less: Reclassification adjustment for gains included in earnings, net of taxes of (\$1,371)	—	—	—	—	—	(3,736)	(3,736)
Net change in cumulative translation adjustments	—	—	—	—	—	219,123	219,123
Net change in unrealized gains on cash flow hedges, net of taxes of \$(5,088)	—	—	—	—	—	(11,057)	(11,057)
Net change in minimum pension liability	—	—	—	—	—	(3,874)	(3,874)
Total other comprehensive income							208,179
Total comprehensive loss							(66,311)
Issuance of shares:							
Employee stock plans	5,724	57	34,870	796	(287)	—	35,436
Compensation recognized under employee stock plans	—	—	1,920	—	—	—	1,920
December 28, 2003	350,252	\$ 3,502	\$ 2,051,254	\$ (92,421)	\$ 217,891	\$ 258,084	\$ 2,438,310

See accompanying notes

Consolidated Statements of Cash Flows

Three Years Ended December 28, 2003

	2003	2002	2001
	(Thousands)		
Cash flows from operating activities:			
Net loss	\$ (274,490)	\$ (1,303,012)	\$ (60,581)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities			
Minority interest in loss of subsidiary	(44,761)	—	—
Depreciation	955,560	739,608	601,673
Amortization	40,103	16,561	21,194
Provision for doubtful accounts	1,831	1,456	9,791
Other than temporary impairment of equity investments	2,339	4,654	27,164
Provision (benefit) for deferred income taxes	2,971	35,427	(36,052)
Restructuring and other special charges, net	(9,994)	311,250	81,768
Foreign grant and subsidy income	(75,302)	(59,324)	(61,843)
Gain from partial sale of net assets to FASL LLC (see Note 3)	(5,681)	—	—
Net loss on equipment sale and lease back transaction (see Note 7)	16,088	—	—
Net loss on disposal of property, plant and equipment	3,862	11,930	22,371
Net loss (gain) realized on sale of available-for-sale securities	(3,736)	(5,334)	1,565
Compensation recognized under employee stock plans	1,920	2,891	4,592
Undistributed income of joint venture	(5,913)	(6,177)	(18,879)
Recognition of deferred gain on sale of building	(1,681)	(1,681)	(1,681)
Tax expense allocated to minority interest	(1,766)	—	—
Changes in operating assets and liabilities:			
Decrease (increase) in accounts receivable	39,090	259,505	(122,174)
Increase in accounts receivable from related party	(187,898)	—	—
Increase in inventories	(77,426)	(51,975)	(36,975)
Decrease (increase) in prepaid expenses	70,247	(31,848)	28,560
Increase in other assets	(12,614)	(100,221)	(88,775)
Decrease (increase) in tax refund receivable	(6,555)	63,384	(33,716)
Increase (decrease) in tax payable	19,882	(34,988)	(18,572)
Refund of customer deposits under LT purchase agreements	(26,500)	(39,000)	(39,000)
Net (decrease) increase in payables and accrued liabilities	(156,335)	66,931	(112,785)
Increase in accounts payable to related party	32,345	—	—
Net cash provided by (used in) operating activities	295,586	(119,963)	167,645
Cash flows from investing activities:			
Purchases of property, plant and equipment	(570,316)	(705,147)	(678,865)
Net cash acquired from formation and consolidation of FASL LLC	147,616	—	—
Proceeds from sale of property, plant and equipment	29,939	8,618	1,737
Acquisitions, net of cash acquired	(6,265)	(26,509)	—
Purchases of available-for-sale securities	(1,029,884)	(4,465,252)	(4,130,769)
Proceeds from sale and maturity of available-for-sale securities	1,512,093	4,333,901	4,376,732
Investment in joint venture	—	—	(122,356)
Net cash provided by (used in) investing activities	83,183	(854,389)	(553,521)
Cash flows from financing activities:			
Proceeds from notes payable to banks	7,350	121,251	63,363
Proceeds from borrowings, net of issuance costs	—	1,006,027	308,457
Proceeds from borrowings from related party (see Note 3)	40,000	—	—
Payments on debt and capital lease obligations	(140,933)	(324,744)	(137,104)
Proceeds from foreign grants and subsidies	155,349	75,727	37,510
Proceeds from sale leaseback transactions	244,647	—	—
Increase in compensating balance	(74,447)	—	(90,821)
Proceeds from issuance of stock	35,436	29,179	36,706
Repurchase of common stock	—	—	(77,220)
Net cash provided by financing activities	267,402	907,440	140,891
Effect of exchange rate changes on cash and cash equivalents	32,173	22,884	(12,605)
Net increase (decrease) in cash and cash equivalents	678,344	(44,028)	(257,590)
Cash and cash equivalents at beginning of year	289,839	333,867	591,457
Cash and cash equivalents at end of year	968,183	\$ 289,839	\$ 333,867

See accompanying notes

Consolidated Statements of Cash Flows—(Continued)

	Three Years Ended December 28, 2003		
	2003	2002	2001
	(Thousands)		
Supplemental disclosures of cash flow information:			
Cash paid (refunded) during the year for:			
Interest, net of amounts capitalized	\$ 81,303	\$ 45,246	\$ 52,749
Income taxes	\$ (7,309)	\$ (14,853)	\$ 68,220
Non-cash financing activities:			
Debt converted to common stock	\$ —	\$ —	\$ 509,590
Equipment sale leaseback transaction	\$ 273,131	\$ —	\$ —
Equipment capital leases	\$ 12,157	\$ —	\$ 24,255
Non-cash investing activities:			
Equipment purchased through acquisition	\$ 2,932	\$ —	\$ —
Formation and consolidation of FASL LLC (see Note 3):			
Total non-cash net assets from Manufacturing Joint Venture	\$ 768,000	\$ —	\$ —
Total non-cash net assets from Fujitsu	\$ 154,000	\$ —	\$ —
Contribution of investment in Manufacturing Joint Venture	\$ 390,069	\$ —	\$ —

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 28, 2003, December 29, 2002 and December 30, 2001

NOTE 1: Nature of Operations

Advanced Micro Devices, Inc. (the Company or AMD) is a semiconductor manufacturer with manufacturing facilities in the United States, Europe, and Asia and sales offices throughout the world. The Company includes FASL LLC and its subsidiaries. The Company designs, manufactures and markets industry-standard digital integrated circuits, or ICs, that are used in many diverse product applications such as desktop and mobile personal computers, workstations, servers, communications equipment and automotive and consumer electronics. The Company's products include microprocessors, Flash memory devices and Personal Connectivity Solutions products.

NOTE 2: Summary of Significant Accounting Policies

Fiscal Year. The Company uses a 52- to 53-week fiscal year ending on the last Sunday in December. Fiscal 2003, 2002 and 2001 were 52-week years, which ended on December 28, December 29 and December 30, respectively.

Principles of Consolidation. The consolidated financial statements include the Company's accounts and those of its majority and wholly owned subsidiaries (see Note 3 FASL LLC). Upon consolidation, all significant intercompany accounts and transactions are eliminated, and amounts pertaining to the noncontrolling ownership interests held by a third party in the operating results and financial position of the Company's majority owned subsidiary, FASL LLC, are reported as "minority interest." Also, included in the financial statements, under the equity method of accounting, are the Company's percentage equity share of certain investees' operating results, where the Company has the ability to exercise significant influence over the operations of the investee.

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

Use of Estimates. The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of commitments and contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results are likely to differ from those estimates, and such differences may be material to the financial statements. Areas where management uses subjective judgment include, but are not limited to, revenue reserves, inventory valuation, impairment of long-lived assets, restructuring charges, deferred income taxes and commitments and contingencies.

Revenue Recognition. The Company recognizes revenue from products sold directly to customers, including original equipment manufacturers (OEMs), when persuasive evidence of an arrangement exists, the price is fixed or determinable, shipment is made and collectibility is reasonably assured. Estimates of product returns, allowances and future price reductions, based on actual historical experience and other known or anticipated trends and factors, are recorded at the time revenue is recognized. The Company sells to distributors under terms allowing the distributors certain rights of return and price protection on unsold merchandise held by them. The distributor agreements, which may be canceled by either party upon specified notice, generally contain a provision for the return of the Company's products in the event the agreement with the distributor is terminated and the distributor's products have not been sold. Accordingly, the Company defers the gross margin resulting from the deferral of both revenue and related product costs from sales to distributors with agreements that have the aforementioned terms until the merchandise is resold by the distributors. The Company also sells its products to distributors with substantial independent operations under sales arrangements whose terms do not allow for rights of return or price protection on unsold products held by them. In these instances, the Company recognizes revenue when it ships the product directly to the distributors. The Company records estimated reductions to

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revenue under distributor and customer incentive programs, including certain advertising and marketing promotions and volume based incentives and special pricing arrangements, at the time the related revenues are recognized. Shipping and handling costs associated with product sales are included in cost of sales.

Inventories. Inventories are stated at standard cost adjusted to approximate the lower of actual cost (first-in, first-out method) or market (net realizable value). Generally inventories on hand in excess of forecasted demand for six months or less are not valued. Obsolete inventories are written off.

Impairment of Long-lived Assets. For long-lived assets used in operations, the Company records impairment losses when events and circumstances indicate that these assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets. If less, the impairment losses are based on the excess of the carrying amounts of these assets over their respective fair values. Their fair values would then become the new cost basis. Fair value is determined by discounted future cash flows, appraisals or other methods. For assets held for sale, impairment losses are measured at the lower of the carrying amount of the assets or the fair value of the assets less costs to sell. For assets to be disposed of other than by sale, impairment losses are measured as their carrying amount less salvage value, if any, at the time the assets cease to be used.

Restructuring Charges. The Company accounted for restructuring charges in accordance with EITF 94-3 for exit and disposal activities as they were initiated prior to December 30, 2002. Under EITF 94-3 restructuring charges are recorded upon approval of a formal management plan and are included in the operating results of the period in which such plans have been approved. The Company reviews remaining restructuring accruals on a quarterly basis and adjusts these accruals when changes in facts and circumstances suggest actual amounts will differ from the initial estimates. Changes in estimates occur when it is apparent that exit and other costs accrued will be more or less than originally estimated.

In July 2002, the FASB issued Statement of Financial Accounting Standards No. 146, "Accounting for Costs associated with Exit or Disposal Activities" (SFAS 146). SFAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies EITF Issue NO. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)" (EITF 94-3). The principal difference between SFAS 146 and EITF 94-3 relates to SFAS 146's timing for recognition of a liability for a cost associated with an exit or disposal activity. SFAS 146 requires that a liability for an exit cost associated with an exit or disposal activity be recognized when the liability is incurred. The Company adopted SFAS 146 prospectively as of December 30, 2002, the beginning of fiscal year 2003, and the adoption did not have a material impact on the Company's operating results.

Commitments and Contingencies. From time to time the Company is a defendant or plaintiff in various legal actions, that arise in the normal course of business. The Company is also a party to environmental matters, including local, regional, state and federal government cleanup activities at or near locations where the Company currently or has in the past conducted business. The Company is also a guarantor of various third-party obligations and commitments. The Company is required to assess the likelihood of any adverse judgments or outcomes to these matters as well as potential ranges of probable losses. A determination of the amount of reserves required for these commitments and contingencies, if any, that would be charged to earnings, includes assessing the probability of adverse outcomes and estimating the amount of potential losses. The required reserves may change in the future due to new developments in each matter or changes in circumstances, such as a change in settlement strategy. Changes in required reserves could increase or decrease our earnings in the period the changes are made.

Cash Equivalents. Cash equivalents consist of financial instruments that are readily convertible into cash and have original maturities of three months or less at the time of acquisition.

Investments. The Company classifies its marketable debt and equity securities at the date of acquisition as either held to maturity or available for sale.

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Substantially all of the Company's marketable debt and equity securities are classified as available-for-sale. These securities are reported at fair market value with the related unrealized gains and losses included in accumulated other comprehensive income (loss), net of tax, a component of stockholders equity. Realized gains and losses and declines in the value of securities determined to be other-than-temporary are included in interest income and other, net. The cost of securities sold is based on the specific identification method.

The Company classifies investments with maturities between three and 12 months as short-term investments. Short-term investments consist of money market auction rate preferred stocks and debt securities such as commercial paper, corporate notes, certificates of deposit and marketable direct obligations of United States governmental agencies. Available-for-sale securities with maturities greater than twelve months are classified as short term when they represent investments of cash that are intended to be used in current operations.

Derivative Financial Instruments. The Company has foreign currency intercompany transactions denominated in yen and euros. Therefore, in the normal course of business, the Company's financial position is routinely subjected to market risk associated with foreign currency rate fluctuations. The Company's general practice is to ensure that material business exposure to foreign exchange risks are identified, measured and minimized using the most effective and efficient methods to eliminate or reduce such exposures. To protect against the reduction in value of forecasted yen and euro denominated cash flows resulting from these transactions, the Company has instituted a foreign currency cash flow hedging program. Under this program, the Company purchases foreign currency forward contracts and sells or purchases foreign currency option contracts, generally expiring within twelve months, to hedge portions of its forecasted foreign currency denominated cash flows. These foreign currency contracts are carried on the Company's balance sheet at fair value with the effective portion of the contracts' gain or loss initially recorded in accumulated other comprehensive income (loss) and subsequently recognized in operations in the same period the hedged forecasted transaction affects operations. Generally, the gain or loss on derivative contracts, when recognized in operations, offsets the gain or loss on the hedged foreign currency assets, liabilities or firm commitments. As of December 28, 2003, the Company expects to reclassify the amount accumulated in other comprehensive income (loss) to operations within the next twelve months upon the recognition in operations of the hedged forecasted transactions. The Company does not use derivatives for speculative or trading purposes.

The effectiveness test for these foreign currency contracts utilized by the Company is the fair value to fair value comparison method. Under this method, the Company includes the time value portion of the change in value of the currency forward contract in its effectiveness assessment. Any ineffective portions of the hedges are recognized currently in interest income and other, net.

If a cash flow hedge should be discontinued because it is probable that the original forecasted transaction will not occur, the net gain or loss in accumulated other comprehensive income (loss) will be reclassified into operations as a component of interest income and other, net.

Premiums paid for foreign currency forward and option contracts are immediately charged to operations.

Property, Plant and Equipment. Property, plant and equipment are stated at cost, except for assets deemed to have been sold as part of the FASL LLC transaction (see Note 3). Depreciation and amortization are provided on a straight-line basis over the estimated useful lives of the assets for financial reporting purposes. Estimated useful lives for financial reporting purposes are as follows: machinery and equipment, two to five years; buildings and building improvements, up to 26 years; and leasehold improvements, the shorter of the remaining terms of the leases or the estimated economic useful lives of the improvements.

Treasury Stock. The Company accounts for treasury stock acquisitions using the cost method. For reissuance of treasury stock, to the extent that the reissuance price is more than the cost, the excess is recorded as an increase to Paid in Capital. If the reissuance price is less than the cost, the difference is also recorded to Paid

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in Capital to the extent there is a cumulative treasury stock paid in capital balance. Once the cumulative balance is reduced to zero, any remaining difference resulting from the sale of treasury stock below cost is recorded to Retained Earnings.

Product Warranties. The Company generally offers a three-year limited warranty to end users for certain of its boxed microprocessor products and a one-year limited warranty to direct purchasers for all other products. At the time revenue is recognized, the Company provides for estimated costs that may be incurred under product warranties, with the corresponding expense recognized in cost of sales. Estimates of warranty expense are based on historical experience. Remaining warranty accruals are evaluated periodically and are adjusted for changes in experience.

Foreign Currency Translation/Transactions. The functional currency of the Company's foreign subsidiaries, except AMD Saxony Limited Liability Company & Co. KG (AMD Saxony), AMD Fab 36 LLC & Co. KG, and FASL JAPAN, is the U.S. dollar. Translation adjustments resulting from remeasuring the financial statements of subsidiaries into the U.S. dollar are included in operations, except for AMD Saxony, AMD Fab 36 LLC & Co. KG, and FASL JAPAN. The functional currency of AMD Saxony Limited Liability Company & Co. KG and AMD Fab 36 LLC & Co. KG is the euro. The functional currency of FASL JAPAN is the yen. Adjustments resulting from translating the foreign currency financial statements of AMD Saxony, AMD Fab 36 LLC & Co. KG, and FASL JAPAN into the U.S. dollar are included as a separate component of accumulated other comprehensive income (loss). In addition, the gains or losses resulting from transactions denominated in currency other than the functional currencies are recorded in net income (loss). The aggregate exchange gain included in determining net income (loss) was \$88 million in 2003 and \$31 million in 2002. The aggregate exchange loss included in determining net income (loss) was \$16 million in 2001.

Guarantees. The Company accounts for guarantees in accordance with FASB Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." Under FIN 45, a liability for the fair value of the obligation undertaken in issuing the guarantee is recognized; however, this is limited to those guarantees issued or modified after December 31, 2002. The recognition of fair value is not required for certain guarantees such as the parent's guarantee of a subsidiary's debt to a third party or guarantees on product warranties. For those guarantees excluded from FIN 45's fair value recognition provision, financial statement disclosures are made (see Note 12).

Foreign Grants and Subsidies. The Company receives investment grants and allowances as well as interest subsidies under a Subsidy Agreement with the Federal Republic of Germany and the State of Saxony in connection with the construction and facilitation of Fab 30 in Dresden, Germany. Generally, such grants and subsidies are subject to forfeiture in declining amounts over the life of the agreement, if the Company does not maintain certain levels of employment or meet other agreement conditions. Accordingly, amounts received under the Subsidy Agreement are recorded as a long-term liability on the Company's financial statements and are being amortized to operations ratably over the contractual life of the Subsidy Agreement as a reduction to operating expenses through December of 2008. From time to time, the Company also applies subsidies for certain research and development projects. The research and development subsidies are recorded as a reduction of research and development expenses when all conditions and requirements are met.

Advertising Expenses. Cooperative advertising funding obligations under customer incentive programs are accrued and the costs recorded at the same time the related revenue is recognized. Cooperative advertising expenses are recorded as marketing, general and administrative expense to the extent the cash paid does not exceed the fair value of the advertising benefit received. Any excess of cash paid over the fair value of the advertising benefit received is recorded as a reduction of revenue. Advertising expenses for 2003, 2002 and 2001 were approximately \$148 million, \$199 million and \$184 million, respectively.

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Net Income (Loss) Per Common Share. Basic net income (loss) per share is computed using the weighted-average number of common shares outstanding during the period. Potential dilutive common shares include shares issuable upon the exercise of outstanding employee stock options and the conversion of outstanding convertible notes and debentures. As the Company incurred net losses for all periods presented, diluted net loss per common share is the same as basic net loss per common share. Potential dilutive common shares of approximately 79.0 million, 27.4 million, and 14.4 million for the years ended December 28, 2003, December 29, 2002, and December 30, 2001 were not included in the net loss per common share calculation, as their inclusion would have been antidilutive.

Accumulated Other Comprehensive Income (Loss). Unrealized gains or losses on the Company's available-for-sale securities, deferred gains and losses on derivative financial instruments qualifying as cash flow hedges, changes in minimum pension liabilities, and foreign currency translation adjustments are included in accumulated other comprehensive income (loss).

The following are the components of accumulated other comprehensive income (loss):

	2003	2002
	(Thousands)	
Net unrealized gains on available-for-sale securities, net of taxes of \$3,479 in 2003 and \$1,250 in 2002	\$ 6,139	\$ 2,152
Net unrealized gains on cash flow hedges, net of taxes of \$7,976 in 2003 and \$17,511 in 2002	18,022	29,079
Minimum pension liability	(3,874)	—
Cumulative translation adjustments	237,797	18,674
	\$ 258,084	\$ 49,905

Stock-based Compensation and Employee Stock Plans. The Company has elected to use the intrinsic value method under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employee" (APB 25), as permitted by Statement of Financial Accounting Standard No. 123, "Accounting for Stock-Based Compensation" (SFAS 123), subsequently amended by SFAS 148, "Accounting for Stock-Based Compensation—Transition and Disclosure" to account for stock options issued to its employees under its stock option plans, and amortizes deferred compensation, if any, ratably over the vesting period of the options. Compensation expense resulting from the issuance of fixed term stock option awards is measured as the difference between the exercise price of the option and the fair market value of the underlying share of company stock subject to the option on the award's grant date. The Company also makes pro forma fair value disclosures required by SFAS 123 which reflects the impact on net income (loss) and net income (loss) per share had the Company applied the fair value method of accounting for its stock-based awards to employees. The Company estimates the fair value of its stock-based awards to employees using a Black-Scholes option pricing model. See Note 10 for detailed assumptions used by the Company to compute the fair value of stock-based awards for purposes of pro forma disclosures under SFAS 123. Following is the pro forma effect on net income (loss) and net income (loss) per share for all periods presented had the Company applied SFAS 123's fair value method of accounting for stock-based awards issued to its employees.

	2003	2002	2001
	(Thousands except per share amounts)		
Net income (loss)—as reported	\$ (274,490)	\$ (1,303,012)	\$ (60,581)
Plus: compensation expense recorded under APB 25	1,920	2,891	4,592
Less: SFAS 123 compensation expenses	(80,464)	(149,827)	(122,929)
Net income (loss)—pro forma	\$ (353,034)	\$ (1,449,948)	\$ (178,918)
Basic net income (loss) per share—as reported	\$ (0.79)	\$ (3.81)	\$ (0.18)
Diluted net income (loss) per share—as reported	\$ (0.79)	\$ (3.81)	\$ (0.18)
Basic net income (loss) per share—pro forma	\$ (1.02)	\$ (4.24)	\$ (0.54)
Diluted net income (loss) per share—pro forma	\$ (1.02)	\$ (4.24)	\$ (0.54)

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New Accounting Pronouncements. In January 2003, the Financial Accounting Standards Board issued Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46). Variable interest entities are often created for a single specified purpose, for example, to facilitate securitization, leasing, hedging, research and development, or other transactions or arrangements. In December 2003, the FASB issued Interpretation No. 46 (revised December 2003) (FIN 46R) which replaces FIN 46. This interpretation of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," defines what these variable interest entities are and provides guidelines on identifying them and assessing an enterprise's interests in a variable interest entity to decide whether to consolidate that entity. FIN 46R applies at different dates to different types of enterprises and entities, and special provisions apply to enterprises that have fully or partially applied FIN 46 prior to issuance of FIN 46R. Generally, application of FIN 46R is required in financial statements of public entities that have interests in variable interest entities or potential variable interest entities commonly referred to as special-purpose entities for periods ending after December 15, 2003. Application by public entities for all other types of entities is required in financial statements for periods ending after March 15, 2004. The adoption of FIN 46 or FIN 46R did not have a material impact on the Company's results of operations or financial condition.

NOTE 3: FASL LLC

The Company and Fujitsu Limited formed FASL LLC effective June 30, 2003. FASL LLC is headquartered in Sunnyvale, California, and its manufacturing, research and assembly operations are in the United States and Asia. As the Company has a 60 percent controlling equity interest in FASL LLC, it began consolidating the results of FASL LLC's operations on June 30, 2003, the effective date of the transaction. The Company is accounting for the FASL LLC transaction as a partial step acquisition and purchase business combination under the provision for SFAS 141, Business Combinations, and EITF Consensus No. 01-02, Interpretations of APB Opinion No. 29, [Accounting for Nonmonetary Transactions].

As part of the formation of FASL LLC, both the Company and Fujitsu contributed their respective investments in the former Manufacturing Joint Venture (formerly referred to as FASL) to the new venture. As a result of this transaction, the Company acquired an incremental 10.008 percent controlling interest in the net assets of the Manufacturing Joint Venture (the difference between the Company's 60 percent ownership of these net assets after their contribution to FASL LLC and its previous 49.992 percent ownership in these same net assets prior to their contribution to FASL LLC). Accordingly, the Company recorded its acquired incremental 10.008 percent interest in the Manufacturing Joint Venture's contributed net assets based on the assets' fair value on the effective date of the transaction. The remaining 89.992 percent interest in the Manufacturing Joint Venture's net assets was recorded at historical carrying value.

The Company also contributed its Flash memory inventory, its manufacturing facility located in Austin, Texas (Fab 25), its Flash memory research and development facility in Sunnyvale, California, and its Flash memory assembly and test operations in Thailand, Malaysia and China to FASL LLC. The Company recorded its continuing 60 percent interest in these net assets at their historical carrying values. The remaining 40 percent interest in these net assets was treated as being sold to Fujitsu and, accordingly, 40 percent of the carrying values of these net assets were adjusted to and recorded based on the net assets' fair value on the effective date of the transaction. During the fourth quarter of 2003, the Company completed its determination of the fair value of the assets and liabilities of FASL LLC. The excess of the fair value of the net assets treated as sold over their historical carrying value was approximately \$57 million. However, the gain of approximately six million dollars recognized by the Company and recorded in interest income and other, net, was limited to the excess of the fair value of the consideration received by the Company in the form of the Company's 60 percent equity interest in Fujitsu's contributions and the incremental 10.008 percent interest in the former Manufacturing Joint Venture's net assets less direct costs of the transaction, over the 40 percent interest in the book value of the net assets contributed by the Company to FASL LLC.

Fujitsu also contributed its Flash memory division to FASL LLC, including related inventory, cash, and its Flash memory assembly and test operations in Malaysia. The Company is deemed to have acquired a 60 percent

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interest in the net assets contributed by Fujitsu and, accordingly, 60 percent of the carrying values of these net assets were recorded based on the net assets' fair value. The remaining 40 percent interest in these net assets was recorded at historical carrying value.

As part of the transaction, the Company and Fujitsu entered into various service contracts with FASL LLC. The Company will continue to provide, among other things, certain information technology, facilities, logistics, legal, tax, finance, human resources, and environmental health and safety services to FASL LLC. Under these contracts, Fujitsu will provide, among other things, certain information technology, research and development, quality assurance, insurance, facilities, environmental, and human resources services primarily to FASL LLC's manufacturing facilities in Japan. Fees earned by the Company and incurred by FASL LLC for these services are eliminated in consolidation.

The Company also loaned FASL LLC \$120 million pursuant to a promissory note. The note has a term of three years and bears interest at LIBOR plus four percent but is eliminated in the Company's financial statements upon consolidation of FASL LLC. Fujitsu also loaned FASL LLC \$40 million pursuant to a promissory note. The note has a term of three years and is repayable in four equal payments, including interest, on September 30, 2005, December 31, 2005, March 31, 2006 and June 30, 2006. The note bears interest at LIBOR plus four percent (5.14 percent at December 28, 2003) to be repaid quarterly.

The following table summarizes the final purchase price allocation to the assets and liabilities of FASL LLC at June 30, 2003, the effective date of the transaction, including the fair values of the assets and liabilities attributable to the Manufacturing Joint Venture, the Company's contributions and Fujitsu's contributions. Upon consolidation, all amounts pertaining to Fujitsu's interest in FASL LLC are reported as minority interest on the accompanying financial statements. Management considered a number of factors, including independent appraisals and valuations, in determining the final purchase price allocation.

	Manufacturing Joint Venture	AMD's Contributions	Fujitsu's Contributions	Total
(Dollars in millions)				
Cash	\$ —	\$ 122	\$ 189	\$ 311
Inventory	55	220	128	403
Fixed assets	963	1,017	33	2,013
Intangible assets	46	24	1	71
Debt and capital lease obligations	(148)	(609)	(40)	(797)
Other assets (liabilities), net	(100)	(2)	(1)	(103)
Fair value of net assets exchanged/acquired on acquisition date	816	772	310	1,898
Percent of fair value recorded in the purchase business combination	10.008%	40%	60%	
Fair value recorded	\$ 82	\$ 309	\$ 186	\$ 577
Net book value of contributions on acquisition date	762	629	293	1,684
Percent of book value recorded in the purchase business combination	89.992%	60%	40%	
Historical carrying value recorded	\$ 686	\$ 377	\$ 117	\$ 1,180
Initial purchase combination basis of net assets acquired	\$ 768	\$ 686	\$ 303	\$ 1,757

The intangible assets recorded consist of the estimated fair value of the manufacturing and product distribution contracts between FASL LLC and the Company and FASL LLC and Fujitsu, which are determined to have an estimated useful life of four years, as well as the estimated fair value of the assembled work force, which is reflected as goodwill. No value was assigned to in-process research and development because the Company and Fujitsu performed all research and development activities for the Manufacturing Joint Venture,

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and the Company and Fujitsu did not convey in-process technology rights to FASL LLC. Additionally, FASL LLC pays intellectual property royalties to the Company and Fujitsu for technological know-how used in its business operations at royalty rates deemed to approximate fair market values. No additional intangible assets were identified in connection with the transaction.

The following unaudited pro forma financial information includes the combined results of operations of the Company and the Manufacturing Joint Venture as though the Manufacturing Joint Venture had been consolidated by the Company at the beginning of the years ended December 28, 2003 and December 29, 2002. The historically reported operating results of the Manufacturing Joint Venture do not include Flash memory sales and related operating expenses recorded by Fujitsu's former Flash memory operations in periods preceeding June 30, 2003 because the information is not available to the Company. Depreciation and amortization expenses were estimated for the unaudited pro forma periods based on the amounts at which fixed and intangible assets were recorded at the acquisition date. Unaudited pro forma interest income and expense are not material and are not included in the unaudited pro forma financial information. On an unaudited pro forma basis, had the transaction occurred at the beginning of fiscal 2003, revenue, net loss and net loss per share for 2003 would have been \$3,741 million, \$278 million and \$0.80. On an unaudited pro forma basis, had the transaction occurred at the beginning of 2002, revenue, net loss and net loss per share for 2002 would have been \$3,117 million, \$1,290 million, and \$3.77. These unaudited pro forma results are not necessarily indicative of the operating results that would have occurred if the transaction had been completed at the beginning of the periods indicated. The unaudited pro forma results are not necessarily indicative of future operating results.

In addition, the Manufacturing Joint Venture provided a defined benefit pension plan and a lump-sum retirement benefit plan to certain employees. These plans continue to be administered by Fujitsu and cover FASL JAPAN's employees formerly assigned from Fujitsu and employees hired directly by FASL JAPAN. A full actuarial valuation has not been completed for the specific portion of the plans that relate to FASL JAPAN's employees. As a result, the Company estimated FASL LLC's proportionate allocation of pension obligations, pension assets and elements of pension expense based on information provided by actuaries to determine the amounts to be recorded on its consolidated financial statements. For the six month period ended December 28, 2003, since the inception of FASL LLC, the Company recorded an estimated pension cost of approximately \$7 million and has recorded an estimated pension benefit obligation liability of approximately \$26 million. As of December 28, 2003, the estimated projected benefit obligations under the plan related to FASL JAPAN's employees was approximately \$35 million and the estimated total pension plan assets were approximately \$4 million. Although the Company believes that the estimates and assumptions used are reasonable, the actual amounts recorded could vary when a full actuarial valuation is completed as of Fujitsu's fiscal year ending March 31, 2004. However, the Company does not expect that any such difference will have a material impact on its consolidated financial statements.

The following tables present the significant related party transactions and account balances between the Company and the Manufacturing Joint Venture for the periods in which the former investment was accounted for under the equity method (through June 29, 2003):

	Six months ended June 29, 2003	Year ended 2002	Year ended 2001
		(Thousands)	
Royalty income from Manufacturing Joint Venture	\$ 24,611	\$ 38,488	\$ 44,342
Purchases from Manufacturing Joint Venture	356,595	443,209	509,642
Sales to Manufacturing Joint Venture	222,570	25,780	—
			December 29, 2002
			(Thousands)
Royalty receivable from Manufacturing Joint Venture			\$ 11,551
Accounts receivable from Manufacturing Joint Venture			96,814
Accounts payable from Manufacturing Joint Venture			108,890

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The following is condensed unaudited financial data for the Manufacturing Joint Venture for periods through June 29, 2003:

	Six months ended June 29, 2003	Year ended 2002	Year ended 2001
		(Thousands)	
Net sales	\$ 565,037	\$ 854,199	\$ 978,059
Gross profit (loss)	(12,955)	66,798	165,115
Operating income (loss)	(14,958)	63,099	160,298
Net income (loss)	(9,618)	5,051	34,924
			December 29, 2002
		(Thousands)	
Current assets		\$	287,050
Non-current assets			1,056,107
Current liabilities			549,015

The Company's share of the Manufacturing Joint Venture's net income (loss) differed from the equity in net income previously reported on the condensed consolidated statements of operations. The difference was due to adjustments resulting from intercompany profit eliminations and differences in U.S. and Japanese tax treatment of the Manufacturing Joint Venture's income, which were reflected on the Company's consolidated statements of operations. The Company never received cash dividends from the Manufacturing Joint Venture.

As a result of the FASL LLC transaction, Fujitsu became a related party of the Company effective June 30, 2003. The following tables present the significant transactions and account balances between the Company and Fujitsu from June 30, 2003 to December 28, 2003 and balances receivable from or payable to Fujitsu at December 28, 2003:

	From June 30, 2003 to December 28, 2003
	(Thousands)
Sales to Fujitsu	\$ 448,940
Royalty expenses to Fujitsu	8,672
Distributor commission to Fujitsu	29,706
Service fees to Fujitsu	21,261
	December 28, 2003
	(Thousands)
Accounts receivable from Fujitsu	\$ 187,898
Accounts payable to Fujitsu	32,345

The royalty expense to Fujitsu represents the payments from FASL LLC for its use of Fujitsu's intellectual property. The commission expense to Fujitsu represents the compensation that FASL LLC pays to Fujitsu for being a distributor of Spansion™ Flash memory products.

The Company's transactions with Fujitsu are based on terms that are consistent with those of similar arms-length transactions executed with third parties.

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Available-for-sale securities held by the Company as of December 28, 2003 and December 29, 2002 are as follows:

	Cost	Gross unrealized gains	Gross unrealized losses	Fair market value
(Thousands)				
2003				
Cash equivalents:				
Time deposits	\$ 240,340	\$ —	\$ (7)	\$ 240,333
Federal agency notes	16,218	—	(36)	16,182
Money market funds	575,614	590	—	576,204
Total cash equivalents	\$ 832,172	\$ 590	\$ (43)	\$ 832,719
Short-term investments:				
Bank notes	\$ 2,728	\$ 246	\$ —	\$ 2,974
Corporate notes	8,516	—	(334)	8,182
Money market auction rate preferred stocks	100,774	86	—	100,860
Federal agency notes	15,474	73	—	15,547
Total short-term investments	\$ 127,492	\$ 405	\$ (334)	\$ 127,563
Long-term investments:				
Equity investments	\$ 7,765	\$ 9,080	\$ —	\$ 16,845
Total Long-term investments	\$ 7,765	\$ 9,080	\$ —	\$ 16,845
Grand Total	\$ 967,429	\$ 10,075	\$ (377)	\$ 977,127
2002				
Cash equivalents:				
Commercial paper	\$ 12,465	\$ 8	\$ —	\$ 12,473
Federal agency notes	1,800	—	—	1,800
Money market funds	108,908	171	—	109,079
Total cash equivalents	\$ 123,173	\$ 179	\$ —	\$ 123,352
Short-term investments:				
Bank notes	\$ 13,326	\$ 313	\$ —	\$ 13,639
Corporate notes	95,933	976	(129)	96,780
Money market auction rate preferred stocks	268,071	171	—	268,242
Federal agency notes	226,192	2,016	—	228,208
Municipal bonds	2,080	8	—	2,088
Total short-term investments	\$ 605,602	\$ 3,484	\$ (129)	\$ 608,957
Long-term investments:				
Equity investments	\$ 8,023	\$ 988	\$ (1,126)	\$ 7,885
Total Long-term investments	\$ 8,023	\$ 988	\$ (1,126)	\$ 7,885
Grand Total	\$ 736,798	\$ 4,651	\$ (1,255)	\$ 740,194

Long-term equity investments consist of marketable equity securities that, while available for sale, are not intended to be used to fund current operations.

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The amortized cost and estimated fair value of available-for-sale marketable securities at December 28, 2003, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations without call or prepayment penalties. The Company does not have any available-for-sale marketable securities with maturities greater than five years from December 28, 2003.

	Amortized Cost	Estimated Fair Value
	(thousands)	
Due in one year or less	\$ 119,105	\$ 119,191
Due after one year through five years	8,387	8,372
Total	\$ 127,492	\$ 127,563

The Company realized net gains from the sale of available-for-sale securities of \$3.7 million and \$5.3 million in 2003 and 2002, and net losses of \$1.6 million in 2001.

At December 28, 2003 and December 29, 2002, the Company had approximately \$12 million and \$13 million of investments classified as held to maturity, consisting of commercial paper and treasury notes used for long-term workers' compensation and leasehold deposits, that are included in other assets. The fair market value of these investments approximates their cost at December 28, 2003 and December 29, 2002.

The compensating balance of \$218 million at December 28, 2003 represents the minimum cash balance that AMD Saxony must maintain pursuant to the terms of the Dresden Loan Agreements (see Notes 7 and 12).

Included in other current assets is \$22 million of restricted cash associated with the advance receipt of interest subsidies from the Federal Republic of Germany and the State of Saxony. Restrictions over the Company's access to the restricted cash will lapse as the Company incurs qualifying interest expense on the Dresden term loans (see Notes 7 and 12) over the next four quarters.

Fair Value of Other Financial Instruments. The Company estimates the fair value of its debt instruments using a discounted cash flow analysis based on estimated interest rates for similar types of currently available instruments with similar remaining maturities. The carrying amounts and estimated fair values of the Company's debt instruments are as follows:

	2003		2002	
	Carrying amount	Estimated Fair Value	Carrying amount	Estimated Fair Value
	(Thousands)			
Notes payable to banks	\$ —	\$ —	\$ 913	\$ 913
Long-term debt and capital leases:				
Capital leases	245,958	244,641	40,321	37,229
Long-term debt (excluding capital leases)	1,846,982	1,846,982	1,599,734	1,599,734
Total long-term debt and capital leases	2,092,940	2,091,623	1,640,055	1,636,963
Less: current portion	193,266	192,725	71,348	70,192
Total long-term debt and capital leases, less current portion	\$ 1,899,674	\$ 1,898,898	\$ 1,568,707	\$ 1,566,771

The fair value of the Company's accounts receivable and accounts payable approximate book value based on existing payment terms.

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Deferred income taxes reflect the net tax effects of tax carryovers and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the balances for income tax purposes. Significant components of the Company's deferred tax assets and liabilities as of December 28, 2003 and December 29, 2002 are as follows:

	2003	2002
	(Thousands)	
Deferred tax assets:		
Net operating loss carryforward	\$ 393,076	\$ 307,802
Deferred distributor income	36,513	19,774
Inventory valuation	75,979	85,173
Accrued expenses not currently deductible	108,773	110,758
Investments	34,958	43,805
Federal and state tax credit carryforward	269,462	135,398
Other	68,949	89,777
Total deferred tax assets	987,710	792,487
Less: valuation allowance	(731,006)	(567,155)
	256,704	225,332
Deferred tax liabilities:		
Depreciation	(212,326)	(128,612)
Capitalized Interest	(24,610)	(35,245)
Unremitted foreign earnings	(30,400)	(30,400)
Other	(42,561)	(31,075)
Total deferred tax liabilities	(309,897)	(225,332)
Net deferred tax assets (liabilities)	\$ (53,193)	\$ —

In 2003, the valuation allowance for deferred tax assets increased by \$164 million to continue providing a valuation allowance against all of the Company's net deferred tax assets in the United States. Approximately \$33 million of the valuation allowance for deferred tax assets as of December 28, 2003 is for the stock option deduction arising from activity under the Company's stock option plans, the benefits of which will increase capital in excess of par value when realized. In 2002, the valuation allowance for deferred tax assets increased by \$542 million to provide a valuation allowance against all of the Company's net deferred tax assets. Pre-tax income from foreign operations was \$120 million in 2003 after elimination of minority interest. Pre-tax loss from foreign operations was \$17 million in 2002. Pre-tax income from foreign operations was \$52 million in 2001.

As of December 28, 2003, the Company had federal and state net operating loss carry-forwards of approximately \$1,070 million and \$102 million, respectively. The Company also had federal and state tax credit carry-forwards of approximately \$215 million and \$83 million, respectively. The net operating loss and tax credit carry-forwards will expire at various dates beginning in 2006 through 2023, if not utilized.

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The table below displays reconciliation between statutory federal income taxes and the total provision (benefit) for income taxes.

	Tax	Rate
(Thousands except percent)		
2003		
Statutory federal income tax benefit	\$ (97,113)	(35.0)%
State taxes, net of federal benefit	—	—
Tax-exempt foreign sales corporation income	—	—
Foreign income at other than U.S. rates	(21,579)	(7.7)
Residual U.S. tax on previously reinvested earnings	—	—
Restructuring charges at other than U.S. rates	—	—
Tax credits	—	—
Net operating losses not currently benefited	118,464	42.7
Other	3,164	1.1
	\$ 2,936	1.1%
(Thousands except percent)		
2002		
Statutory federal income tax benefit	\$ (442,611)	(35.0)%
State taxes, net of federal benefit	24,602	1.9
Tax-exempt foreign sales corporation income	—	—
Residual U.S. tax on previously reinvested earnings	—	—
Restructuring charges at other than U.S. rates	—	—
Tax credits	—	—
Net operating losses not currently benefited	462,595	36.6
Other	—	—
	\$ 44,586	3.5%
(Thousands except percent)		
2001		
Statutory federal income tax benefit	\$ (32,872)	(35.0)%
State taxes, net of federal benefit	(4,762)	(5.1)
Tax-exempt foreign sales corporation income	(2,394)	(2.5)
Residual U.S. tax on previously reinvested earnings	21,663	23.1
Restructuring charges at other than U.S. rates	11,082	11.8
Tax credits	(6,018)	(6.4)
Other	(1,162)	(1.3)
	\$ (14,463)	(15.4)%

The Company has made no provision for U.S. income taxes on approximately \$430 million of cumulative undistributed earnings of certain foreign subsidiaries because it is the Company's intention to permanently reinvest such earnings. If such earnings were distributed, the Company would accrue additional income tax expense of approximately \$126 million.

[Table of Contents](#)**NOTE 7: Debt****Notes Payable**

On July 7, 2003, the Company amended and restated its 1999 Loan and Security Agreement with a consortium of banks led by a domestic financial institution (the July 2003 Loan Agreement). The Company further amended the July 2003 Loan Agreement on October 3, 2003. The July 2003 Loan Agreement currently provides for a secured revolving line of credit of up to \$125 million that expires in July 2007. The Company can borrow, subject to amounts set aside by the lenders, up to 85 percent of its eligible accounts receivable from OEMs and 50 percent of its eligible accounts receivable from distributors. The Company has to comply, among other things, with the following financial covenants if net domestic cash (as defined in the July 2003 Loan Agreement) declines below \$125 million:

- restrictions on its ability to pay cash dividends on its common stock;
- maintain an adjusted tangible net worth (as defined in the July 2003 Loan Agreement) as follows:

Measurement Date	Amount
December 31, 2003	\$1.25 billion
Last day of each calendar quarter in 2004	\$1.425 billion
Last day of each calendar quarter in 2005	\$1.85 billion
March 31, 2006 and on the last day of each fiscal quarter thereafter	\$2.0 billion

- achieve EBITDA (earnings before interest, taxes, depreciation and amortization) according to the following schedule:

Period	Amount
Four fiscal quarters ending December 31, 2003	\$400 million
Four fiscal quarters ending March 31, 2004	\$550 million
Four fiscal quarters ending June 30, 2004	\$750 million
Four fiscal quarters ending September 30, 2004	\$850 million
Four fiscal quarters ending December 31, 2004	\$950 million
Four fiscal quarters ending March 31, 2005 and on each fiscal quarter thereafter	\$1,050 million

As of December 28, 2003, net domestic cash, as defined, totaled \$567 million and the preceding financial covenants were not applicable.

The Company's obligations under the July 2003 Loan Agreement are secured by all of its accounts receivable, inventory, general intangibles (excluding intellectual property) and the related proceeds, excluding FASL LLC's accounts receivable, inventory and general intangibles. As of December 28, 2003, no amount was outstanding under the July 2003 Loan Agreement.

Interest rates on foreign and short-term domestic borrowings are negotiated at the time of borrowing.

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Long-term Debt

The Company's long-term debt and capital lease obligations for the years ended 2003 and 2002 consist of:

	2003	2002
	(Thousands)	
4.75% Convertible Senior Debentures due 2022	\$ 500,000	\$ 500,000
4.50% Convertible Senior Notes due 2007	402,500	402,500
Term loan under the Dresden Loan Agreement with a weighted-average interest rate of 5.44 percent and principal payments due through December 2005, secured by the Fab 30 facility and equipment (see Note 12)	664,056	587,234
July 2003 FASL Term Loan	72,500	110,000
FASL JAPAN Term Loan	167,926	—
Fujitsu cash note (see Note 3)	40,000	—
Obligations under capital leases	245,958	40,321
	2,092,940	1,640,055
Less: current portion	193,266	71,348
Less: Fujitsu cash note	40,000	—
Long-term debt and capital lease obligations, less current portion	\$ 1,859,674	\$ 1,568,707

4.75% Convertible Senior Debentures Due 2022

On January 29, 2002, the Company issued \$500 million of its 4.75% Convertible Senior Debentures Due 2022 (the 4.75% Debentures) in a private offering pursuant to Rule 144A and Regulation S of the Securities Act.

The interest rate payable on the 4.75% Debentures will reset on each of August 1, 2008, August 1, 2011 and August 1, 2016 to a rate per annum equal to the interest rate payable 120 days prior to the reset dates on 5-year U.S. Treasury Notes, plus 43 basis points. The interest rate will not be less than 4.75 percent and will not exceed 6.75 percent. Holders have the right to require the Company to repurchase all or a portion of the Company's 4.75% Debentures on February 1, 2009, February 1, 2012, and February 1, 2017. The holders of the 4.75% Debentures also have the ability to require the Company to repurchase the 4.75% Debentures in the event that the Company undergoes specified fundamental changes, including a change of control. In each such case, the redemption or repurchase price would be 100 percent of the principal amount of the 4.75% Debentures plus accrued and unpaid interest. The 4.75% Debentures are convertible by the holders into the Company's common stock at a conversion price of \$23.38 per share at any time. At this conversion price, each \$1,000 principal amount of the 4.75% Debentures will be convertible into approximately 43 shares of the Company's common stock. Issuance costs incurred in the amount of approximately \$14 million are being amortized ratably, which approximates the effective interest method, over the term of the 4.75% Debentures, as interest expense.

Beginning on February 5, 2005, the 4.75% Debentures are redeemable by the Company for cash at specified prices expressed as a percentage of the outstanding principal amount plus accrued and unpaid interest at the Company's option, provided that the Company may not redeem the 4.75% Debentures prior to February 5, 2006, unless the last reported sale price of the Company's common stock is at least 130 percent of the then effective conversion price for at least 20 trading days within a period of 30 consecutive trading days ending within five trading days of the date of the redemption notice.

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The redemption prices for the specified periods are as follows:

<u>Period</u>	<u>Price as percentage of principal amount</u>
Beginning on February 5, 2005 through February 4, 2006	102.375%
Beginning on February 5, 2006 through February 4, 2007	101.583%
Beginning on February 5, 2007 through February 4, 2008	100.792%
Beginning on February 5, 2008	100.000%

4.50% Convertible Senior Notes Due 2007

In November 2002, the Company sold \$402.5 million of its 4.50% Convertible Senior Notes due December 1, 2007 (the 4.50% Notes) in a registered offering. Interest on the 4.50% Notes is payable semiannually in arrears on June 1 and December 1 of each year, beginning June 1, 2003. Beginning on December 4, 2005, the 4.50% Notes are redeemable by the Company at its option for cash at specified prices expressed as a percentage of the outstanding principal amount plus accrued and unpaid interest provided that the Company may not redeem the 4.50% Notes unless the last reported sale price of its common stock is at least 150 percent of the then-effective conversion price for at least 20 trading days within a period of 30 trading days ending within five trading days of the date of the redemption notice.

The redemption prices for the specified periods are as follows:

<u>Period</u>	<u>Price as percentage of principal amount</u>
Beginning on December 4, 2005 through November 30, 2006	101.8%
Beginning on December 1, 2006 through November 30, 2007	100.9%
On December 1, 2007	100.0%

The 4.50% Notes are convertible at the option of the holder at any time prior to the close of business on the business day immediately preceding the maturity date of December 1, 2007, unless previously redeemed or repurchased, into shares of common stock at a conversion price of \$7.37 per share, subject to adjustment in certain circumstances. At this conversion price, each \$1,000 principal amount of the 4.50% Notes will be convertible into approximately 135 shares of the Company's common stock. Issuance costs incurred in the amount of approximately \$12 million are being amortized ratably, over the term of the 4.50% Notes, as interest expense approximating the effective interest method.

Holders have the right to require the Company to repurchase all or a portion of its 4.50% Notes in the event that it undergoes specified fundamental changes, including a change of control. In each such case, the redemption or repurchase price would be 100 percent of the principal amount of the 4.50% Notes plus accrued and unpaid interest.

July 2003 FASL Term Loan

On July 11, 2003, the Company amended its September 2002 Loan Agreement and assigned it to FASL LLC. Under the Amended and Restated Term Loan Agreement (the July 2003 FASL Term Loan), amounts borrowed bear interest at a variable rate of LIBOR plus four percent, which was 5.14 percent at December 28, 2003. Repayment occurs in equal, consecutive, quarterly principal and interest installments ending in September 2006. As of December 28, 2003, \$72.5 million was outstanding under the July 2003 FASL Term Loan, of which 60 percent is guaranteed by the Company (see Note 12) and 40 percent is guaranteed by Fujitsu. FASL LLC has granted a security interest in certain property, plant and equipment as security under the July 2003 FASL Term Loan.

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The July 2003 FASL Term Loan Agreement restricts FASL LLC's ability to pay cash dividends in respect of membership interests if its net domestic cash balance (as defined in the July 2003 FASL Term Loan) drops below \$130 million through the first quarter of 2004, \$120 million from the second quarter of 2004 to the end of 2005 and \$100 million during 2006. FASL LLC must also comply with additional financial covenants if its net domestic cash balance declines below \$130 million through the first quarter of 2004, \$120 million from the second quarter of 2004 to the end of 2005, and \$100 million during 2006. At any time that net domestic cash falls below these thresholds, FASL LLC must comply with, among other things, the following financial covenants:

- maintain an adjusted tangible net worth (as defined in the July 2003 FASL Term Loan) of not less than \$850 million;
- achieve EBITDA according to the following schedule:

Period	Amount
For the six months ending December 2003	\$75 million
For the nine months ending March 2004	\$170 million
For the four quarters ending June 2004	\$285 million
For the four quarters ending September 2004	\$475 million
For the four quarters ending December 2004	\$550 million
For the four quarters ending in 2005	\$640 million
For the four quarters ending in 2006	\$800 million

- maintain a Fixed Charge Coverage Ratio (as defined in the July 2003 FASL Term Loan) according to the following schedule:

Period	Ratio
Fourth Fiscal Quarter of 2003	0.2 to 1.00
First Fiscal Quarter of 2004	0.25 to 1.00
Period ending June 2004	0.4 to 1.00
Period ending September 2004	0.8 to 1.00
Period ending December 2004	1.0 to 1.00
Full Fiscal Year 2005	1.0 to 1.00
Full Fiscal Year 2006	0.9 to 1.00

At December 28, 2003, FASL LLC's net domestic cash totaled \$208 million and the preceding financial covenants were not applicable.

FASL JAPAN Term Loan and Guarantee

As a result of the FASL LLC transaction, the Manufacturing Joint Venture's third-party loans were refinanced from the proceeds of a term loan in the aggregate principal amount of 18 billion yen (approximately \$168 million on December 28, 2003) entered into between FASL JAPAN and a Japanese financial institution. Under the agreement, the amounts borrowed bear an interest rate of TIBOR plus a spread that is determined by Fujitsu's current debt rating and FASL JAPAN's non-consolidated net asset value as of the last day of its fiscal year. The interest rate was 0.98 percent as of December 28, 2003. Repayment occurs in equal, consecutive, quarterly principal installments ending in June 2007. FASL JAPAN's assets are pledged as security for its borrowings under this agreement. Also, Fujitsu guaranteed 100 percent of the amounts outstanding under its facility. The Company has agreed to reimburse Fujitsu 60 percent of any amount paid by Fujitsu under its guarantee of this loan (see Note 12). Under this loan agreement, FASL JAPAN is required to comply with the following financial covenants:

- Ensure that assets exceed liabilities as of the end of each fiscal year and each six-month period during such fiscal year;
- Maintain an adjusted tangible net worth (as defined in the loan agreement), as of the last day of each fiscal quarter, of not less than 60 billion yen;

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- Maintain total net income plus depreciation, as of the last day of each fiscal period, as follows:

Period	Amount
Fiscal year 2003	\$78 million
First fiscal quarter of 2004	\$23 million
First and second fiscal quarters of 2004	\$68 million
Fiscal year 2004	\$214 million
Fiscal year 2005	\$197 million
Fiscal year 2006	\$182 million

- Ensure that as of the last day of any fiscal quarter, the ratio of (a) net income plus depreciation to (b) the sum of (i) interest expense for such period plus (ii) scheduled amortization of debt for borrowed money (as defined in the loan agreement) for such period, including lease rentals plus (iii) maintenance capital expenditures for FASL JAPAN's existing and after acquired real property and improvements at its manufacturing facilities located in Aizu-Wakamatsu, Japan, is not less than:

Period	Percentage
First through fourth fiscal quarters of 2003	90%
First fiscal quarter of 2004	100%
Second fiscal quarter of 2004	110%
Third and fourth fiscal quarters of 2004	120%
Fiscal year 2005	120%
Fiscal year 2006	120%

As of December 28, 2003, FASL JAPAN was in compliance with these financial covenants.

Capital Lease and Leaseback Transactions

On July 16, 2003, FASL JAPAN entered into a sale-leaseback transaction for certain equipment with a third-party financial institution in the amount of 12 billion yen (approximately \$100 million on July 16, 2003) of cash proceeds. Upon execution of the agreement, the equipment had a net book value of approximately \$168 million. As the term on the leaseback transaction was more than 75 percent of the remaining estimated economic lives of the equipment, the Company is accounting for the transaction as a capital lease. The Company recognized an immediate loss of \$16 million on the transaction due to the fact that the estimated fair market value of the equipment was less than its net book value at the time of the transaction. The Company also recorded a deferred loss of approximately \$52 million which is being amortized over the term of the lease in proportion to the amortization of the underlying leased assets. The Company guaranteed 50 percent of the outstanding obligations under the lease arrangement (see Note 12). As of December 28, 2003, the outstanding lease obligation under this agreement were approximately \$86 million. In addition, FASL LLC and its subsidiaries also entered into other capital lease and leaseback transactions during the third quarter of 2003, which resulted in additional capital lease obligations of \$159 million as of December 28, 2003. Accordingly, as of December 28, 2003, FASL LLC had aggregate outstanding capital lease obligations of approximately \$245 million. Obligations under these lease agreements are collateralized by the assets leased and are payable through 2007. Leased assets consist principally of machinery and equipment. The Company has guaranteed approximately \$147 million of FASL LLC's aggregate outstanding capital lease obligations as of December 28, 2003 (see Note 12).

The gross amount of assets recorded under capital leases totaled approximately \$335 million and \$109 million as of December 28, 2003 and December 29, 2002, and are included in the related property, plant and equipment category. Amortization of assets recorded under capital leases is included in depreciation expense. Accumulated amortization of these leased assets was approximately \$83 million and \$74 million as of December 28, 2003 and December 29, 2002.

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For each of the next five years and beyond, the Company's debt and capital lease payment obligations are:

	Long-term debt (Principal only)	Capital leases	Total
		(Thousands)	
2004	\$ 109,587	\$ 94,102	\$ 203,689
2005	418,039	90,048	508,087
2006	383,270	75,669	458,939
2007	436,086	3,939	440,025
2008	—	129	129
Beyond 2008	500,000	—	500,000
Total	1,846,982	263,887	2,110,869
Less: amount representing interest	—	17,929	17,929
Total at present value	\$ 1,846,982	\$ 245,958	\$ 2,092,940

NOTE 8: Interest Income and Other, Net & Interest Expense

Interest Income and Other, Net

	2003	2002	2001
		(Thousands)	
Interest income	\$ 19,702	\$ 35,390	\$ 56,424
Other income (loss), net	1,414	(3,258)	(30,729)
	\$ 21,116	\$ 32,132	\$ 25,695

Other income (loss), net, in 2003, 2002, and 2001 consisted of charges for other than temporary declines in the value of the Company's marketable debt and equity securities investments totaling approximately \$2.3 million, \$4.7 million and \$27 million. In addition, interest income and other, net, in 2003 included a gain of approximately \$6 million resulting from the partial sale of assets in connection with the formation of FASL LLC (see Note 3).

Interest Expense

	2003	2002	2001
		(Thousands)	
Total interest charges	\$ 111,433	\$ 82,060	\$ 68,403
Less: interest capitalized	(1,473)	(10,711)	(7,043)
Interest expense	\$ 109,960	\$ 71,349	\$ 61,360

In 2003, interest expense consisted primarily of interest incurred under the Dresden Loan Agreements, interest on the Company's 4.75% Debentures issued in January 2002 and 4.50% Notes issued in November 2002, interest on the July 2003 FASL Term Loan and interest on other FASL LLC's long-term debt and capital lease obligations. In 2002, interest expense consisted primarily of interest incurred under the Dresden Loan Agreements and interest on the Company's 4.75% Debentures issued in January 2002. In 2001, interest expense consisted primarily of interest incurred under the Dresden Loan Agreements and interest on the Company's 6% Convertible Subordinated Notes due 2005 issued in May 1998, which were redeemed in May 2001. Interest capitalized is associated with conversion of Fab 25 to a Flash memory facility and facilitization activities at Fab 30.

[Table of Contents](#)**NOTE 9: Segment Reporting**

Management reviews and assesses operating performance using segment revenues and operating income before interest, taxes and minority interest. These performance measures include the allocation of expenses to the operating segments based on management judgment. Prior to the third quarter of 2003, the Company had two reportable segments, the Core Products and Foundry Services segments. Primarily as a result of the formation of FASL LLC, the Company re-evaluated its reportable segments under SFAS 131.

Beginning in the third quarter of 2003, the Company changed its reportable segments to: the Computation Products segment, which includes microprocessor products for desktop and mobile PCs, servers and workstations and chipset products, and the Memory Products segment, which includes Flash memory products.

The All Other category is not a reportable segment, but rather it includes other small operating segments (Personal Connectivity Solutions products, which include low power MIPS and x86 solutions, and Foundry Services, which included fees from our former voice communications and programmable logic products subsidiaries) that represent less than ten percent of the Company's consolidated revenues and assets individually and in the aggregate. This category also includes certain operating expenses and credits that are not allocated to the operating segments. Prior period segment information has been reclassified to conform to the current period presentation. However, as FASL LLC did not exist prior to June 30, 2003, the Company's results of operations for prior periods did not include the consolidation of FASL LLC's operations. Accordingly, the segment operating information for the Memory Products segment for the year ended December 28, 2003 is not comparable to the reclassified segment information for all prior periods presented.

The following table is a summary of operating income (loss) by segment for 2003, 2002 and 2001.

	2003	2002	2001
	(Thousands)		
Computation Products			
Revenue	\$ 1,959,759	\$ 1,756,016	\$ 2,465,576
Operating income (loss)	\$ (23,194)	\$ (660,596)	\$ (190,609)
Memory Products			
Revenue	1,418,948	740,895	1,132,921
Operating income (loss)	(189,552)	(159,585)	267,817
All Other			
Revenue	140,461	200,118	293,257
Operating income (loss)	(20,638)	(405,205)	(135,466)
Total AMD			
Revenue	3,519,168	2,697,029	3,891,754
Operating income (loss)	(233,384)	(1,225,386)	(58,258)
Interest income and other, net	21,116	32,132	25,695
Interest expense	(109,960)	(71,349)	(61,360)
Minority interest in loss of subsidiary	44,761	—	—
Provision (benefit) for income taxes	2,936	44,586	(14,463)
Equity in net income of Manufacturing Joint Venture	5,913	6,177	18,879
Net loss	\$ (274,490)	\$ (1,303,012)	\$ (60,581)

The Company does not discretely allocate assets to its operating segments, nor does management evaluate operating segments using discrete asset information.

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The Company's operations outside the United States include both manufacturing and sales activities. The Company's manufacturing subsidiaries are located in Germany, Japan, Malaysia, Thailand, Singapore and China. Its sales subsidiaries are located in Europe, Asia and Latin America.

The following table summarizes sales and long-lived assets by geographic areas as of and for each of the three years ended December 28, 2003:

	2003	2002	2001
	(Thousands)		
Sales to external customers:			
United States ⁽¹⁾	\$ 720,679	\$ 736,566	\$ 1,282,663
Japan	575,479	251,673	217,667
Korea	316,893	339,740	279,898
Europe	1,179,474	945,836	1,492,428
Other Countries	726,643	423,214	619,098
	\$ 3,519,168	\$ 2,697,029	\$ 3,891,754
Long-lived assets:			
United States	\$ 1,045,194	\$ 1,020,914	
Germany	1,530,687	1,552,486	
Japan	974,473	1,922	
Other Countries	298,138	305,487	
	\$ 3,848,492	\$ 2,880,809	

(1) Includes insignificant amount of sales in Canada

Sales to external customers are based on the customer's billing location. Long-lived assets are those assets used in each geographic area.

The Company markets and sells its products primarily to a broad base of customers comprising distributors and OEMs of computer and communications equipment. In 2003, net sales to one of the Company's distributors was approximately \$458 million, which accounted for approximately 13 percent of the Company's consolidated net sales. The revenue from this customer was primarily attributable to the Computation Products segment. In 2003, net sales to another one of the Company's distributors was approximately \$463 million, which accounted for approximately 13 percent of the Company's consolidated net sales. The revenue from this customer was primarily attributable to the Memory Products segment. No distributor accounted for ten percent or more of consolidated net sales in 2002 and 2001. No OEM customer accounted for more than ten percent of consolidated net sales in 2003, 2002 and 2001.

NOTE 10: Stock-Based Incentive Compensation Plans

Stock Option Plans. The Company has several stock option plans under which key employees have been granted incentive (ISOs) and nonqualified (NSOs) stock options to purchase the Company's common stock. Compensation expense, if any, recorded upon the issuance of stock options, is computed using the intrinsic value method. Generally options vest and become exercisable over a four-year period from the date of grant and expire five to ten years after the date of grant. ISOs granted under the plans have exercise prices of not less than 100% of the fair market value of the common stock on the date of grant. Exercise prices of NSOs range from \$0.01 to the fair market value of the common stock on the date of grant.

On June 27, 2003, the Company filed a Tender Offer Statement with the SEC and made an offer, which was approved by the Company's stockholders to exchange certain stock options to purchase shares of common stock, outstanding under eligible option plans and held by eligible employees, for replacement options to be granted no sooner than six months and one day from the cancellation of the surrendered options. The offer to exchange

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expired on July 25, 2003. Options to purchase approximately 19 million shares of the Company's common stock were tendered for exchange and cancelled on July 28, 2003 (see Note 17).

The following table summarizes stock option activity and related information for the fiscal years presented:

	2003		2002		2001	
	Number of shares	Weighted-average exercise price	Number of shares	Weighted-average exercise price	Number of shares	Weighted-average exercise price
(Shares in thousands)						
Options:						
Outstanding at beginning of year	60,408	\$ 18.58	52,943	\$ 20.44	43,852	\$ 20.70
Granted	5,575	9.46	11,829	5.62	14,088	16.91
Canceled	(22,642)	27.69	(3,413)	20.34	(1,444)	25.31
Exercised	(2,372)	7.86	(951)	6.23	(3,553)	7.56
Outstanding at end of year	40,969	\$ 12.92	60,408	\$ 18.58	52,943	\$ 20.44
Exercisable at end of year	28,624	\$ 13.66	33,807	\$ 19.55	22,465	\$ 17.63
Available for grant at beginning of year	13,019		21,146		11,803	
Available for grant at end of year	29,613		13,019		21,146	

The following table summarizes information about options outstanding as of December 28, 2003:

Range of exercise prices	Options outstanding			Options exercisable	
	Number of shares	Weighted-average remaining contractual life (years)	Weighted-average exercise price	Number of shares	Weighted-average exercise price
(Shares in thousands)					
\$ 0.01 – \$ 8.19	11,372	6.27	\$ 6.62	6,697	\$ 6.78
\$ 8.22 – \$ 9.72	10,368	6.03	8.96	8,732	8.97
\$ 9.75 – \$16.05	10,533	7.36	13.06	5,914	12.73
\$16.19 – \$45.50	8,696	6.27	25.71	7,281	26.38
\$ 0.01 – \$45.50	40,969	6.49	\$ 12.92	28,624	\$ 13.66

Stock Purchase Plan. The Company has an employee stock purchase plan (ESPP) that allows eligible and participating employees to purchase, through payroll deductions, shares of the Company's common stock at 85 percent of the lower of the fair market value on the first or the last business day of the three-month offering period. As of December 28, 2003, 6,754,481 common shares remained available for issuance under the plan. A summary of stock purchased under the plan for the specified fiscal years is shown below:

	2003	2002	2001
(Thousands)			
Aggregate purchase price	\$ 17,060	\$ 23,488	\$ 16,816
Shares purchased	3,414	3,177	1,220

The weighted-average fair value of shares purchased under the Company's ESPP during 2003, 2002 and 2001 were \$4.86, \$2.26 and \$3.82 per share, respectively.

Restricted Stock Awards. In 1998, the Company adopted the 1998 Stock Incentive Plan under which the Company was authorized to issue two million shares of common stock to employees who are not covered by Section 16 of the Securities Exchange Act of 1934, as amended, subject to terms and conditions determined at the discretion of the Company's Board of Directors. To date, the Company has canceled agreements covering

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48,291 shares without issuance and the Company has issued 370,524 shares pursuant to prior agreements. As of December 28, 2003, agreements covering 18,425 shares were outstanding. Activity under this plan is included in the accompanying tables summarizing activity under the Company's employee stock plans.

Shares Reserved for Issuance. The Company had a total of approximately 77,337,831 shares of common stock reserved as of December 28, 2003 for issuance under employee stock option plans and the ESPP, including restricted stock awards.

Stock-Based Compensation—Pro Forma Disclosures. For pro forma disclosure purposes only, the Company estimates the fair value of its stock-based awards to employees using a Black-Scholes option pricing model. The Black-Scholes model was developed for use in estimating fair value of traded options that have no vesting restrictions and are fully transferable. In addition, the Black-Scholes model requires the input of highly subjective assumptions including expected stock price volatility. Because our stock-based awards to employees 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 management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of our stock-based awards to employees. The fair value of our stock-based awards to employees was estimated assuming no expected dividends and the following weighted-average assumptions:

	Options			ESPP		
	2003	2002	2001	2003	2002	2001
Expected life (years)	3.27	3.17	3.02	0.25	0.25	0.25
Expected stock price volatility	82.91%	84.68%	83.43%	63.66%	99.00%	85.03%
Risk-free interest rate	1.99%	2.93%	3.57%	1.49%	1.87%	2.58%

The Company granted a total of 5,566,484 stock-based awards during 2003 with exercise prices equal to the market price of the stock on the grant date. The weighted-average exercise price and weighted-average fair value of these awards were \$9.46 and \$5.67, respectively. The Company granted a total of 8,745 stock-based awards during 2003 with exercise prices greater than the market price of the stock on the grant date. The weighted-average exercise price and weighted-average fair value of these awards were \$9.54 and \$4.05, respectively. The Company did not grant stock-based awards during 2003 with exercise prices less than the market price of the stock on the grant date.

The Company granted a total of 11,527,551 stock-based awards during 2002 with exercise prices equal to the market price of the stock on the grant date. The weighted-average exercise price and weighted-average fair value of these awards were \$9.86 and \$5.48, respectively. The Company granted a total of 114,980 stock-based awards during 2002 with exercise prices greater than the market price of the stock on the grant date. The weighted-average exercise price and weighted-average fair value of these awards were \$12.73 and \$5.89, respectively. The Company granted a total of 186,157 stock-based awards during 2002 with exercise prices less than the market price of the stock on the grant date. The weighted-average exercise price and weighted-average fair value of these awards were \$0.08 and \$13.70, respectively. The Company granted a total of 13,870,950 stock-based awards during 2001 with exercise prices equal to the market price of the stock on the grant date. The weighted-average exercise price and weighted-average fair value of these awards were \$16.93 and \$9.27, respectively. The Company granted a total of 157,476 stock-based awards during 2001 with exercise prices greater than the market price of the stock on the grant date. The weighted-average exercise price and weighted-average fair value of these awards were \$21.21 and \$0.11, respectively. The Company granted a total of 59,115 stock-based awards during 2001 with exercise prices less than the market price of the stock on the grant date. The weighted-average exercise price and weighted-average fair value of these awards were \$1.08 and \$22.54, respectively.

[Table of Contents](#)**NOTE 11: Other Employee Benefit Plans**

Profit Sharing Program. The Company has a profit sharing program to which the Board of Directors may authorize quarterly contributions. All employees who have worked with the Company for three months or more are eligible to participate in this program. There was no profit sharing expense in 2002. Profit sharing expense was approximately \$4 million in 2003 and \$25 million in 2001.

Retirement Savings Plan. The Company has a retirement savings plan, commonly known as a 401(k) plan, that allows participating employees in the United States to contribute from one to 15 percent of their pre-tax salary subject to Internal Revenue Service limits. The Company matches employee contributions at a rate of 50 cents on each dollar of the first six percent of participants' contributions, to a maximum of three percent of eligible compensation. The contributions to the 401(k) plan were approximately \$10 million in 2003, \$14 million in 2002 and \$11 million in 2001.

NOTE 12: Commitments and Guarantees

The Company leases certain of its facilities under agreements that expire at various dates through 2018. The Company also leases certain of its manufacturing and office equipment for terms ranging from one to five years. Rent expense was approximately \$53 million, \$65 million and \$62 million in 2003, 2002 and 2001, respectively.

For each of the next five years and beyond, noncancelable long-term operating lease obligations, including facilities vacated in connection with restructuring activities, and unconditional commitments to construct the 300-millimeter wafer fabrication facility and purchase manufacturing supplies and services are as follows:

	Operating leases	Unconditional purchase commitments
	(Thousands)	
2004	\$ 74,288	\$ 480,109
2005	61,096	98,301
2006	47,969	27,239
2007	40,340	19,154
2008	39,967	2,710
Beyond 2008	203,186	2,623
	\$ 466,846	\$ 630,136

The previous operating lease for the Company's corporate marketing, general and administrative facility in Sunnyvale, California expired in December 1998, at which time the Company arranged for the sale of the facility to a third party and leased it back under a new operating lease. The Company deferred the gain (\$37 million) on the sale and is amortizing it over a period of 20 years, the life of the lease. The lease expires in December 2018. At the beginning of the fourth lease year and every three years thereafter, the rent will be adjusted by 200 percent of the cumulative increase in the consumer price index over the prior three-year period, up to a maximum of 6.9 percent. Certain other operating leases contain provisions for escalating lease payments subject to changes in the consumer price index. Total future lease obligations as of December 28, 2003, were approximately \$467 million, of which \$126 million was recorded as a liability for certain facilities that were included in our 2002 Restructuring Plan. (See Note 14.)

The Company entered into purchase commitments for manufacturing supplies and services. Total purchase commitments as of December 28, 2003, were approximately \$630 million for periods through 2009. In November 2003, the Company announced its intention to construct and facilitate a 300-millimeter wafer fabrication facility, Fab 36. Fab 36 will be owned by a newly created partnership named AMD Fab 36 Limited Liability Company & Co. KG, or AMD Fab 36, and will be located in Dresden, Germany, adjacent to Fab 30. In November 2003, AMD Fab 36 entered into an agreement with a German entity, M+W Zander, pertaining to the

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design and construction of the manufacturing facility. As of December 28, 2003, AMD Fab 36 is required to make payments to M+W Zander through May 2005 in an aggregate amount of approximately \$440 million. As of December 28, 2003, the Company's purchase commitments also included \$80 million representing future payments to IBM under the Company's joint development agreement, which calls for a quarterly payment of \$10 million. As the services are being performed ratably over the life of the agreement, the Company expenses the payments as incurred. Purchase commitments also included approximately \$71 million for various software maintenance agreements the Company enters into that require periodic payments through 2007. As a result, the Company has not recorded any liabilities relating to these agreements. The remaining \$39 million primarily consists of purchase agreements for raw materials and office supplies.

The Company accounts for guarantees in accordance with FIN 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others."

Guarantees of indebtedness recorded on the Company's consolidated balance sheets

The following table summarizes the principal guarantees issued as of December 28, 2003 related to underlying liabilities that are already recorded on the Company's consolidated balance sheets as of December 28, 2003 and their expected expiration dates by year:

	Amounts Guaranteed*	Amounts of guarantee expiration per period					
		2004	2005	2006	2007	2008	2009 and Beyond
		(Thousands)					
Dresden intercompany guarantee	\$ 332,028	\$ 18,653	\$ 167,880	\$ 145,495	\$ —	\$ —	\$ —
July 2003 FASL term loan guarantee (see Note 7)	43,500	16,500	16,500	10,500	—	—	—
FASL JAPAN term loan guarantee (see Note 7)	100,756	26,868	26,868	26,868	20,152	—	—
FASL capital lease guarantees (see Note 7)	147,303	53,655	49,494	40,422	3,732	—	—
Total guarantees	\$ 623,587	\$ 115,676	\$ 260,742	\$ 223,285	\$ 23,884	\$ —	\$ —

* Represent the principal amount of the underlying obligations guaranteed and are exclusive of obligations for interest, fees and expenses.

Dresden Term Loan and Dresden Term Loan Guarantee

AMD Saxony Limited Liability Company & Co. KG, (AMD Saxony, formerly known as AMD Saxony Manufacturing GmbH), an indirect wholly owned German subsidiary of AMD, continues to facilitate Fab 30, which began production in the third quarter of 2000. AMD, the Federal Republic of Germany, the State of Saxony, and a consortium of banks are providing financing for the project.

In March 1997, AMD Saxony entered into a loan agreement and other related agreements (the Dresden Loan Agreements) with a consortium of banks led by Dresdner Bank AG, a German financial institution, in order to finance the project. AMD Saxony has pledged substantially all of its property as security under the Dresden Loan Agreements. The Dresden Loan Agreements were amended in February 2004 to accommodate the construction, facilitization, and operation of Fab 36.

Because most of the amounts under the Dresden Loan Agreements are denominated in deutsche marks (converted to euros), the dollar amounts are subject to change based on applicable exchange rates. The Company used the exchange rate that was permanently fixed on January 1, 1999, of 1.95583 deutsche marks to one euro for the conversion of deutsche marks to euros, and then used exchange rate as of December 28, 2003, of 0.804 euro to one U.S. dollar to translate the amounts denominated in deutsche marks into U.S. dollars.

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The Dresden Loan Agreements, as amended, provide for the funding of the construction and facilitization of Fab 30. The funding consists of:

- equity contributions, subordinated and revolving loans and loan guarantees from, and full cost reimbursement through, AMD;
- loans from a consortium of banks; and
- investment grants, investment allowances, interest subsidies, and loan guarantees from the Federal Republic of Germany and the State of Saxony.

The Dresden Loan Agreements require that the Company partially fund Fab 30 project costs in the form of subordinated and revolving loans to, or equity investments in, AMD Saxony. In accordance with the terms of the Dresden Loan Agreements, as of December 28, 2003 the Company had provided \$179 million of subordinated loans and \$286 million of equity investments in AMD Saxony. These amounts have been eliminated in our consolidated financial statements.

In addition to support from the Company, the consortium of banks referred to above made available \$954 million in loans to AMD Saxony to help fund Fab 30 project costs. The loans have been fully drawn and a portion has been repaid. AMD Saxony had \$664 million of such loans outstanding as of December 28, 2003, which are included in the Company's consolidated balance sheet.

Finally, pursuant to a Subsidy Agreement the Federal Republic of Germany and the State of Saxony are supporting the Fab 30 project, in accordance with the Dresden Loan Agreements, in the form of:

- guarantees equal to 65 percent of AMD Saxony bank debt, or \$432 million;
- capital investment grants and allowances totaling approximately \$453 million; and
- interest subsidies totaling \$191 million.

Of these amounts, AMD Saxony received approximately \$412 million in capital investment grants and allowances and \$131 million in interest subsidies. In addition, AMD Saxony has received advance payments for interest subsidies amounting to \$22 million as of December 28, 2003. AMD Saxony also received \$55 million in research and development subsidies through December 28, 2003. Amounts received under the Subsidy Agreement are recorded as a long-term liability on the Company's financial statements and are being amortized to operations ratably over the contractual life of the Subsidy Agreement as a reduction to operating expenses through December of 2008. Historical exchange rates in effect at the time these investment grants and allowances and interest subsidies were received were used to translate amounts denominated in deutsche marks (converted to euros) into U.S. dollars.

Under the Subsidy Agreement, for the construction and financing of Fab 30, AMD Saxony undertook to attain a certain employee headcount by December 2003 and to maintain such headcount until December 2008. Noncompliance with the conditions of the grants, allowances and subsidies contained in the Subsidy Agreement could result in the forfeiture of all or a portion of the future amounts to be received, as well as the repayment of all or a portion of amounts received to date. In December 2002, AMD Saxony reduced its anticipated employment levels as a result of the 2002 Restructuring Plan. Consequently, as of December 2003, headcount was below the level agreed to by AMD Saxony at which AMD Saxony would be entitled to receive the maximum amount of capital investment grants and allowances available. However, the aggregate amount of grants and allowances actually received by AMD Saxony to date, calculated as a percentage of the maximum amount of grants and allowances available, does not exceed the actual headcount at AMD Saxony at December 2003, calculated as a percentage of the headcount target undertaken in the Subsidy Agreement. Accordingly,

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AMD Saxony does not believe it has received grants and allowances in excess of its entitlement under the Subsidy Agreement. However, the Company anticipates that the maximum amount of capital investment grants and allowances available under the Subsidy Agreement will be reduced from an originally anticipated amount of \$517 million to approximately \$453 million. The Company adjusted the quarterly amortization of these amounts accordingly.

The Dresden Loan Agreements, as amended, also require that the Company:

- provide interim funding to AMD Saxony if either the remaining capital investment grants and allowances or the remaining interest subsidies are delayed, such funding to be repaid to AMD, as AMD Saxony receives the investment grants and allowances or subsidies from the State of Saxony and the Federal Republic of Germany;
- fund shortfalls in government subsidies resulting from any default under the Subsidy Agreement caused by AMD Saxony or its affiliates; and
- guarantee of up to 50 percent of AMD Saxony's obligations under the Dresden Loan Agreements, which guarantee must not be less than \$138 million or more than \$373 million, until the bank loans are repaid in full. As of December 28, 2003, the amount outstanding under the guarantee was \$332 million.

As AMD Saxony's obligations under the Dresden Loan Agreements are included in the Company's consolidated financial statements, no incremental liability is recorded under the Dresden guarantee.

AMD Saxony would be in default under the Dresden Loan Agreements if the Company, AMD Saxony or AMD Saxony Holding GmbH (AMD Holding) fails to comply with certain obligations thereunder or upon the occurrence of certain events and if, after the occurrence of the event, the lenders determine that their legal or risk position is materially adversely affected. Circumstances that could result in a default include:

- failure to fund equity contributions or loans or otherwise comply with the Company's obligations relating to the Dresden Loan Agreements;
- the sale of shares in AMD Saxony or AMD Holding;
- the failure to pay material obligations;
- the occurrence of a material adverse change or filings or proceedings in bankruptcy or insolvency with respect to the Company, AMD Saxony or AMD Holding;
- the occurrence of a default under the July 2003 Loan Agreement; and
- AMD Saxony's noncompliance with certain financial covenants, including minimum tangible net worth, minimum interest cover ratio, asset cover ratio and a minimum liquidity covenant.

Generally, any default with respect to borrowings made or guaranteed by AMD that results in recourse to the Company of more than \$2.5 million, and that is not cured by the Company, would result in a cross-default under the Dresden Loan Agreements. As of December 28, 2003, the Company was in compliance with all conditions of the Dresden Loan Agreements.

In the event the Company is unable to meet its obligations to AMD Saxony as required under the Dresden Loan Agreements and the lenders determine that their legal or risk position is materially adversely affected, the Company will be in default under the Dresden Loan Agreements, which would permit acceleration of the

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The Company has not recorded any liability in its consolidated financial statements associated with these guarantees because they were issued prior to the effective date of FIN 45.

Warranties and Indemnities

The Company generally offers a three-year limited warranty to end users for certain of its boxed microprocessor products and a one-year limited warranty to direct purchasers for all other products.

Changes in the Company's potential liability for product warranty during the years ended December 28, 2003 and December 29, 2002 are as follows (in thousands):

	Year Ended	
	December 28, 2003	December 29, 2002
Balance, beginning of the period	\$ 19,369	\$ 16,730
New warranties issued during the period	40,011	34,574
Settlements during the period	(24,560)	(51,935)
Changes in liability for pre-existing warranties during the period, including expirations	(10,152)	20,000
Balance, end of period	\$ 24,668	\$ 19,369

In addition to product warranties, the Company, from time to time in its normal course of business, indemnifies other parties with whom it enters into contractual relationships, including customers, lessors and parties to other transactions with the Company, with respect to certain matters. The Company has agreed to hold the other party harmless against specified losses, such as those arising from a breach of representations or covenants, third-party claims that the Company's products when used for their intended purpose(s) infringe the intellectual property rights of such third-party or other claims made against certain parties. It is not possible to determine the maximum potential amount of liability under these indemnification obligations due to the limited history of prior indemnification claims and the unique facts and circumstances that are likely to be involved in each particular claim. Historically, payments made by the Company under these obligations have not been material.

NOTE 13: Other Long-term Liabilities

The Company's other long-term liabilities at December 28, 2003 and December 29, 2002 consisted of:

	December 28, 2003	December 29, 2002
	(Thousands)	
Dresden deferred grants and subsidies (see Note 2)	\$ 262,941	\$ 146,346
Customer deposits	17,500	38,000
Deferred gain on building (see Note 12)	23,488	25,169
Restructuring accrual (see Note 14)	98,590	112,567
FASL LLC pension liability (see Note 3)	26,242	—
Other	—	1,615
	\$ 428,761	\$ 323,697

Customer deposits are related to multi-year supply agreements for Spansion Flash memory products that will be repaid through 2005, which guarantee customers' purchases of these products.

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NOTE 14: Restructuring and Other Special Charges

2002 Restructuring Plan

In December 2002, the Company began implementing a restructuring plan (the 2002 Restructuring Plan) to further align its cost structure to industry conditions resulting from weak customer demand and industry-wide excess inventory.

As part of this plan, and as a result of the Company's agreement with IBM to jointly develop future generations of the Company's logic process technology, the Company ceased logic research and development in its Submicron Development Center (SDC) in Sunnyvale, California and eliminated most of those related resources, including the sale or abandonment of certain equipment used in the SDC.

The 2002 Restructuring Plan resulted in the consolidation of facilities, primarily at the Company's Sunnyvale, California site and at sales offices worldwide. The Company vacated, and is attempting to sublease, certain facilities currently occupied under long-term operating leases through 2013. The Company also terminated the implementation of certain partially completed enterprise resource planning (ERP) software and other information technology implementation activities, resulting in the abandonment of certain software, hardware and capitalized development costs.

Pursuant to the 2002 Restructuring Plan, the Company recorded restructuring costs and other special charges of \$330.6 million in the fourth quarter of 2002, consisting primarily of \$68.8 million of anticipated severance and fringe benefit costs, an asset impairment charge of \$32.5 million relating to a license that has no future use because of its association with discontinued logic process development activities, asset impairment charges of \$30.6 million resulting from the abandonment of equipment previously used in logic process development and manufacturing activities, anticipated exit costs of \$138.9 million almost wholly related to vacating and consolidating the Company's facilities and a charge of \$55.5 million resulting from the abandonment of partially completed ERP and other information technology implementation activities.

During 2003, management approved the sale of additional equipment, primarily equipment used in the SDC, that was identified as no longer useful in the Company's operations. As a result, the Company recorded approximately \$11 million of asset impairment charges in the first quarter of 2003, including \$3.3 million of charges for decommission costs necessary to complete the sale of the equipment.

During 2003, the Company revised its estimates of the number of positions to be eliminated pursuant to the 2002 Restructuring Plan from 2,000 to 1,800 in response to the additional resources required due to the FASL LLC transaction. As a result, the Company reversed \$8.9 million of the estimated severance and fringe benefit accrual. As of December 28, 2003, 1,736 employees had been terminated pursuant to the 2002 Restructuring Plan resulting in cumulative cash payments of \$53 million in severance and employee benefit costs. The remaining accrual of approximately \$6.7 million represents the severance benefit cost obligations for individuals whose employments terminated but who elected to defer receipt of severance benefits until 2004 and for employees who were pre-notified in 2003 of their employment terminations, which will occur in 2004.

With exception of the exit costs, which are payable through 2011, the Company has substantially completed the activities associated with the 2002 Restructuring Plan as of December 28, 2003.

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The following table summarizes activities under the 2002 Plan through December 28, 2003:

	Severance and employee benefits	Asset impairment	Exit costs	Other restructuring charges	Total
(Thousands)					
2002 provision	\$ 68,770	\$ 118,590	\$ 138,900	\$ 4,315	\$ 330,575
Non-cash charges	—	(118,590)	—	—	(118,590)
Cash charges	(14,350)	—	(795)	—	(15,145)
Accruals at December 29, 2002	\$ 54,420	\$ —	\$ 138,105	4,315	\$ 196,840
2003 Provision	—	7,791	3,314	—	11,105
Cash charges	(38,816)	—	(20,796)	(4,300)	(63,912)
Non-cash charges	—	(7,791)	—	—	(7,791)
Non-cash adjustments	(8,864)	—	—	(15)	(8,879)
Accruals at December 28, 2003	\$ 6,740	\$ —	\$ 120,623	\$ —	\$ 127,363

2001 Restructuring Plan

In 2001, the Company announced a restructuring plan (the 2001 Restructuring Plan) due to the continued slowdown in the semiconductor industry and a resulting decline in revenues. The Company had substantially completed its execution of the 2001 Restructuring Plan as of December 28, 2003. During 2003, the Company reduced the estimated accrual of the facility and equipment decommission costs by \$12.2 million based on the most current information available. During 2003, the Company also realized a recovery of approximately \$3.9 million for the excess of the sale price over the estimated fair value of equipment impaired as a result of the 2001 Restructuring Plan, previously held-for-sale at amounts in excess of its initially estimated fair value. Both amounts were included in restructuring and other special charges, net.

The following table summarizes activity under the 2001 Restructuring Plan through December 28, 2003:

	Severance and employee benefits	Facility and equipment impairment	Facilities and equipment decommission costs	Other facilities exit costs	Total
(Thousands)					
2001 provision	\$ 34,105	\$ 39,000	\$ 15,500	\$ 700	\$ 89,305
2001 cash charges	(7,483)	—	—	(54)	(7,537)
2001 non-cash charges	—	(39,000)	—	—	(39,000)
Accrual at December 30, 2001	26,622	—	15,500	646	42,768
2002 cash charges	(26,622)	—	(445)	—	(27,067)
Accrual at December 29, 2002	—	—	15,055	646	15,701
Non-cash adjustments	—	—	(11,574)	(646)	(12,220)
Cash charges	—	—	(2,485)	—	(2,485)
Accrual at December 28, 2003	\$ —	\$ —	\$ 996	\$ —	\$ 996

As of December 28, 2003 and December 29, 2002, \$99 million and \$113 million of the total restructuring accruals of \$128 million and \$213 million were included in other liabilities (long-term) on the balance sheets. (See Note 13.)

NOTE 15: Share Repurchase Program

On January 29, 2001, the Company announced that the Board of Directors had authorized a program to repurchase up to \$300 million worth of the Company's common stock over a period of time to be determined by

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management. Any such repurchases will be made, from time to time, in the open market or in privately negotiated transactions in compliance with Rule 10b-18 of the Securities Exchange Act, subject to market conditions, applicable legal requirements and other factors. This program does not obligate the Company to acquire any particular amount of its common stock, and the program may be suspended at any time at the Company's discretion. The Company did not purchase any shares under this program during fiscal 2003 or 2002. As of December 28, 2003, 6,310,580 shares had been repurchased at an aggregate price of approximately \$77 million under the program.

NOTE 16: Contingencies

I. Environmental Matters

Superfund Clean-Up Orders. The Company is named as a responsible party on Superfund clean-up orders for three sites in Sunnyvale, California that are on the National Priorities List. Since 1981, the Company has discovered hazardous material releases to the groundwater from former underground tanks and proceeded to investigate and conduct remediation at these three sites. The chemicals released into the groundwater were commonly used in the semiconductor industry in the United States in the wafer fabrication process prior to 1979.

In 1991, the Company received four Final Site Clean-up Requirements Orders from the California Regional Water Quality Control Board relating to the three sites. The Company has entered into settlement agreements with other responsible parties on two of the orders. Under these agreements other parties have assumed the costs and primary responsibility for conducting remediation activities under the orders. The Company remains responsible for these costs in the event that the other parties do not fulfill their obligations under the settlement agreements.

To address anticipated future remediation costs under the orders, the Company has computed and recorded an estimated environmental liability of approximately \$3.3 million in accordance with applicable accounting rules and has not recorded any potential insurance recoveries in determining the estimated costs of the cleanup. The progress of future remediation efforts cannot be predicted with certainty, and these costs may change. Environmental charges to earnings have not been material during any of the last three fiscal years. The Company believes that the potential future liability, if any, in excess of amounts already accrued will not have a material adverse effect on the Company's financial condition or results of operations.

Potentially Responsible Party Designation. In 1998, the U.S. Environmental Protection Agency (EPA) identified the Company as one of hundreds of Superfund "potentially responsible parties" (PRPs) as a result of the disposal of waste at a regulated landfill in Santa Barbara County, California that was later abandoned by its owners and designated as a Superfund site by the EPA. The Company has reached a settlement agreement with the EPA and completed payment. However, the public notification, judicial review and issuance of a consent decree remain pending. The amount of settlement did not have a material adverse effect on the Company's financial condition or results of operations.

II. Other Matters

The Company is a defendant or plaintiff in various other actions, which arose in the normal course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's financial condition or results of operations.

NOTE 17: Subsequent Event (unaudited)

Pursuant to the Company's Tender Offer (Note 10), on January 30, 2004, the Company granted options to purchase 12,111,371 shares of common stock to employees at an exercise price of \$14.86, which represented the closing price of the Company's common stock on that date, in exchange for options cancelled. The Company also granted options to purchase 25,165 shares of our common stock at an exercise price of \$15.55 in exchange for options cancelled. The Company did not record a compensation expense as a result of the tender offer and exchange.

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*Report of Ernst & Young LLP,
Independent Auditors*

The Board of Directors and Stockholders
Advanced Micro Devices, Inc.

We have audited the accompanying consolidated balance sheets of Advanced Micro Devices, Inc. as of December 28, 2003 and December 29, 2002, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 28, 2003. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Advanced Micro Devices, Inc. as of December 28, 2003 and December 29, 2002, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 28, 2003, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ ERNST & YOUNG LLP

San Jose, California
January 16, 2004

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**2003 and 2002 by Quarter
(Unaudited)**
(Thousands except per share and market price amounts)

	2003				2002			
	Dec. 28 ⁽¹⁾	Sept. 28 ⁽¹⁾	June 29	Mar. 30	Dec. 29	Sept. 29	June 30	Mar. 31
Net Sales	\$ 1,205,593	\$ 953,759	\$ 645,261	\$ 714,555	\$ 686,430	\$ 508,227	\$ 600,299	\$ 902,073
Expenses:								
Cost of sales	778,506	626,880	425,085	496,592	506,613	453,884	558,290	586,874
Research and development	226,503	213,997	208,513	203,062	244,848 ⁽²⁾	220,959	178,425	171,882
Marketing, general and administrative	162,807	151,111	135,161	138,228	194,389	158,568	160,248	156,860
Restructuring and other special charges	(8,039)	(8,000)	—	2,146	330,575	—	—	—
	1,159,777	983,988	768,759	840,028	1,276,425	833,411	896,963	915,616
Operating income (loss)	45,816	(30,229)	(123,498)	(125,473)	(589,995)	(325,184)	(296,664)	(13,543)
Interest income (expense) and other, net	8,912	493	4,971	6,740	992	12,941	8,661	9,538
Interest expense	(30,943)	(26,848)	(26,364)	(25,805)	(22,296)	(21,166)	(15,729)	(12,158)
Income (loss) before minority interest, income taxes, equity in net income of joint venture	23,785	(56,584)	(144,891)	(144,538)	(611,299)	(333,409)	(303,732)	(16,163)
Minority interest in loss of subsidiary	19,408	25,353	—	—	—	—	—	—
Provision (benefit) for income taxes	—	—	—	2,936	243,470	(73,350)	(121,493)	(4,041)
Income (loss) before equity in net income of joint venture	43,193	(31,231)	(144,891)	(147,474)	(854,769)	(260,059)	(182,239)	(12,122)
Equity in net income (loss) of joint venture	—	—	4,795	1,118	29	5,888	(2,699)	2,959
Net income (loss)	\$ 43,193	\$ (31,231)	\$ (140,096)	\$ (146,356)	\$ (854,740)	\$ (254,171)	\$ (184,938)	\$ (9,163)
Net income (loss) per share								
Basic	0.12	(0.09)	(0.40)	(0.42)	(2.49)	(0.74)	(0.54)	(0.03)
Diluted	0.12	(0.09)	(0.40)	(0.42)	(2.49)	(0.74)	(0.54)	(0.03)
Shares used in per share calculation								
Basic	357,090	347,334	346,320	345,012	343,949	342,780	341,782	340,806
Diluted	416,190	347,334	346,320	345,012	343,949	342,780	341,782	340,806
Common stock market price range								
High	\$ 18.50	\$ 12.87	\$ 8.59	\$ 7.79	\$ 9.60	\$ 10.88	\$ 15.30	\$ 20.60
Low	\$ 10.52	\$ 6.25	\$ 5.80	\$ 4.78	\$ 3.10	\$ 5.20	\$ 7.95	\$ 12.63

⁽¹⁾ Includes consolidated FASL LLC results and is not comparable to periods prior to the quarter ended September 28, 2003.

⁽²⁾ Includes a \$42 million charge for amounts paid to IBM in exchange for consulting services relating to optimizing the performance of our manufacturing processes.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed with the objective of providing reasonable assurance that that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of December 28, 2003, the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

There has been no change in our internal controls over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information under the captions, “Item 1—Election of Directors,” “Corporate Governance,” “Executive Officers of the Registrant” and “Section 16(a) Beneficial Ownership Reporting Compliance” in our 2004 Proxy Statement is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information under the captions, “Committees and Meetings of the Board of Directors—Compensation Committee,” “Directors’ Compensation and Benefits,” “Executive Compensation,” “2003 Option Grants,” “Aggregate Option Exercises in 2003 and Fiscal Year-End Option Values,” “Employment Agreements” and “Change in Control Arrangements” in our 2004 Proxy Statement is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information under the captions, “Principal Stockholders,” “Security Ownership of Directors and Executive Officers” and “Equity Compensation Plan Information” in our 2004 Proxy Statement is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information under the caption, “Certain Relationships and Related Transactions” in our 2004 Proxy Statement is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information under the captions, “Item 2—Ratification of Independent Auditors—Independent Auditor’s Fees” in our 2004 Proxy Statement is incorporated herein by reference.

With the exception of the information specifically incorporated by reference in Part II and Part III of this Annual Report on Form 10-K from our 2004 Proxy Statement, our 2004 Proxy Statement shall not be deemed to be filed as part of this report. Without limiting the foregoing, the information under the captions, “Board Compensation Committee Report on Executive Compensation,” “Board Audit Committee Report” and “Performance Graph” in our 2004 Proxy Statement is not incorporated by reference in this Annual Report on Form 10-K.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a)

1. Financial Statements

The financial statements are set forth in Item 8 of this report on Form 10-K

All other schedules have been omitted because the required information is not present or is not present in amounts sufficient to require submission of the schedules or because the information required is included in the Consolidated Financial Statements or Notes thereto.

2. Exhibits

The exhibits listed in the accompanying Index to Exhibits are filed as part of, or incorporated by reference into, this Annual Report on Form 10-K. The following is a list of such Exhibits:

Exhibit Number	Description of Exhibits
2.1	Agreement and Plan of Merger dated October 20, 1995, between AMD and NexGen, Inc., filed as Exhibit 2 to AMD's Quarterly Report for the period ended October 1, 1995, and as amended as Exhibit 2.1 to AMD's Current Report on Form 8-K dated January 17, 1996, is hereby incorporated by reference.
2.2	Amendment No. 2 to the Agreement and Plan of Merger, dated January 11, 1996, between AMD and NexGen, Inc., filed as Exhibit 2.2 to AMD's Current Report on Form 8-K dated January 17, 1996, is hereby incorporated by reference.
2.3	Stock Purchase Agreement dated as of April 21, 1999, by and between Lattice Semiconductor Corporation and AMD, filed as Exhibit 2.3 to AMD's Current Report on Form 8-K dated April 26, 1999, is hereby incorporated by reference.
2.3(a)	First Amendment to Stock Purchase Agreement, dated as of June 7, 1999, between AMD and Lattice Semiconductor Corporation, filed as Exhibit 2.3(a) to AMD's Quarterly Report on Form 10-Q for the period ended June 27, 1999, is hereby incorporated by reference.
2.3(b)	Second Amendment to Stock Purchase Agreement, dated as of June 15, 1999, between AMD and Lattice Semiconductor Corporation, filed as Exhibit 2.3(b) to AMD's Quarterly Report on Form 10-Q for the period ended June 27, 1999, is hereby incorporated by reference.
2.4	Reorganization Agreement, dated as of May 21, 2000, by and between AMD and BoldCo, Inc., filed as Exhibit 2.1 to AMD's Current Report on Form 8-K dated May 21, 2000, is hereby incorporated by reference.
2.5	Recapitalization Agreement, dated as of May 21, 2000, by and between BraveTwo Acquisition, L.L.C., AMD and BoldCo, Inc., filed as Exhibit 2.2 to AMD's Current Report on Form 8-K dated May 21, 2000, is hereby incorporated by reference.
3.1	Certificate of Incorporation, as amended, filed as Exhibit 3.1 to AMD's Amendment No. 1 to its Annual Report on Form 10-K for the fiscal year ended December 26, 1999, is hereby incorporated by reference.
3.2	Bylaws, as amended, filed as Exhibit 3.2 to AMD's Amendment No. 4 to Form S-3 Registration Statement (No. 333-84028), are hereby incorporated by reference.
3.3	Certificate of Amendment to Restated Certificate of Incorporation dated May 25, 2000, filed as Exhibit 3.3 to AMD's Quarterly Report on Form 10-Q for the period ended July 2, 2000, is hereby incorporated by reference.

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Exhibit Number	Description of Exhibits
4.1	AMD hereby agrees to file on request of the Commission a copy of all instruments not otherwise filed with respect to AMD's long-term debt or any of its subsidiaries for which the total amount of securities authorized under such instruments does not exceed 10 percent of the total assets of AMD and its subsidiaries on a consolidated basis.
4.2	Indenture, dated as of January 29, 2002, between AMD and The Bank of New York, filed as Exhibit 4.14 to AMD's Annual Report on Form 10-K for the fiscal year ended December 30, 2001, is hereby incorporated by reference.
4.3	Form of AMD 4.75% Convertible Senior Debentures Due 2022, filed as Exhibit 4.15 to AMD's Annual Report on Form 10-K for the fiscal year ended December 30, 2001, is hereby incorporated by reference.
4.4	Registration Rights Agreement, dated as of January 29, 2002, by and among AMD, Credit Suisse First Boston Corporation and Salomon Smith Barney Inc., filed as Exhibit 4.16 to AMD's Annual Report on Form 10-K for the fiscal year ended December 30, 2001, is hereby incorporated by reference.
4.5	Form of AMD 4.50% Convertible Senior Notes Due 2007, filed as Exhibit 4.3 to AMD's Current Report on Form 8-K dated November 26, 2002, is hereby incorporated by reference.
*10.2	AMD 1986 Stock Option Plan, as amended, filed as Exhibit 10.2 to AMD's Annual Report on Form 10-K for the fiscal year ended December 26, 1993, is hereby incorporated by reference.
*10.3	AMD 1992 Stock Incentive Plan, as amended, filed as Exhibit 10.3 to AMD's Annual Report on Form 10-K for the fiscal year ended December 31, 2000, is hereby incorporated by reference.
*10.4	AMD 1980 Stock Appreciation Rights Plan, as amended, filed as Exhibit 10.4 to AMD's Annual Report on Form 10-K for the fiscal year ended December 26, 1993, is hereby incorporated by reference.
*10.5	AMD 1986 Stock Appreciation Rights Plan, as amended, filed as Exhibit 10.5 to the Company's Annual Report on Form 10-K for the fiscal year ended December 26, 1993, is hereby incorporated by reference.
*10.6	Forms of Stock Option Agreements, filed as Exhibit 10.8 to AMD's Annual Report on Form 10-K for the fiscal year ended December 29, 1991, are hereby incorporated by reference.
*10.7	Form of Limited Stock Appreciation Rights Agreement, filed as Exhibit 4.11 to AMD's Registration Statement on Form S-8 (No. 33-26266), is hereby incorporated by reference.
*10.8	AMD 1987 Restricted Stock Award Plan, as amended, filed as Exhibit 10.10 to AMD's Annual Report on Form 10-K for the fiscal year ended December 26, 1993, is hereby incorporated by reference.
*10.9	Forms of Restricted Stock Agreements, filed as Exhibit 10.11 to AMD's Annual Report on Form 10-K for the fiscal year ended December 29, 1991, are hereby incorporated by reference.
*10.10	Resolution of Board of Directors on September 9, 1981, regarding acceleration of vesting of all outstanding stock options and associated limited stock appreciation rights held by officers under certain circumstances, filed as Exhibit 10.10 to AMD's Annual Report on Form 10-K for the fiscal year ended March 31, 1985, is hereby incorporated by reference.
*10.11	Amended and Restated Employment Agreement, dated as of November 3, 2000, between AMD and W. J. Sanders III, filed as Exhibit 10.12 to AMD's Annual Report on Form 10-K for the fiscal year ended December 31, 2000, is hereby incorporated by reference.
*10.12	AMD 2000 Stock Incentive Plan, as amended, filed as Exhibit 10.12 to AMD's Quarterly Report on Form 10-Q for the fiscal quarter ended June 29, 2003, is hereby incorporated by reference.
*10.13	AMD's U.S. Stock Option Program for options granted after April 25, 2000, filed as Exhibit 10.14 to AMD's Annual Report on Form 10-K for the fiscal year ended December 31, 2000, is hereby incorporated by reference.

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Exhibit Number	Description of Exhibits
*10.14	Vice President Performance Recognition Plan.
*10.15	AMD Executive Incentive Plan, filed as Exhibit 10.14(b) to AMD's Quarterly Report on Form 10-Q for the period ended June 30, 1996, is hereby incorporated by reference.
*10.16	Form of Bonus Deferral Agreement, filed as Exhibit 10.12 to AMD's Annual Report on Form 10-K for the fiscal year ended March 30, 1986, is hereby incorporated by reference.
*10.17	Form of Executive Deferral Agreement, filed as Exhibit 10.17 to AMD's Annual Report on Form 10-K for the fiscal year ended December 31, 1989, is hereby incorporated by reference.
*10.18	Form of Management Continuity Agreement, filed as Exhibit 10.21 to AMD's Annual Report on Form 10-K for the fiscal year ended December 29, 2002, is hereby incorporated by reference.
*10.19	AMD's Stock Option Program for Employees Outside the U.S. for options granted after April 25, 2000, filed as Exhibit 10.24 to AMD's Annual Report on Form 10-K for the fiscal year ended December 31, 2000, is hereby incorporated by reference.
*10.20(a)	AMD's U.S. Stock Option Program for options granted after April 24, 2001, filed as Exhibit 10.23(a) to AMD's Annual Report on Form 10-K for the fiscal year ended December 30, 2001, is hereby incorporated by reference.
**10.21	Patent License Agreement, dated as of December 3, 1998, between AMD and Motorola, Inc., filed as Exhibit 10.26 to AMD's Annual Report on Form 10-K for the fiscal year ended December 27, 1998, is hereby incorporated by reference.
10.22	Lease Agreement, dated as of December 22, 1998, between AMD and Delaware Chip LLC, filed as Exhibit 10.27 to AMD's Annual Report on Form 10-K for the fiscal year ended December 27, 1998 is hereby incorporated by reference.
*10.23	AMD Executive Savings Plan (Amendment and Restatement, effective as of August 1, 1993), filed as Exhibit 10.30 to AMD's Annual Report on Form 10-K for the fiscal year ended December 25, 1994, is hereby incorporated by reference.
*10.24(a)	First Amendment to the AMD Executive Savings Plan (as amended and restated, effective as of August 1, 1993), filed as Exhibit 10.28(b) to AMD's Annual Report on Form 10-K for the fiscal year ended December 28, 1997, is hereby incorporated by reference.
*10.25(b)	Second Amendment to the AMD Executive Savings Plan (as amended and restated, effective as of August 1, 1993), filed as Exhibit 10.28(b) to AMD's Annual Report on Form 10-K for the fiscal year ended December 28, 1997, is hereby incorporated by reference.
*10.26	Form of Split Dollar Agreement, as amended, filed as Exhibit 10.31 to AMD's Annual Report on Form 10-K for the fiscal year ended December 25, 1994, is hereby incorporated by reference.
*10.27	Form of Collateral Security Assignment Agreement, filed as Exhibit 10.32 to AMD's Annual Report on Form 10-K for the fiscal year ended December 26, 1993, is hereby incorporated by reference.
*10.28	Forms of Stock Option Agreements to the 1992 Stock Incentive Plan, filed as Exhibit 4.3 to AMD's Registration Statement on Form S-8 (No. 33-46577), are hereby incorporated by reference.
*10.29	1992 United Kingdom Share Option Scheme, filed as Exhibit 4.2 to AMD's Registration Statement on Form S-8 (No. 33-46577), is hereby incorporated by reference.
**10.30	AMD 1998 Stock Incentive Plan, as amended, filed as Exhibit 10.32 to AMD's Quarterly Report on Form 10-Q for the fiscal quarter ended June 29, 2003, is hereby incorporated by reference.

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Exhibit Number	Description of Exhibits
*10.31	Form of indemnification agreements with officers and directors of AMD, filed as Exhibit 10.38 to AMD's Annual Report on Form 10-K for the fiscal year ended December 25, 1994, is hereby incorporated by reference.
*10.32	1995 Stock Plan of NexGen, Inc., as amended, filed as Exhibit 10.34 to AMD's Quarterly Report on Form 10-Q for the fiscal quarter ended June 29, 2003, is hereby incorporated by reference.
10.33	Contract for Transfer of the Right to the Use of Land between AMD (Suzhou) Limited and China-Singapore Suzhou Industrial Park Development Co., Ltd., filed as Exhibit 10.39 to AMD's Annual Report on Form 10-K for the fiscal year ended December 31, 1995, is hereby incorporated by reference.
*10.34	NexGen, Inc. 1987 Employee Stock Plan, filed as Exhibit 99.3 to Post-Effective Amendment No. 1 on Form S-8 to AMD's Registration Statement on Form S-4 (No. 33-64911), is hereby incorporated by reference.
*10.35	Form of indemnity agreement between NexGen, Inc. and its directors and officers, filed as Exhibit 10.5 to the Registration Statement of NexGen, Inc. on Form S-1 (No. 33-90750), is hereby incorporated by reference.
**10.36	C-4 Technology Transfer and Licensing Agreement dated June 11, 1996, between AMD and IBM Corporation, filed as Exhibit 10.48 to AMD's Amendment No. 1 to its Quarterly Report on Form 10-Q/A for the period ended September 29, 1996, is hereby incorporated by reference.
**10.36(a)	Amendment No. 1 to the C-4 Technology Transfer and Licensing Agreement, dated as of February 23, 1997, between AMD and International Business Machine Corporation, filed as Exhibit 10.48(a) to AMD's Quarterly Report on Form 10-Q for the period ended March 30, 1997, is hereby incorporated by reference.
**10.37	Design and Build Agreement dated November 15, 1996, between AMD Saxony Manufacturing GmbH and Meissner and Wurst GmbH, filed as Exhibit 10.49(a) to AMD's Annual Report on Form 10-K for the fiscal year ended December 29, 1996, is hereby incorporated by reference.
10.37(a)	Amendment to Design and Build Agreement dated January 16, 1997, between AMD Saxony Manufacturing GmbH and Meissner and Wurst GmbH filed as Exhibit 10.49(b) to AMD's Annual Report on Form 10-K for the fiscal year ended December 29, 1996, is hereby incorporated by reference.
**10.38	Syndicated Loan Agreement with Schedules 1, 2 and 17, dated as of March 11, 1997, among AMD Saxony Manufacturing GmbH, Dresdner Bank AG and Dresdner Bank Luxembourg S.A., filed as Exhibit 10.50(a) to AMD's Quarterly Report on Form 10-Q for the period ended March 30, 1997, is hereby incorporated by reference.
**10.38(a-1)	Supplemental Agreement to the Syndicated Loan Agreement dated February 6, 1998, among AMD Saxony Manufacturing GmbH, Dresdner Bank AG and Dresdner Bank Luxembourg S.A., filed as Exhibit 10.50(a-2) to AMD's Annual Report on Form 10-K/A (No.1) for the fiscal year ended December 28, 1997, is hereby incorporated by reference.
10.38(a-2)	Supplemental Agreement No. 2 to the Syndicated Loan Agreement as of March 11, 1997, dated as of June 29, 1999, among AMD Saxony Manufacturing GmbH, Dresdner Bank AG and Dresdner Bank Luxembourg S.A., filed as Exhibit 10.50 (a-3) to AMD's Quarterly Report on Form 10-Q for the period ended June 27, 1999, is hereby incorporated by reference.

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Exhibit Number	Description of Exhibits
**10.38(a-3)	Amendment Agreement No. 3 to the Syndicated Loan Agreement, dated as of February 20, 2001, among AMD Saxony Manufacturing GmbH, AMD Saxony Holding GmbH, Dresdner Bank AG, Dresdner Bank Luxembourg S.A. and the banks party thereto, filed as Exhibit 10.50(a-4) to AMD's Annual Report on Form 10-K for the fiscal year ended December 31, 2000, is hereby incorporated by reference.
**10.38(a-4)	Amendment Agreement No. 4 to the Syndicated Loan Agreement, dated as of June 3, 2002, among AMD Saxony Manufacturing GmbH, Dresdner Bank AG, Dresdner Bank Luxembourg S.A. and the banks party thereto, filed as Exhibit 10.43(a-4) to AMD's Quarterly Report on Form 10-Q for the period ended June 30, 2002, is hereby incorporated by reference.
10.38(a-5)	Amendment Agreement No. 5 to the Syndicated Loan Agreement, dated as of December 20, 2002, among AMD Saxony Limited Liability Company and Co. KG, Dresdner Bank Luxembourg, S.A., Dresdner Bank AG, and the banks party thereto, filed as Exhibit 10.43(a-5) to AMD's Annual Report on Form 10-K for the fiscal year ended December 29, 2002, is hereby incorporated by reference.
10.38(a-6)	Amendment Agreement No. 6 to the Syndicated Loan Agreement, dated as of February 24, 2004, among AMD Saxony Limited Liability Company and Co. KG, Dresdner Bank AG, Dresdner Bank Luxembourg S.A. and the banks party thereto.
**10.38(b)	Determination Regarding the Request for a Guarantee by AMD Saxony Manufacturing GmbH, filed as Exhibit 10.50(b) to AMD's Quarterly Report on Form 10-Q for the period ended March 30, 1997, is hereby incorporated by reference.
**10.38(c)	AMD Subsidy Agreement, between AMD Saxony Manufacturing GmbH and Dresdner Bank AG, filed as Exhibit 10.50(c) to AMD's Quarterly Report on Form 10-Q for the period ended March 30, 1997, is hereby incorporated by reference.
**10.38(d)	Subsidy Agreement, dated February 12, 1997, between Sachsische Aufbaubank and Dresdner Bank AG, with Appendices 1, 2a, 2b, 3 and 4, filed as Exhibit 10.50(d) to AMD's Quarterly Report on Form 10-Q for the period ended March 30, 1997, is hereby incorporated by reference.
10.38(e)	AMD, Inc. Guaranty, dated as of March 11, 1997, among AMD, AMD Saxony Manufacturing GmbH and Dresdner Bank AG, filed as Exhibit 10.50(e) to AMD's Quarterly Report on Form 10-Q for the period ended March 30, 1997, is hereby incorporated by reference.
10.38(f-1)	Sponsors' Support Agreement, dated as of March 11, 1997, among AMD, AMD Saxony Holding GmbH and Dresdner Bank AG, filed as Exhibit 10.50(f) to AMD's Quarterly Report on Form 10-Q for the period ended March 30, 1997, is hereby incorporated by reference.
10.38(f-2)	First Amendment to Sponsors' Support Agreement, dated as of February 6, 1998, among AMD, AMD Saxony Holding GmbH and Dresdner Bank AG, filed as Exhibit 10.50(f-2) to AMD's Annual Report on Form 10-K for the fiscal year ended December 28, 1997, is hereby incorporated by reference.
10.38(f-3)	Second Amendment to Sponsors' Support Agreement, dated as of June 29, 1999, among AMD, AMD Saxony Holding GmbH, Dresdner Bank AG and Dresdner Bank Luxembourg S.A., filed as Exhibit 10.50 (f-3) to AMD's Quarterly Report on Form 10-Q for the period ended June 27, 1999, is hereby incorporated by reference.
**10.38(f-4)	Third Amendment to Sponsors' Support Agreement, dated as of February 20, 2001, among AMD, AMD Saxony Holding GmbH, Dresdner Bank AG and Dresdner Bank Luxembourg S.A, filed as Exhibit 10.50(f-4) to AMD's Annual Report on Form 10-K for the fiscal year ended December 31, 2000, is hereby incorporated by reference.

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Exhibit Number	Description of Exhibits
**10.38(f-5)	Accession Agreement and Fourth Amendment to Sponsor's Support Agreement, dated as of June 3, 2002, among AMD, AMD Saxony Holding GmbH, AMD Saxony LLC, AMD Saxony Admin GmbH, Dresdner Bank AG and Dresdner Bank Luxembourg S.A., filed as Exhibit 10.43(f-5) to AMD's Quarterly Report on Form 10-Q for the period ended June 30, 2002, is hereby incorporated by reference.
10.38(f-6)	Fifth Amendment to Sponsors' Support Agreement, dated as of December 20, 2002, among AMD, AMD Saxony Holding GmbH, AMD Saxony LLC, AMD Saxony Admin GmbH and Dresdner Bank Luxembourg S.A., filed as 10.43(f-6) to AMD's Annual Report on Form 10-K for the fiscal year-ended December 29, 2002, is hereby incorporated by reference.
10.38(g-1)	Sponsors' Loan Agreement, dated as of March 11, 1997, among AMD, AMD Saxony Holding GmbH and AMD Saxony Manufacturing GmbH, filed as Exhibit 10.50(g) to AMD's Quarterly Report on Form 10-Q for the period ended March 30, 1997, is hereby incorporated by reference.
10.38(g-2)	First Amendment to Sponsors' Loan Agreement, dated as of February 6, 1998, among AMD, AMD Saxony Holding GmbH and AMD Saxony Manufacturing GmbH, filed as Exhibit 10.50(g-2) to AMD's Annual Report on Form 10-K for the fiscal year ended December 28, 1997, is hereby incorporated by reference.
10.38(g-3)	Second Amendment to Sponsors' Loan Agreement, dated as of June 25, 1999, among AMD and AMD Saxony Holding GmbH and AMD Saxony Manufacturing GmbH, filed as Exhibit 10.50(g-3) to the Company's Quarterly Report on Form 10-Q for the period ended June 27, 1999, is hereby incorporated by reference.
10.38(g-4)	Third Amendment to Sponsors' Loan Agreement, dated as of June 3, 2002, among AMD, AMD Saxony Holding GmbH and AMD Saxony Manufacturing GmbH, filed as Exhibit 10.43(g-4) to AMD's Quarterly Report on Form 10-Q for the period ended June 30, 2002, is hereby incorporated by reference.
10.38(h)	Sponsors' Subordination Agreement, dated as of March 11, 1997, among AMD, AMD Saxony Holding GmbH, AMD Saxony Manufacturing GmbH and Dresdner Bank AG, filed as Exhibit 10.50(h) to AMD's Quarterly Report on Form 10-Q for the period ended March 30, 1997, is hereby incorporated by reference.
10.38(h-1)	First Amendment to Sponsors' Subordination Agreement, dated as of February 20, 2001, among AMD, AMD Saxony Holding GmbH, AMD Saxony Manufacturing GmbH, and Dresdner Bank Luxembourg S.A. and Dresdner Bank A.G., filed as Exhibit 10.43(h-1) to AMD's Quarterly Report on Form 10-Q for the period ended June 30, 2002, is hereby incorporated by reference.
10.38(h-2)	Accession Agreement and Second Amendment to Sponsors' Subordination Agreement, dated as of June 3, 2002, among AMD, AMD Saxony Holding GmbH, AMD Saxony LLC, AMD Saxony Admin GmbH, AMD Saxony Manufacturing GmbH, and Dresdner Bank Luxembourg S.A. and Dresdner Bank AG., filed as Exhibit 10.43(h-2) to AMD's Quarterly Report on Form 10-Q for the period ended June 30, 2002, is hereby incorporated by reference.
10.38(h-3)	Third Amendment to Sponsors' Subordination Agreement, dated as of February 24, 2004 among AMD, AMD Saxony Holding GmbH, AMD Saxony LLC, AMD Saxony Admin GmbH, AMD Saxony Limited Liability Company and Co. KG, and Dresdner Bank Luxembourg S.A., and Dresdner Bank AG.

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Exhibit Number	Description of Exhibits
10.38(i)	Sponsors' Guaranty, dated as of March 11, 1997, among AMD, AMD Saxony Holding GmbH and Dresdner Bank AG, filed as Exhibit 10.50(i) to AMD's Quarterly Report on Form 10-Q for the period ended March 30, 1997, is hereby incorporated by reference.
10.38(i-1)	Second Amendment to Sponsors' Guaranty, dated as of December 20, 2002, among AMD, AMD Saxony Holding GmbH, Dresdner Bank Luxembourg S.A., and Dresdner Bank AG, filed as Exhibit 10.43 (i-1) to AMD's Annual Report on Form 10-K for the fiscal year ended December 29, 2002, is hereby incorporated by reference.
**10.38(j-1)	AMD Holding Wafer Purchase Agreement, dated as of March 11, 1997, among AMD and AMD Saxony Holding GmbH, filed as Exhibit 10.50(j) to AMD's Quarterly Report on Form 10-Q for the period ended March 30, 1997, is hereby incorporated by reference.
**10.38(j-2)	First Amendment to AMD Holding Wafer Purchase Agreement, dated as of February 20, 2001, between AMD and AMD Saxony Holding GmbH, filed as Exhibit 10.50(j-1) to AMD's Annual Report on Form 10-K for the fiscal year ended December 31, 2000, is hereby incorporated by reference.
**10.38(k)	AMD Holding Research, Design and Development Agreement, dated as of March 11, 1997, between AMD Saxony Holding GmbH and AMD, filed as Exhibit 10.50(k) to AMD's Quarterly Report on Form 10-Q for the period ended March 30, 1997, is hereby incorporated by reference.
**10.38(l-1)	AMD Saxonia Wafer Purchase Agreement, dated as of March 11, 1997, between AMD Saxony Holding GmbH and AMD Saxony Manufacturing GmbH, filed as Exhibit 10.50(l) to AMD's Quarterly Report on Form 10-Q for the period ended March 30, 1997, is hereby incorporated by reference.
10.38(l-2)	First Amendment to AMD Saxonia Wafer Purchase Agreement, dated as of February 6, 1998, between AMD Saxony Holding GmbH and AMD Saxony Manufacturing GmbH, filed as Exhibit 10.50 (l-2) to AMD's Annual Report on Form 10-K for the fiscal year ended December 28, 1997, is hereby incorporated by reference.
**10.38(l-3)	Second Amendment to AMD Saxonia Wafer Purchase Agreement, dated as of February 20, 2001, between AMD Saxony Holding GmbH and AMD Saxony Manufacturing GmbH, filed as Exhibit 10.50(l-3) to AMD's Annual Report on Form 10-K for the fiscal year ended December 31, 2000, is hereby incorporated by reference.
10.38(l-4)	Third Amendment to AMD Saxonia Wafer Purchase Agreement, dated as of June 3, 2002, between AMD Saxony Holding GmbH and AMD Saxony Manufacturing GmbH, filed as Exhibit 10.43(l-4) to AMD's Quarterly Report on Form 10-Q for the period ended June 30, 2002, is hereby incorporated by reference.
10.38(l-5)	Fourth Amendment to AMD Saxonia Wafer Purchase Agreement, dated as of February 24, 2004, between AMD Saxony Holding GmbH and AMD Saxony Limited Liability and Co. KG.
**10.38(m)	AMD Saxonia Research, Design and Development Agreement, dated as of March 11, 1997, between AMD Saxony Manufacturing GmbH and AMD Saxony Holding GmbH, filed as Exhibit 10.50(m) to AMD's Quarterly Report on Form 10-Q for the period ended March 30, 1997, is hereby incorporated by reference.
10.38(n)	License Agreement, dated March 11, 1997, among AMD, AMD Saxony Holding GmbH and AMD Saxony Manufacturing GmbH, filed as Exhibit 10.50(n) to AMD's Quarterly Report on Form 10-Q for the period ended March 30, 1997, is hereby incorporated by reference.

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Exhibit Number	Description of Exhibits
10.38(o)	AMD, Inc. Subordination Agreement, dated March 11, 1997, among AMD, AMD Saxony Holding GmbH and Dresdner Bank AG, filed as Exhibit 10.50(o) to AMD's Quarterly Report on Form 10-Q for the period ended March 30, 1997, is hereby incorporated by reference.
10.38(o-1)	First Amendment to AMD Inc. Subordination Agreement, dated as of February 20, 2001, among AMD, AMD Saxony Holding GmbH, Dresdner Bank Luxembourg S.A. and Dresdner Bank A.G., filed as Exhibit 10.43(o-1) to AMD's Quarterly Report on Form 10-Q for the period ended June 30, 2002, is hereby incorporated by reference.
10.38(o-2)	Accession Agreement and Second Amendment to AMD, Inc. Subordination Agreement, dated as of June 3, 2002, among AMD, AMD Saxony Holding GmbH, AMD Saxony LLC, AMD Saxony Admin GmbH, Dresdner Bank Luxembourg S.A. and Dresdner Bank A.G., filed as Exhibit 10.43(o-2) to AMD's Quarterly Report on Form 10-Q for the period ended June 30, 2002, is hereby incorporated by reference.
**10.38(p-1)	ISDA Agreement, dated March 11, 1997, between AMD and AMD Saxony Manufacturing GmbH, filed as Exhibit 10.50(p) to AMD's Quarterly Report on Form 10-Q for the period ended March 30, 1997, is hereby incorporated by reference.
**10.38(p-2)	Confirmation to ISDA Agreement, dated February 6, 1998, between AMD and AMD Saxony Manufacturing GmbH, filed as Exhibit 10.50(p-2) to AMD's Annual Report on Form 10-K for the fiscal year ended December 28, 1997, is hereby incorporated by reference.
10.39	Amended and Restated Loan and Security Agreement, dated as of July 7, 2003, among AMD, AMD International Sales and Service, Ltd. and Bank of America NT&SA as agent, filed as Exhibit 10.44 to AMD's Quarterly Report on Form 10-Q for the period ended June 29, 2003, is hereby incorporated by reference.
10.39(a-1)	First Amendment to Amended and Restated Loan and Security Agreement, dated as of October 3, 2003, among AMD, AMD International Sales & Service, Ltd. and Bank of America NT&SA, as agent, filed as Exhibit 10.44(a-1) to AMD's Quarterly Report on Form 10-Q for the period ended September 28, 2003, is hereby incorporated by reference.
*10.40	Management Continuity Agreement, between AMD and Robert R. Herb, filed as Exhibit 10.54 to AMD's Annual Report on Form 10-K for the fiscal year ended December 26, 1999, is hereby incorporated by reference.
*10.41	Employment Agreement, dated as of January 31, 2002, between AMD and Hector de J. Ruiz, filed as Exhibit 10.47 to AMD's Annual Report on Form 10-K for the fiscal year ended December 30, 2001, is hereby incorporated by reference.
*10.42	Form of indemnification agreements with officers and directors of AMD, filed as Exhibit 10.56 to AMD's Annual Report on Form 10-K for the fiscal year ended December 26, 1999, is hereby incorporated by reference.
*10.43	Employment Agreement, dated as of September 27, 2000, between AMD and Robert J. Rivet, filed as Exhibit 10.57 to AMD's Quarterly Report on Form 10-Q for the period ended July 1, 2001, is hereby incorporated by reference.
**10.44	Patent Cross-License Agreement, dated as of May 4, 2001, between AMD and Intel Corporation, filed as Exhibit 10.58 to AMD's Quarterly Report on Form 10-Q for the period ended July 1, 2001, is hereby incorporated by reference.
*10.45	Loan Agreement, dated as of June 19, 2001, between AMD and Hector and Judy Ruiz, filed as Exhibit 10.59 to AMD's Quarterly Report on Form 10-Q for the period ended July 1, 2001, is hereby incorporated by reference.

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Exhibit Number	Description of Exhibits
**10.46	Joint Development Agreement, dated as of January 31, 2002, between AMD and United Microelectronics Corporation, filed as Exhibit 10.52 to AMD's Amendment No. 1 to its Quarterly Report on Form 10-Q/A for the period ended March 31, 2002, is hereby incorporated by reference.
**10.47	"S" Process Development Agreement, dated as of December 28, 2002, between AMD and IBM, filed as Exhibit 10.54 to AMD's Annual Report on Form 10-K for the fiscal year ended December 29, 2002, is hereby incorporated by reference.
10.48	Term Loan Agreement, dated as of July 11, 2003, among FASL LLC, General Electric Capital Corporation, as agent, and the financial institutions named therein, filed as Exhibit 10.51 to AMD's Quarterly Report on Form 10-Q for the period ended June 29, 2003, is hereby incorporated by reference.
***10.49	Amended and Restated Limited Liability Company Operating Agreement of FASL LLC dated as of June 30, 2003, filed as Exhibit 10.52 to AMD's Quarterly Report on Form 10-Q for the period ended June 29, 2003, is hereby incorporated by reference.
10.50	Contribution and Assumption Agreement by and among Advanced Micro Devices, Inc., AMD Investments, Inc., Fujitsu Limited, Fujitsu Microelectronics Holdings, Inc., and FASL LLC dated as of June 30, 2003, filed as Exhibit 10.53 to AMD's Quarterly Report on Form 10-Q for the period ended June 29, 2003, is hereby incorporated by reference.
10.51	Asset Purchase Agreement by and among Advanced Micro Devices, Inc., Fujitsu Limited and FASL LLC dated as of June 30, 2003, filed as Exhibit 10.54 to AMD's Quarterly Report on Form 10-Q for the period ended June 29, 2003, is hereby incorporated by reference.
***10.52	AMD-FASL Patent Cross-License Agreement by and between Advanced Micro Devices, Inc. and FASL LLC dated as of June 30, 2003, filed as Exhibit 10.55 to AMD's Quarterly Report on Form 10-Q for the period ended June 29, 2003, is hereby incorporated by reference.
***10.53	AMD Distribution Agreement by and between Advanced Micro Devices, Inc. and FASL LLC dated as of June 30, 2003, filed as Exhibit 10.56 to AMD's Quarterly Report on Form 10-Q for the period ended June 29, 2003, is hereby incorporated by reference.
***10.54	Non-Competition Agreement by and among Advanced Micro Devices, Inc., AMD Investments, Inc., Fujitsu Limited, Fujitsu Microelectronics Holding, Inc. and FASL LLC dated as of June 30, 2003, filed as Exhibit 10.57 to AMD's Quarterly Report on Form 10-Q for the period ended June 29, 2003, is hereby incorporated by reference.
*10.55	AMD 1996 Stock Incentive Plan, as amended, filed as Exhibit 10.58 to AMD's Quarterly Report on Form 10-Q for the period ended June 29, 2003, is hereby incorporated by reference.
***10.56	Loan Agreement, dated as of September 25, 2003, among FASL JAPAN LIMITED, Mizuho Corporate Bank, Ltd., and the banks party thereto.
10.57	Master Rental Agreement, dated July 16, 2003, among GE Capital Leasing Corporation, as Lessor, FASL JAPAN LIMITED, as Lessee, and Advanced Micro Devices, Inc. as Guarantor, filed as Exhibit 10.64 to AMD's Quarterly Report on Form 10-Q for the period ended September 28, 2003, is hereby incorporated by reference.
***10.58	Agreement between SI Investment Limited Liability Company & Co KG and M+W Zander Facility Engineering GmbH, dated November 20, 2003.
***10.59	Cooperation Agreement between Advanced Micro Devices, Inc., the Free State of Saxony and M+W Zander Fünfte Verwaltungsgesellschaft mbH dated November 20, 2003.
21	List of AMD subsidiaries.
23	Consent of Independent Auditors.

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Exhibit Number	Description of Exhibits
24	Power of Attorney.
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Management contracts and compensatory plans or arrangements required to be filed as an Exhibit to comply with Item 14(a)(3) of Form 10-K.

** Confidential treatment has been granted as to certain portions of these Exhibits.

*** Confidential treatment has been requested as to certain portions of these Exhibits.

AMD will furnish a copy of any exhibit on request and payment of AMD's reasonable expenses of furnishing such exhibit.

(b) *Reports on Form 8-K.*

1. A Current Report on Form 8-K dated November 20, 2003 reporting under Item 5—Other Events was filed announcing the ground-breaking of a new 300-millimeter wafer fabrication facility in Dresden, Germany.

ADVANCED MICRO DEVICES, INC.
VALUATION AND QUALIFYING ACCOUNTS
Years Ended
December 30, 2001, December 29, 2002 and December 28, 2003
(in thousands)

	Balance Beginning of Period	Additions Charged (Reductions Credited) To Operations	Deductions⁽¹⁾	Balance End of Period
Allowance for doubtful accounts:				
Years ended:				
December 30, 2001	22,712	9,791	(13,233)	19,270
December 29, 2002	19,270	1,456	(1,820)	18,906
December 28, 2003	18,906	23,541	(21,789)	20,658

⁽¹⁾ Accounts (written off) recovered, net.

VP PERFORMANCE RECOGNITION PROGRAM

I. Purpose

The Vice President Incentive Program (VPIP) recognizes and rewards AMD's and FASL LLC's Vice Presidents (Participants) for furthering AMD's and FASL LLC's ongoing success against both short- and long-term objectives.

II. Plan Overview

- The **Short-Term Plan (STP)** provides an award for meeting or exceeding planned performance for the current fiscal year (Plan Year).
- The **Long-Term Plan (LTP)** provides an annual award for sustained corporate performance over a three-fiscal-year period relative to external measures.

Within these plans, the performance objectives are as follows:

Plan	Component	Metric(s)
STP	Corporate Performance Award (CPA)	• Corporate Operating Profit vs. Plan
	Group Performance Award (GPA)	• Group Operating Profit vs. Plan
	Individual Performance Award (IPA)	• Performance against Balanced Scorecard
LTP	Relative Profitability	• AMD Return on Equity (ROE) vs. S&P 500 Return on Equity (ROE) over 3 years
	Relative Sales Growth	• AMD Sales Growth vs. WSTS Sales Growth over 3 years

The following sections discuss the plan provisions in further detail. All awards are subject to the Plan funding, maximum and carryover provisions detailed in Section V. A separate communication outlining the assigned target percentages for each component of the Plans, and division assignments and financial goals for the STP, will be provided to Participants each year.

III. Short Term Plan (STP)

The STP uses three different components to measure and reward the Participant's annual contributions: *Corporate*, *Group* and *Individual*.

The payout opportunity and the weight of each component vary depending upon the Participant's role and the tier to which he/she is assigned by management.

The Corporate and Group Performance components of the Plan are split into two six-month performance periods. Planned corporate and operating group objectives for the first half of the year are generally based on the Board Approved Corporate Budget. Objectives for the second half are established using the mid-year update of the Corporate Budget.

A. Corporate Performance Award (CPA)

The CPA is earned by meeting or exceeding specific levels of Operating Profit (OP) against the Plan for the performance period.

For each half-year performance period a multiplier is derived based on *Actual OP* vs. *Planned OP*. The multiplier is then applied against the CPA target bonus to determine the accrued award.

- The threshold level, below which the multiplier is zero, is 80% of Planned OP by default. This threshold will be confirmed or revised for any Plan Year at the discretion of the CEO.
- The multiplier is 1.0 when Actual OP equals Planned OP.
- For performance between 80% and 100% of Planned OP, the multiplier is prorated on a straight-line basis.

For performance above Planned OP in each half-year performance period, a pool of funds is created using a percentage of the OP above Planned OP. This percentage is determined each year by the Office of the CEO.

- This pool is used to pay individual discretionary awards beyond target performance.

VP PERFORMANCE RECOGNITION PROGRAM

- Any pool award generated for the first-half performance period is held in reserve pending the final OP for the year. If, for the year, Actual OP is below the combined threshold for the two separate performance periods, any pool generated for the first half of the year is forfeited.

There is no maximum *accrued* award on this component of the Plan. The maximum *paid* in any year is subject to the Plan funding, maximum and carryover provisions explained in section V.

The following table illustrates four payment calculation examples for a participant with a CPA target of 10% of pay, a base salary of \$225,000, and a pool of 10% of excess OP:

	First Half (\$M)					
	Planned OP	OP Threshold (80%)	Actual OP	Perf. %	Target Mult. (Max=1.00)	\$ Pool for Distribution
Case 1	200	160	240	120	1.00	4.00
Case 2 (Target Perf.)	200	160	200	100	1.00	0.00
Case 3	200	160	220	110	1.00	2.00
Case 4	200	160	170	85	0.25	0.00

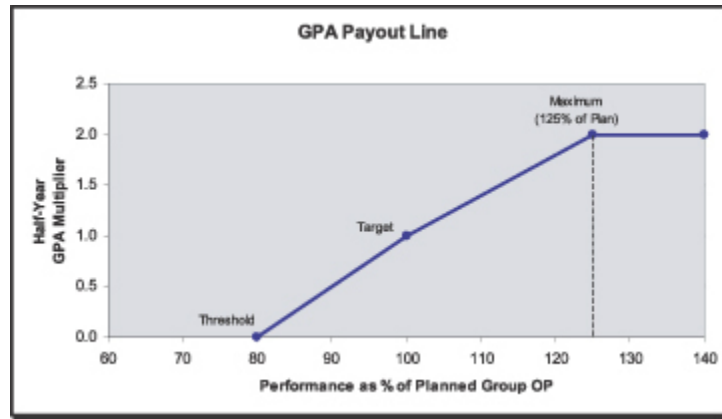
	Second Half (\$M)					
	Planned OP	OP Threshold (80%)	Actual OP	Perf. %	Target Mult. (Max=1.00)	\$ Pool for Distribution
Case 1	300	240	315	105	1.00	1.50
Case 2 (Target Perf.)	300	240	300	100	1.00	0.00
Case 3	300	240	165	55	0.00	0.00
Case 4	300	240	150	50	0.00	0.00

	Annual (\$M)								
	Base Salary	Combined OP Threshold	Actual OP	CPA Mult.	CPA Target	Award %	Award \$	Total \$ Pool for Distribution	
Case 1	\$ 225,000	400	555	1.00	10.0%	10.00%	\$ 22,500	5.50	Pool eliminated from First Half ← since combined threshold not met
Case 2 (Target Perf.)	\$ 225,000	400	500	1.00	10.0%	10.00%	\$ 22,500	0.00	
Case 3	\$ 225,000	400	385	0.50	10.0%	5.00%	\$ 11,250	0.00	
Case 4	\$ 225,000	400	320	0.13	10.0%	1.30%	\$ 2,925	0.00	

B. Group Performance Award (GPA)

The GPA depends on Actual Group Operating Profit (OP) versus Planned Group OP. Similar to the CPA, for each half-year performance period a multiplier is derived based on Actual Group OP vs. Planned Group OP as illustrated in the following graph:

VP PERFORMANCE RECOGNITION PROGRAM



The multiplier is then applied against the GPA target award to determine the accrued award.

- The threshold is 80% of planned Group OP, by default.
- The multiplier is 1.0 when Actual GOP equals Planned GOP.
- The maximum multiplier in each half-year period is 2.0, generally when 125% performance is achieved.
- The threshold and maximum are confirmed or revised in any Plan Year at the discretion of the CEO.
- The annual GPA is derived by taking the average of the two half year multipliers.

The following table illustrates four sample payout calculations for a participant with a 25% GPA target:

	First Half					Second Half				
	Planned Group Profit	Threshold (80%)	Actual	Perf. %	Mult.	Planned Group Profit	Threshold (80%)	Actual	Perf. %	Mult.
Case 1	100	80	85	85%	0.25	125	100	120	96%	0.80
Case 2 (Target Perf.)	100	80	100	100%	1.00	125	100	125	100%	1.00
Case 3	100	80	75	75%	0.00	125	100	145	116%	1.64
Case 4	100	80	150	130%	2.00	125	100	150	125%	2.00

	Annual				
	Base Salary	GPA Mult.	GPA Target	GPA %	GPA Award
Case 1	\$ 225,000	0.53	25.0%	13.1%	\$ 29,531
Case 2 (Target Perf.)	\$ 225,000	1.00	25.0%	25.0%	\$ 56,250
Case 3	\$ 225,000	0.82	25.0%	20.5%	\$ 46,125
Case 4	\$ 225,000	2.00	25.0%	50.0%	\$ 112,500

VP PERFORMANCE RECOGNITION PROGRAM

C. Individual Performance Award (IPA)

The IPA is based on performance against the established Balanced Scorecard for the year. The IPA target is generally 10% of base salary. However, executive management may adjust the average target percent in any given Plan Year based on the performance of the Company, competitive practices and/or the role of a particular executive.

D. STP Award Calculation

The total STP award is calculated as follows:

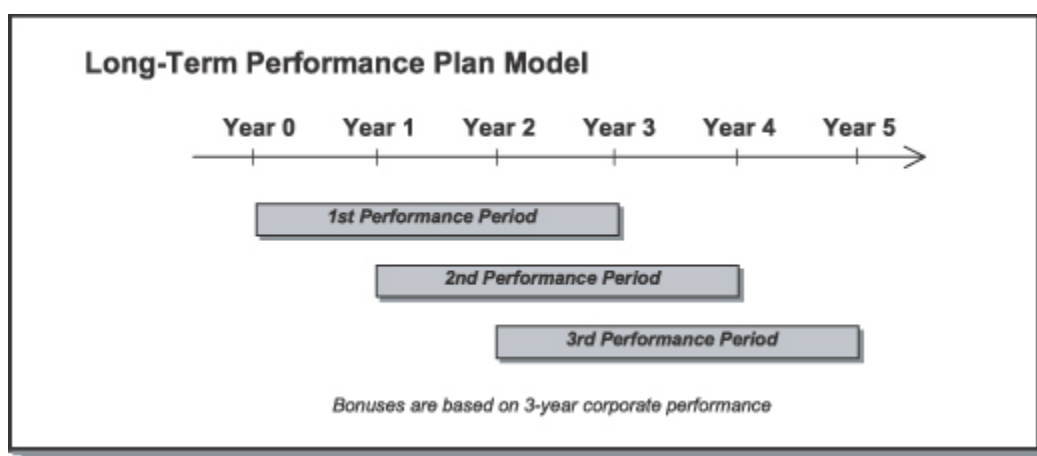
$$\text{STP Award} = \text{CPA} + \text{GPA} + \text{IPA}$$

The following table illustrates this payment calculation, combining the previous examples:

	Base Salary	CPA		GPA		IPA		Total Bonus Award		Additional CPA Pool Award
		%	\$	%	\$	%	\$	%	\$	
Case 1	\$ 225,000	10.00%	\$22,500	13.13%	\$ 29,531	5.00%	\$11,250	28.13%	\$ 63,281	Yes
Case 2 (Target Perf.)	\$ 225,000	10.00%	\$22,500	25.00%	\$ 56,250	10.00%	\$22,500	45.00%	\$101,250	
Case 3	\$ 225,000	5.00%	\$11,250	20.50%	\$ 46,125	12.00%	\$27,000	37.50%	\$ 84,375	
Case 4	\$ 225,000	1.30%	\$ 2,925	50.00%	\$112,500	16.00%	\$36,000	67.30%	\$151,425	

IV. Long-Term Plan (LTP)

The LTP rewards sustained corporate performance for both Return on Equity (ROE) and sales growth relative to competitive measures over a rolling three-year period. The LTP has an annual target award of 30% of base salary and a maximum opportunity of 60% for all Participants, subject to proration provisions in Section VII F. The model below illustrates the LTP cycles.



A. LTP Plan Components

- **ROE Component:** compares AMD's three-year ROE against the three-year ROE for the S&P 500. This component is weighted at 50%.
- **Sales Component:** compares the difference between AMD's three-year sales growth and the three-year semiconductor industry sales growth, as published by Worldwide Semiconductor Trade Statistics (WSTS) . This component is weighted at 50%.

Target multipliers are derived as follows:

		Weighting	Performance Level		
			Threshold	Target (1.0 Multiplier)	Maximum (2.0 Multiplier)
Roe Component	AMD ROE minus S&P 500 ROE (3-year)	50%	-6%	0	6%
Sales Component	AMD Sales Growth % minus WSTS Sales Growth % (3-year)	50%	-30%	0	20%

² Semiconductor industry data may be modified to be more representative of AMD's product offerings. For instance, the DRAM market segment may be excluded from the Total Semiconductor Sales data.

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For example, if AMD's 3-year ROE is 10% and the S&P ROE is 10%, the difference is 0. Therefore, a multiplier of 1.0 is generated for the ROE component. If AMD's 3-year Sales Growth is 30% and the WSTS Sales Growth is 10%, the difference is 20%. Therefore, a multiplier of 2.0 is generated for the Sales component.

The Combined LTP Target Multiplier is calculated as follows:

$$\text{(ROE Component Multiplier x 50\%)} + \text{(Sales Component Multiplier x 50\%)} = \text{Combined LTP Multiplier}$$

So, in the example above, the Combined LTP Multiplier is 1.5:

$$(1.0 \times 50\%) + (2.0 \times 50\%) = 1.5$$

For either factor, the threshold performance level must be met in order for an LTP award to be generated. The maximum multiplier when both factors are added is two (2.0).

B. LTP Award Calculation

The LTP award is calculated as follows:

$$\text{Combined LTP Multiplier} \times \text{LTP Target (30\%)} \times \text{Base Salary} = \text{LTP}$$

V. Plan Funding, Maximum Awards and Carryovers

- The Corporate Component of the STP is funded by a maximum of three percent of AMD's adjusted Operating Profit, as defined in section VIII, for any given Plan Year. In the aggregate, if the Corporate awards exceed the 3 percent limit, each Participant's award will be scaled back to conform.

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- The Corporate Component will not be paid for any Plan Year in which Corporate OP is less than or equal to \$0.
- The 3% of OP funding limitation applies to all STP Components for Officer participants
- For Vice Presidents below the Officer Level, the Group and the Individual Components are not affected by the 3% funding limitation.
- Assuming the 3% funding limitations above are met, accrued STP awards can be paid in amounts up to 3 times the target award.
- Any accrued STP award in excess of the 3 times target maximum will be carried forward and paid out over the following two years. One half of any carryover award will be paid following the first year of the carryover period. The remaining half will be paid following the second year of the carryover period. Carryover payments will be made coincident with the regular Plan payment schedule.
- Payment of LTP awards is subject to the 3% funding limitation. Awards generated but not paid due to the limitations will be carried over for possible payout in future Plan years. That amount will be carried over for up to three following Plan Years. Carryover award amounts will be paid at the earliest possible payout date (on a first in, first out basis) during the three-year carryover period, subject to the three percent maximum payout cap and other eligibility provisions. Any amount carried over but not payable during the three-year carryover period reverts to zero.

VI. Timing of Payouts

Awards for the STP are generally paid out by the end of the first quarter following the close of a Plan Year. For the LTP, awards are paid as soon as possible after actual external performance data become available. Typically this will be in the 4th quarter following the plan year.

VP PERFORMANCE RECOGNITION PROGRAM

VII. Eligibility for Participation and Receipt of Awards

- A. Unless otherwise determined by the CEO, all non-Sales Vice Presidents, Officers, Sr. Vice Presidents, and Group Vice Presidents are Participants in the Plan.
- B. To be eligible to receive any accrued award under the Plan, a participant must be actively employed by AMD or FASL LLC on the actual date of payment of the award.
- C. Payment to a Participant of any calculated award for which the Participant is otherwise eligible is contingent upon that Participant's sustained satisfactory performance during the Plan period for which the award was calculated, as determined by the Participant's immediate superior.
- D. To be eligible to receive an accrued **STP** award of any amount, a participant must have been actively employed in the Plan for some portion of the Plan Year. A participant who is actively employed for less than an entire Plan Year (i.e., became a participant mid-year or was on an unpaid leave), and who is otherwise eligible, will receive a prorated STP award, according to the number of months of active employment in the 12-month STP Plan Year. For purposes of this provision, a full month's credit will be given where the Participant was actively employed in the Plan for at least 15 days of a partial month.
- E. In the event of an employee status change resulting in an approved change of Plan tier (for which different target award levels exist or a group assignment changes), the participation period for each tier is determined using the proration method described above. The monthly salary immediately prior to the status change is used to compute all portions of the award for the first tier. The monthly salary at the end of the Plan Year is used to compute the award for the new tier. Calculations take into account the appropriate targets and maximums for each Plan tier.
- F. To be eligible to receive an **LTP** award of any amount, a participant must have been actively employed in the Plan for at least 12 months. A participant who is actively employed for less than an entire three-year LTP award period (i.e., became a Participant at some time during the period, or was on an unpaid leave), and who is otherwise eligible to receive an LTP award, will receive an LTP award that is prorated according to the number of months of active employment out of the 36-month LTP award period. For purposes of this provision, a full

VP PERFORMANCE RECOGNITION PROGRAM

month's credit will be given where the Participant was actively employed for at least 15 days of a partial month.

- G. A participant who voluntarily terminates employment with AMD or FASL LLC and 1) has reached 60 years of age, 2) has 15 years of AMD and/or FASL LLC service, *and* 3) has been actively employed for at least 6 months in the Plan Year is eligible for a payment of an accrued award that is not prorated for less than a full-year's service. Participants actively employed for less than 6 months are eligible for a prorated accrued award. The payment will be based on year-end financial performance and will be made at the same time as other Plan payments. The proration provisions, as discussed in D and F above, will apply. The above conditions apply to any LTP carryover. Any STP carryover is forfeited upon termination of any kind.
- H. If a participant dies during the Plan Year, any accrued award for the current Plan Year will be paid in full so long as the Participant was on active status for at least 6 months of that year. If active for less than 6 months, any award generated at the end of the year will be prorated as above. Payments of any accrued award, including any earned LTP carryover amounts, will be made to the designated recipient of the participant's final paycheck. Any STP carryover awards are forfeited.
- I. No allowance will be made for factors beyond the control of the Plan Participants that either adversely or favorably affect the Plan's performance. There is no vested entitlement to any accrued award as described above. Award payments are made at the sole discretion of the CEO.
- J. AMD reserves the right to retroactively or prospectively modify or terminate the Plan, in whole or in part, and AMD reserves the right to deny the participation of, or payout of an award to, a Participant, at its sole discretion, with or without notice or cause.

VIII. Definition of Terms

Base Salary is defined as the Participant's annualized base pay rate at the end of the Plan Year or, in the case of Plan tier changes, the Participant's annualized base pay rate at the end of the participation period for each separate tier. For a participant who exits the Plan, but retains eligibility, or changes Plan tiers during the year, the annualized salary will be calculated based on the salary in effect at the time of the change in status.

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Participant is defined as a proven contributor in an eligible position subject to the participation guidelines established by senior management. The individual must be nominated by his or her Vice President and approved by senior management each Plan Year.

Operating Profit, for Plan purposes, is adjusted for pre-tax income/loss from FASL LLC, also referred to as Operating Profit on the Non-GAAP profit and loss statement. Operating Profit is also adjusted to add back any award payments from Corporate award plans.

Corporate Budget is defined as the Corporate Financial Budget established in the 4th quarter of the previous year, generally during the month of November (unless defined otherwise by executive management for the Plan Year in question.)

Mid-Year Update is defined as the update of the Corporate Financial Budget established in the 2nd quarter of the current year, generally in May (unless defined otherwise by executive management for the Plan Year in question.)

Plan Year is defined as the period between January 1 and December 31 of any given year.

The specifics of the Plan are highly confidential and are to be discussed only with the appropriate Vice President, Division Human Resources, or Compensation.

Amendment Agreement No. 6

dated 24 February 2004

between

AMD SAXONY LIMITED LIABILITY COMPANY & CO. KG

and

DRESDNER BANK AG

and

**the other Banks and Financial Institutions
named herein**

and

DRESDNER BANK LUXEMBOURG S.A.

to the

SYNDICATED LOAN AGREEMENT

dated 11 March 1997 (as amended from time to time)

AND OTHER OPERATIVE DOCUMENTS

**Baker & McKenzie
Frankfurt**

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SCHEDULES

Schedule 1	(new Schedule 43a (AMD Saxonia Real Property))
Schedule 2	Consent of Guarantors
Schedule 3	Amendment Agreement to the Sponsors Subordination Agreement
Schedule 4	Amendment Agreement to the AMD Saxonia Wafer Purchase Agreement
Schedule 5	Consent of the parties to the AMD Holding Wafer Purchase Agreement
Schedule 6	Legal Opinion of O'Melveny & Myers LLP
Schedule 7	Legal Opinion of Nörr Stiefenhofer Lutz
Schedule 8	Legal Opinion of Baker & McKenzie
Schedule 9	Legal Opinion of White & Case, Feddersen

**AMENDMENT AGREEMENT TO THE SYNDICATED LOAN AGREEMENT
DATED 11 MARCH 1997 (AS AMENDED FROM TIME TO TIME)**

between

1. AMD SAXONY LIMITED LIABILITY COMPANY & CO. KG, Dresden, (formerly AMD Saxony Manufacturing GmbH) registered in the Commercial Register of the local court of Dresden under HRA 4896,
– hereinafter referred to as “AMD Saxonia” –
 2. DRESDNER BANK AG,
– hereinafter referred to as the “Security Agent” –
 3. the other Banks and Financial Institutions named on the signature pages of this Agreement,
– the parties referred to under 2. and 3. above are
hereinafter referred to individually as a “Bank” or, together, as “Banks” –
- and
4. DRESDNER BANK LUXEMBOURG S.A.,
– hereinafter referred to as
the “Agent” or the “Paying Agent” –

PREAMBLE

1. AMD Saxonia, Dresdner Bank AG (in its capacity as Security Agent), the Banks and Dresdner Bank Luxembourg S.A. (in its capacity as Agent and Paying Agent) are party to the Loan Agreement (as defined below) relating to Facilities of, in aggregate, DM 1,500,000,000 made available for the purposes of funding Project Costs, as therein defined.
2. The parties to this Agreement have agreed to make amendments to the Syndicated Loan Agreement of 11 March 1997, as amended on 6 February 1998, 29 June 1999, 20 February 2001, 3 June 2002 and 20 December 2002 (as amended hereinafter the “**Loan Agreement**”) and the Operative Documents referred to in this Agreement.

§ 1
Definitions

- 1.1 Unless the context requires otherwise, terms and expressions defined in the Loan Agreement shall have the same meaning when used in this Agreement. In addition, the following terms and expressions shall have the following meanings:
“Amendment Agreements”: the Agreements referred to in §§ 4.1.1 and 4.1.2.
“Agreement”: this Agreement.
- 1.2 Unless the context requires otherwise, a reference to an Operative Document includes any change, amendment or replacement thereof permitted pursuant to the terms of the Loan Agreement and the relevant Operative Document.

§ 2
Amendment to the Loan Agreement

- 2.1 The Loan Agreement shall be amended as follows:
- 2.1.1 § 8.1.6 shall be deleted in its entirety and shall be replaced by a new § 8.1.6 , as follows:
- “§ 8.1.6 a first priority land charge over the real property of AMD Saxonia identified as the red framed area in the map set out in Schedule 43a and registered in the Land Registry of the Dresden Regional Court, boundary of Wilschdorf, Folio 851, in respect of an amount of DM 1,650,000,000 together with interest in an amount of 15% per annum together with a lump sum payment in an amount of 5% of the total charge amount as an immediately enforceable charge without prior charges in Section III of the Register in favor of the Security Agent together with a personal acknowledgement of enforceability by AMD Saxonia already granted and filed in the Register in the form set out in Schedule 43.”;
- 2.1.2 § 17.15 sub-clause (ix) shall be deleted in its entirety and shall be replaced by a new § 17.15 sub-clause (ix), as follows:
- “§ 17.15 (ix) undertake only business compatible with the purpose set out in the first paragraph of the preamble to this Agreement as well as management services and technological assistance previously rendered or to be rendered by AMD Saxonia to AMD Fab 36 Limited Liability Company & Co. KG.”;

2.1.3 Paragraph 2.3 of Schedule 17 shall be deleted in its entirety and shall be replaced by a new paragraph 2.3, as follows:

“2.3 Minimum Interest Cover Ratio

The Interest Cover Ratio calculated on a Rolling Quarter Basis shall not at the end of any Fiscal Quarter be less than the amount set out below:

<u>End of Fiscal Quarter</u>	<u>Interest Cover Ratio</u>
28 March 2004	2.40
27 June 2004	2.70
26 September 2004	2.10
26 December 2004	2.50
27 March 2005	2.60
26 June 2005	2.70
25 September 2005	3.00”;

2.1.4 Paragraph 2 of Appendix II of Schedule 22 shall be deleted in its entirety and shall be replaced, as follows:

“2. Third Party Legal Liability

Insured Parties:	AMD Saxonia AMD Holding AMD Saxony LLC AMD Admin The Agent The Security Agent The Paying Agent The Banks.
Scope of Cover:	Indemnity in respect of legal liability of the Insured Parties in respect of death, injury, disease or physical damage to third parties or their property arising during the period of insurance and in connection with the Project. With respect to pollution, such liabilities shall be limited to pollution which results from sudden and accidental discharge.
Limit of Indemnity:	Not less than (i) Euro 10,000,000 per occurrence, if AMD Inc. maintains

general liability insurance with a limit of coverage of not less than US\$ 100,000,000 per occurrence, and amounts for deductibles of not greater than US\$ 100,000 per occurrence (“General Liability Insurance”) if the General Liability Insurance complies (x) in all respects with the requirements for Third Party Legal Liability insurance referred to in this paragraph 2 and (y) with the obligations referred to in this Schedule 22 as the Security Agent may reasonably request as if each of the obligations referred to in this Schedule 22 were expressed to be the obligations of AMD Inc. with regard to such General Liability Insurance, or (ii) Euro 76,693,782.

Commencement Date: The date as at which any risk or liability specified in this paragraph ceases to be covered by the insurances effected under 1(b) of Appendix t or, if earlier (in the case of any risk or liability not specified under the said) (b)) the date on which such risk or liability arises.

Deductibles: Not more than Euro 17,895 per occurrence in respect of loss or damage to property.
No deductible for other claims.

Principal Exclusions: None, other than usual and customary exclusions.”;

2.1.5 A new Schedule 43a of the Loan Agreement shall be included, as set out in Schedule 1 to this Agreement;

2.1.6 Schedule 24 of the Loan Agreement shall be amended by the addition of the letter from PwC Deutsche Revision Wirtschaftsprüfungsgesellschaft Aktiengesellschaft, as set out in Schedule 2 to this Agreement.

2.2 Save to the extent amended by § 2.1 above, the terms and conditions of the Loan Agreement, including the Schedules thereto, shall remain in full force and effect.

Amendments to other Operative Documents, Consents and Approvals

- 3.1 AMD Saxonia confirms that:
- 3.1.1 the AMD Saxonia Wafer Purchase Agreement will be amended to provide an amendment of the definition “Total Costs” under Section 1.01 No. (65) (i), as follows:
- “Total Costs for each Month shall be (i) decreased for that Month by the amount by which the work-in-progress and finished products inventory at the end of that Month exceeds the amount of the work-in-progress and finished products inventory at the end of the immediately preceding Month, and (ii) increased for that Month by the amount by which the work-in-progress and finished products inventory at the end of that Month is less than the amount of the work-in-progress and finished products inventory at the end of the immediately preceding Month;” and
- 3.1.2 the parties to the AMD Holding Wafer Purchase Agreement will acknowledge to the amendment referred to in § 3.1.1 above.
- 3.2 The Banks and the Agent consent to (i) the amendment to the AMD Saxonia Wafer Purchase Agreement set forth in § 3.1.1 above and (ii) an amendment to the Articles of Association of AMD Holding and AMD Admin granting a release of the respective managing directors from restrictions on competitive activities with respect to actions as managing directors or in comparable positions or as employees for AMD Inc., for affiliates of AMD Inc. or for other companies in which AMD Inc. holds a direct or indirect participation or any other actions for the benefit of the AMD group.
- 3.3 The Banks, the Agent, the Paying Agent and the Security Agent acknowledge and consent to:
- 3.3.1 the sale and transfer of the area, framed blue in the map set out in Schedule 1 to this Agreement, by AMD Saxonia to AMD Fab 36 Limited Liability Company & Co. KG and a release of the first priority collective land charge relating to such area currently granted to the Security Agent;
- 3.3.2 the transfer of land parcels registered in the Land Registry of the Dresden County Court, boundary of Wilschdorf, Folio 851 parcels numbers 121/4, 124/2, 125/4, 128/4, 129/5, 130/2, 133/4, 134/2, 137/2, 138/2, 142/2, 143/2, 143/4, 146/2, 146/4, 147/2, 147/4, 147/5, 150/4, 150/6, 151/4, 151/6, 154/4, 154/6, 155/1, 155/2, 156/2, 157/2, 157/4, 158/1, 158/2, 159, 160/2, 160/4, 160/6, 161/2, 161/4, 162, 694/4 and 694/6 (the “Greenbelt”) by AMD Saxonia to Regional Capital (*Landeshauptstadt*) Dresden (without consideration) and release of the first priority collective land charge relating to such land parcels currently granted to the Security Agent;
- 3.3.3 the granting of land servitudes (*Grunddienstbarkeiten*) in the land remaining with AMD Saxonia in favor of the blue framed area in the map set out in Schedule 1 to this Agreement to be provided by AMD Saxonia to AMD Fab 36 Limited Liability Company & Co. KG in the form of easements of access

(*Wegerechten*) and other land servitudes regarding feed lines for electricity, water, telecommunication, gas, waste-water disposal lines and similar land servitudes necessary to develop the land parcels to be transferred to AMD Fab 36 Limited Liability Company & Co. KG pursuant to § 3.3.1 above (*Erschließungsdienstbarkeiten*), prior ranking to the collective land charge granted pursuant to § 8.1.6 of the Loan Agreement.

- 3.4 The Security Agent will issue land charge release declarations (*Pfandentlassungsbewilligungen*) in appropriate form regarding the area referred to in § 3.3.1 and the land parcels referred to in § 3.3.2 above, but with respect to the area referred to in § 3.3.1 above upon (i) completion of the official survey regarding a partition of the land parcel to be transferred and (ii) receipt of a copy by the Security Agent of the official certificate evidencing the formation of the land parcel to be transferred (*amtlicher Veränderungsnachweis*) together with a map to give evidence of completion of the official survey. Furthermore the Security Agent will issue a declaration granting priority (*Rangrücktrittsbewilligung*) to the servitudes referred to in § 3.3.3 above in appropriate form. AMD Saxonia will prepare drafts of all declarations proposed to be issued by the Security Agent to the relevant Land Registry pursuant to this § 3.4 and will agree such drafts with the Security Agent to avoid additional notarial fees. AMD Saxonia will reimburse the Security Agent for all fees, costs and expenses incurred by and arising in connection with any declaration referred to in this § 3.4, including but not limited to, all fees, costs and expenses in connection with the preparation and negotiation of drafts referred to in this § 3.4.
- 3.5 AMD Saxonia shall provide the Security Agent with copies of documents evidencing survey and new cadastral records made or to be made for the purposes of dividing land parcels in connection with any transfer of land parcels referred to in § 3.3.1 above without undue delay upon receipt by the relevant public authorities, including, but not limited to documents evidencing the re-registration of land parcels to be divided.
- 3.6 The Banks and the Agent have approved to exempt the transfer of AMD Saxonia's real property referred to in § 3.3.1 and § 3.3.2 above from the restrictions of § 17.15 (v) (c) of the Loan Agreement but with respect to the sale and transfer referred to in § 3.3.1 above only to the extent AMD Saxonia will receive a purchase price amounting to at least Euro 6,100,000.00 as determined by a certified sworn appraiser, in consideration of such sale and transfer before or immediately upon the registration in the Land Registry of AMD Fab 36 Limited Liability Company & Co. KG as new owner of the land parcel. For the avoidance of doubt, such disposals will not be deducted from the amount of permitted disposals pursuant to § 17.15 (v) (c) of the Loan Agreement.

§ 4 Conditions Precedent

- 4.1 The amendments referred to in § 2 and the consents referred to in § 3.2 and § 3.3 are subject to the condition precedent of written confirmation from the Agent to the Banks that the Agent has received the agreements and documents referred to in §§ 4.1.1 to 4.1.10. The agreements and documents referred to in §§ 4.1.1 and 4.1.2 shall be executed in legally binding form and delivered and their effectiveness shall not be

subject to any condition other than the effectiveness of this Amendment. The documents referred to in §§ 4.1.3 to 4.1.6 shall be in form and substance satisfactory to the Agent.

- 4.1.1 Amendment agreement to the Sponsors' Subordination Agreement in the form set out in Schedule 3 to this Agreement;
- 4.1.2 Amendment agreement to the AMD Saxonia Wafer Purchase Agreement in the form set out in Schedule 4 to this Agreement and the consent and acknowledgement to such amendment agreement by the parties under the AMD Holding Wafer Purchase Agreement as set out in Schedule 5;
- 4.1.3 Written acknowledgement of the Sächsische Aufbaubank GmbH relating to the amendments to the Loan Agreement and the Operative Documents referred to therein;
- 4.1.4 Written confirmation of the Guarantors relating to the amendments to the Loan Agreement and the Operative Documents referred to therein, as set out in Schedule 2;
- 4.1.5 Written acceptance of the revised Guaranty Decision by AMD Inc. and AMD Saxonia;
- 4.1.6 Commercial register extracts of most recent date of AMD Admin, AMD Holding and AMD Saxonia and equivalent documents for AMD Inc. and AMD Saxony LLC;
- 4.1.7 Legal Opinion of O'Melveny & Myers LLP, counsel to AMD Inc., under US law, as set out in Schedule 6;
- 4.1.8 Legal Opinion of Nörr Stiefenhofer Lutz, counsel to the AMD-Companies, as set out in Schedule 7;
- 4.1.9 Legal Opinion of Baker & McKenzie, counsel to the Agent and Banks, as set out in Schedule 8;
- 4.1.10 Legal Opinion of White & Case, Feddersen, counsel to the Agent and the Banks, as set out in Schedule 9;

§ 5
Conditions Subsequent

- 5.1 AMD Saxonia shall ensure that certified land register extracts shall be delivered to the Agent showing:
 - 5.1.1 that the area referred to under § 3.3.1 and the land parcels referred to under § 3.3.2 above have been transferred;
 - 5.1.2 the partial release of the first priority land charge relating to the land parcels referred to under § 3.3.1 and § 3.3.2 above; and

-
- 5.2.3 the entry of the prior ranking servitudes referred to under § 3.3.3 above,
by the later to occur of (i) 31 December 2004 or (ii) three (3) months after issuance of the declarations mentioned in § 3.4
above by the Security Agent in appropriate form.
- 5.2 AMD Saxonia shall deliver a copy of the sale and transfer agreement referred to in § 3.3.1 above to the Agent without undue
delay upon execution.

§ 6
Representations and Warranties

- 6.1 *AMD Saxonia* hereby represents and warrants to the Banks as at the date hereof as follows:
- 6.1.1. *AMD Saxonia* has taken all necessary steps and/or obtained all necessary consents for the execution of this Agreement
and/or will take all necessary steps and/or obtain all necessary consents required for the execution of the Amendment
Agreements to which it is a party as well as all other documents referred to in § 4.1 to which it is party in order to
ensure that such Agreements and documents are legally and validly entered into and to exercise its rights thereunder.
- 6.1.2 The execution of this Agreement by AMD Saxonia and the execution by each of AMD Inc., AMD Saxonia, AMD
Holding, AMD Saxony LLC and AMD Admin of the Amendment Agreements and all other documents referred to in
§ 4.1 to which it is party and the performance of their obligations thereunder and/or the exercise by each party of their
rights:
- (i) do not—and, in the case of the Amendment Agreements and other documents referred to in § 4.1, will not at the time of their
execution—contravene any applicable law, court judgment, administrative order or consent or any contractual or other obligation of
AMD Inc., AMD Saxonia, AMD Holding, AMD Saxony LLC or AMD Admin;
 - (ii) do not—and, in the case of the Amendment Agreements and the other documents referred to in § 4.1, will not at the time of their
execution—result in the termination or acceleration of any other obligation of AMD Inc., AMD Saxonia, AMD Holding, AMD
Saxony LLC or AMD Admin;
 - (iii) do not—and, in the case of the Amendment Agreements and the other documents referred to in § 4.1, at the time of their execution
will not—result in any obligation of AMD Inc., AMD Saxonia, AMD Holding, AMD Saxony LLC or AMD Admin to grant security,
other than the security referred to in the Security Documents and the Loan Agreement, as amended from time to time, to any third
party.

-
- 6.1.3 This Agreement, the Amendment Agreements and all other documents referred to in § 4.1 to which AMD Inc., AMD Saxonia, AMD Holding, AMD Saxony LLC and AMD Admin are party constitute—or at the time of their execution will constitute—legal and valid binding obligations of AMD Inc., AMD Saxonia, AMD Holding, AMD Saxony LLC and AMD Admin, respectively enforceable in accordance with their respective terms, subject to the qualifications referred to in the legal opinions referred to in §§ 4.1.7 to 4.1.10 above, to the extent that such qualifications include limitations to the legality or enforceability of documents governed by German or U.S. State of Federal law and to the extent that such qualifications have been made in relation to these issues in the legal opinions referred to in §§ 4.1.7 to 4.1.10 which must be submitted to and approved by the Agent.

§ 7
Miscellaneous

- 7.1 This Agreement forms part of the Loan Agreement. All references in the Loan Agreement and in the Operative Documents as well as all notices referring thereto apply, mutatis mutandis, to this Agreement.
- 7.2 Without prejudice to the preceding provisions of this Agreement, AMD Saxonia hereby confirms that its obligations under the Loan Agreement, as amended from time to time, remain in full force and effect.
- 7.3 This Agreement and all documents referred to herein constitute Operative Documents for the purposes of the Loan Agreement.
- 7.4 This Agreement may be executed in any number of originals as well as by different parties in counterparts, each of which shall constitute one agreement.
- 7.5 §§ 25.1, 27, 28 and 29 of the Loan Agreement shall apply, mutatis mutandis, to this Agreement.
- 7.6 All references in the Operative Documents to the standard terms and conditions of business of the Security Agent shall be deemed to be a reference to those terms and conditions in force from time to time.

AMD SAXONY LIMITED LIABILITY COMPANY & CO. KG
represented by its general partner AMD Saxony LLC

By:

/s/ Hans-Raimund Deppe

DRESDNER BANK AG,
(as Security Agent and Bank)

/s/ Hans-Jürgen Dittmann /s/ Veit Schweiger

Other Banks:

KREDITANSTALT FÜR WIEDERAUFBAU

/s/ Brigitte Debiol

DZ BANK AG DEUTSCHE ZENTRAL-GENOSSENSCHAFTSBANK
Frankfurt am Main

/s/ Brigitte Debiol

LANDESBANK BADEN-WÜRTTEMBERG

/s/ Brigitte Debiol

LANDESBANK SACHSEN GIROZENTRALE

/s/ Brigitte Debiol

BAYERISCHE LANDESBANK

/s/ Brigitte Debiol

HVB BANQUE LUXEMBOURG SOCIÉTÉ ANONYME

/s/ Brigitte Debiol

BAYERISCHE HYPO- UND VEREINSBANK AG; MÜNCHEN

/s/ Brigitte Debiol

ING BHF-BANK Aktiengesellschaft, Niederlassung Leipzig

/s/ Brigitte Debiol

COMMERZBANK AKTIENGESELLSCHAFT, Filiale Dresden

/s/ Brigitte Debiol

DEUTSCHE POSTBANK AG BONN

/s/ Brigitte Debiol

HSH NORDBANK AG

/s/ Brigitte Debiol

IKB DEUTSCHE INDUSTRIEBANK AG

/s/ Brigitte Debiol

LANDESBANK RHEINLAND-PFALZ - GIROZENTRALE

/s/ Brigitte Debiol

ABN AMRO BANK N.V., Niederlassung Deutschland

/s/ Brigitte Debiol

BANK AUSTRIA CREDITANSTALT AG, Wien

/s/ Brigitte Debiol

WESTFALENBANK AG

/s/ Brigitte Debiol

DRESDNER BANK LUXEMBOURG S.A.
(as Agent and Paying Agent)

/s/ Christian Kogge /s/ Brigitte Debiol

THIRD AMENDMENT

TO

SPONSORS' SUBORDINATION AGREEMENT

THIS THIRD AMENDMENT (this "Amendment"), dated 24 February 2004, is made between ADVANCED MICRO DEVICES, INC., a corporation organized and existing under the laws of the State of Delaware, United States of America, with its chief executive office and principal place of business at One AMD Place, Sunnyvale, California 94088, United States of America ("AMD Inc."), AMD SAXONY HOLDING GMBH, Dresden, registered in the Commercial Register of the Dresden County Court, HRB 13931 ("AMD Holding"; and, together with AMD Inc., collectively, the "Sponsors"), AMD SAXONY LLC, a limited liability company organized and existing under the laws of the State of Delaware, United States of America ("AMD Saxony LLC"); AMD SAXONY ADMIN GMBH registered in the Commercial Register of the Dresden County Court HRB 20738 ("AMD Admin." together with AMD Saxony LLC, collectively, the "Additional Partner Companies"); AMD SAXONY LIMITED LIABILITY COMPANY & Co. KG (formerly AMD Saxony Manufacturing GmbH) registered in the Commercial Register of the Dresden County Court HRA 4896 ("AMD Saxonia"), DRESDNER BANK LUXEMBOURG S.A., as Agent (and successor to Dresdner Bank AG in such capacity) under the Loan Agreement referred to below (in such capacity, the "Agent") for the Banks referred to below, and DRESDNER BANK AG, as Security Agent under such Loan Agreement (in such capacity, the "Security Agent"), for the Secured Parties referred to below.

WITNESSETH:

WHEREAS, AMD Saxonia, an indirect wholly-owned Subsidiary of AMD Inc., has been formed for the purpose of constructing, owning, and operating (i) the Plant and (ii) the integrated Design Center;

WHEREAS, in order to finance the construction of the Plant and the Design Center, and start-up costs of the operation of the Plant, inter alia, (i) AMD Saxonia has entered into a Syndicated Loan Agreement, dated 11 March 1997, as amended, (the "Loan Agreement") with the Agent, Dresdner Bank Luxembourg S.A. as Paying Agent (as defined in the Sponsors' Subordination Agreement as hereinafter defined), the Security Agent and the Banks from time to time party thereto providing, inter alia, for a senior secured term facility aggregating up to DM 1,500,000,000 (one billion five hundred million Deutsche Marks), (ii) the Sponsors, the Additional Partner Companies, the Agent and the Security Agent have entered into that certain Sponsors' Support Agreement dated 11 March 1997, as amended, (the "Sponsors' Support Agreement") providing (x) certain assurances to the Agent and Security Agent with respect to the completion of the Project, and (y) certain undertakings to and for the benefit of the Agent, the Paying Agent, the Security Agent and the Banks (collectively, the "Secured Parties" and individually a "Secured Party");

WHEREAS, AMD Saxonia, the Sponsors, the Additional Partner Companies, the Security Agent and the Agent are party to a Sponsors' Subordination Agreement dated March 11, 1997 among the Sponsors, the Agent and the Security Agent, as amended by the First Amendment to Sponsors' Subordination Agreement dated 20 February 2001, among the Sponsors, the Agent and the Security Agent and the Accession Agreement and Second Amendment to Sponsors' Subordination Agreement dated 3 June 2002 among the Sponsors, the Additional Partner Companies, the Agent and the Security Agent (as amended, the "Sponsors' Subordination Agreement");

WHEREAS, AMD Saxonia, the Agent, the Security Agent and the Banks wish, with the consent of the Sponsors and the Additional Partner Companies to, among other things, amend the Loan Agreement and AMD Saxonia, the Sponsors, the Additional Partner Companies, the Agent and the Security Agent wish to amend the Sponsors' Subordination Agreement on the terms and subject to the conditions of this Amendment Agreement;

WHEREAS, contemporaneously with the execution and delivery of this Third Amendment, AMD Saxonia, Dresdner Bank AG, the other Banks and Financial Institutions named therein, Dresdner Bank Luxembourg S.A. as Agent and Paying Agent and Dresdner Bank AG, as Security Agent, are entering into Amendment No. 6 to the Syndicated Loan Agreement dated 11 March 1997, as amended from time to time ("Amendment No. 6"), and it is a condition to the effectiveness of said Amendment No. 6 (the date on which said Amendment No. 6 becomes effective being referred to herein as the "Amendment No. 6 Effective Date") that a copy of this Third Amendment shall be delivered to the Agent;

NOW, THEREFORE, the Sponsors, the Additional Partner Companies, AMD Saxonia, the Agent (for itself and on behalf of the Banks), and the Security Agent (on behalf of the Secured Parties), agree as follows:

ARTICLE I Definitions

SECTION 1.1 *Definitions*. Capitalized terms not otherwise defined in this Amendment are used with the definitions assigned to them in the Sponsors' Subordination Agreement.

SECTION 1.2 *Construction*. In this Amendment, unless the context requires otherwise, references to Sections and Schedules are to Sections and Schedules of the Sponsors' Support Agreement. Section headings are inserted for reference only and shall be ignored in construing this Amendment.

ARTICLE II Amendments

SECTION 2.1 *Amendments*. With effect from the Amendment No. 6 Effective Date the Sponsors' Subordination Agreement is hereby amended by deleting Section 3 (iii) of the Sponsors' Subordination Agreement in its entirety and replacing said Section 3 (iii) as follows:

- “(iii) those payments to AMD Inc. made by AMD Saxonia in respect of purchases of equipment, materials, supply and third party services in the ordinary course of business and on an arm's length basis the aggregate book value of which does not exceed Euro 25,000,000 (twenty five million Euro) in any calendar year;”

ARTICLE III
Miscellaneous

SECTION 3.1 *Representations and Warranties*. Each of the Sponsors, AMD Saxonia and the Additional Partner Companies hereby represents and warrants as of the date hereof that:

- (a) *Organization; Corporate Power*. It is duly incorporated and validly existing under the laws of the jurisdiction of its organization, and has all necessary power and authority to execute and deliver this Amendment and, following the Amendment No. 6 Effective Date, to consummate the transactions contemplated herein;
- (b) *Corporate Authority; No Conflict*. The execution and delivery by it of this Amendment, and the performance by it of its obligations hereunder have been duly authorized by all necessary corporate action (including any necessary shareholder action) on its part, and do not and will not (i) violate any provision of any law, rule, regulation, order, writ, judgment, injunction, decree, determination or award presently in effect having applicability to it, or of its charter or by-laws or (ii) result in a breach of, result in a mandatory prepayment or acceleration of indebtedness evidenced by or secured by, or constitute a default under, any indenture or loan or credit agreement, or any other agreement or instrument to which it is a party or by which it or its properties may be bound, or require the creation or imposition of any encumbrance of any nature upon or with respect to any of the properties now owned or hereafter acquired by it; and
- (c) *Valid and Binding Obligations*. This Amendment constitutes its legal, valid and binding obligation, enforceable against it in accordance with its terms subject, however, to applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally and, as to enforceability, by general equitable principles.

SECTION 3.2 *Miscellaneous*.

- (a) This Amendment is limited as specified and, except as expressly herein provided, shall not constitute a modification, amendment or waiver of any other provision of any other Operative Document. Except as specifically amended by this Amendment, the Sponsors' Subordination Agreement shall remain in full force and effect and is hereby ratified and confirmed.
- (b) This Amendment shall be an Operative Document under and for purposes of the Sponsors' Support Agreement.
- (c) The form and execution of this Amendment and all rights and obligations of the parties arising hereunder shall be governed by the laws of the Federal Republic of Germany.

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- (d) This Amendment may be executed in any number of counterparts and all of such counterparts taken together shall be deemed to constitute one and the same instrument.
- (e) Sections 20, and21 of the Sponsors' Subordination Agreement shall apply,mutatis mutandis, to this Amendment, as if set out herein in full.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, each of the parties set out below has caused this Amendment to be duly executed and delivered by its respective officer or agent thereunto duly authorised as of the date first above written.

ADVANCED MICRO DEVICES, INC.

By /s/ Robert J. Rivet
Its Senior VP, Chief Financial Officer

AMD SAXONY HOLDING GMBH

By /s/ Hans-Raimund Deppe
Its Managing Director

AMD SAXONY ADMIN GMBH

By /s/ Hans-Raimund Deppe
Its Managing Director

AMD SAXONY LLC

By /s/ Thomas M. McCoy
Its Director

**AMD SAXONY LIMITED LIABILITY COMPANY & CO
KG,**
represented by its general partner AMD Saxony LLC

By /s/ Hans-Raimund Deppe
Its Managing Director

DRESDNER BANK LUXEMBOURG S.A.,
as Agent

By /s/ Christian Kogge /s/ Brigitte Debiol
Its

DRESDNER BANK AG, as Security Agent

By /s/ Hans-Jürgen Dittmann /s/ Veit Schweiger
Its

**FOURTH AMENDMENT TO AMD SAXONIA
WAFER PURCHASE AGREEMENT**

THIS FOURTH AMENDMENT to AMD Saxonia Wafer Purchase Agreement (this "Fourth Amendment"), dated as of 24 February 2004, is made between AMD SAXONY HOLDING GMBH, Dresden, registered in the Commercial Register of the Dresden County Court, HRB 13931 ("AMD Holding"), and AMD SAXONY LIMITED LIABILITY COMPANY & CO. KG, Dresden, registered in the Commercial Register of the Dresden County Court HRA 4896, ("AMD Saxonia").

RECITALS

WHEREAS, AMD Saxonia is an indirect wholly-owned Subsidiary (such and other capitalized terms having the meanings assigned to them in the AMD Saxonia Wafer Purchase Agreement (as defined below)) of Advanced Micro Devices, Inc., a corporation organized and existing under the laws of the State of Delaware, United States of America ("AMD Inc.");

WHEREAS, AMD Inc., AMD Holding and AMD Saxonia are involved in a project pursuant to which AMD Saxonia has constructed, and owns and operates *inter alia* the Plant located in Dresden, Germany, to manufacture Wafers using high-volume semiconductor wafer fabrication processes;

WHEREAS, AMD Inc. and AMD Holding are party to the AMD Holding Wafer Purchase Agreement dated as of 11 March 1997, as amended by the First Amendment to the AMD Holding Wafer Purchase Agreement dated as of 20 February 2001 (as amended, supplemented or otherwise modified from time to time, the "AMD Holding Wafer Purchase Agreement"), pursuant to which, among other things, AMD Inc. has agreed to purchase from AMD Holding, and AMD Holding has agreed to supply on an exclusive basis to AMD Inc., all Wafers as are ordered from time to time by AMD Inc. from AMD Holding, in each case on the terms and conditions of the AMD Holding Wafer Purchase Agreement;

WHEREAS, AMD Holding and AMD Saxonia are party to that certain AMD Saxonia Wafer Purchase Agreement dated as of 11 March 1997, as amended by the First Amendment to AMD Saxonia Wafer Purchase Agreement dated as of 8 February 1998, the Second Amendment to AMD Saxonia Wafer Purchase Agreement, by and between AMD Holding and AMD Saxonia, dated as of 20 February 2001 and the Third Amendment to AMD Saxonia Wafer Purchase Agreement dated as of 3 June 2002 (as amended, supplemented or otherwise modified from time to time, the "AMD Saxonia Wafer Purchase Agreement"), pursuant to which AMD Holding has the exclusive right to purchase Wafers from AMD Saxonia in order to enable AMD Holding to fulfill its obligations under the AMD Holding Wafer Purchase Agreement, and AMD Saxonia has agreed on such exclusive basis, to manufacture and sell Wafers to AMD Holding;

WHEREAS, the parties now desire to amend the AMD Saxonia Wafer Purchase Agreement to revise the definition of "Total Costs" set forth therein, all on the terms and conditions more particularly set forth in this Fourth Amendment; and

WHEREAS, contemporaneously with the execution and delivery of this Fourth Amendment, AMD Saxonia, Dresdner Bank AG, the other Banks and Financial Institutions named therein, Dresdner Bank Luxembourg S.A. as Agent and Paying Agent and Dresdner Bank AG, as Security Agent, are entering into Amendment No. 6 to the Syndicated Loan Agreement dated 11 March 1997, as amended from time to time (“Amendment No. 6”), and it is a condition to the effectiveness of said Amendment No. 6 (the date on which said Amendment No. 6 becomes effective being referred to herein as the “Amendment No. 6 Effective Date”) that a copy of this Fourth Amendment shall be delivered to the Agent;

NOW, THEREFORE, in consideration of the mutual agreements contained herein, intending to be legally bound hereby, the parties hereto agree as follows:

ARTICLE I Amendments

Section 1.1 With effect from the Amendment No. 6 Effective Date, the AMD Saxonia Wafer Purchase Agreement is hereby amended by deleting the entirety of Section 1.01(65)(i), pertaining to Total Costs, and replacing said Section 1.01(65)(i) with the following:

- “(i) Total Costs for each Month shall be (i) decreased for that Month by the amount by which the work-in-progress and finished products inventory at the end of that Month exceeds the amount of the work-in-progress and finished products inventory at the end of the immediately preceding Month, and (ii) increased for that Month by the amount by which the work-in-progress and finished products inventory at the end of that Month is less than the amount of the work-in-progress and finished products inventory at the end of the immediately preceding Month;”

ARTICLE II Representations and Warranties

Section 2.1 Each of AMD Holding and AMD Saxonia, severally and for itself alone, hereby represents and warrants, as of the date hereof and as of the Amendment No. 6 Effective Date, to the other as follows:

(a) *Organization; Corporate Power.* It is duly incorporated and validly existing under the laws of the jurisdiction of its organization, and has all necessary power and authority to execute and deliver this Fourth Amendment and, following the Amendment No. 6 Effective Date, to consummate the transactions contemplated by the AMD Saxonia Wafer Purchase Agreement as amended by this Fourth Amendment;

(b) *Corporate Authority; No Conflict.* The execution and delivery by it of this Fourth Amendment, and the performance by it following the Amendment No. 6 Effective Date of its obligations under the AMD Saxonia Wafer Purchase Agreement, as amended by this Fourth Amendment, have been duly authorized by all necessary corporate action (including any necessary shareholder action) on its part, and do not and will not (i) violate any provision of any law, rule, regulation, order, writ, judgment, injunction, decree, determination, or award presently in effect having applicability to it, or of its charter or by-laws; or (ii) result in a breach of, result

in a mandatory prepayment or acceleration of indebtedness evidenced by or secured by, or constitute a default under, any indenture or loan or credit agreement, or any other agreement or instrument to which it is a party or by which it or its properties may be bound, or require the creation or imposition of any encumbrance of any nature upon or with respect to any of the properties now owned or hereafter acquired by it; and

(c) *Valid and Binding Obligations.* Following the Amendment No. 6 Effective Date, the AMD Saxonia Wafer Purchase Agreement, as amended by this Fourth Amendment, constitutes its legal, valid, and binding obligation, enforceable against it in accordance with its terms; subject, however, to applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws affecting creditors' rights generally and, as to enforceability, by general equitable principles.

ARTICLE III
Miscellaneous

Section 3.1 Miscellaneous.

(a) This Fourth Amendment is limited as specified and, except as specifically set forth herein, shall not constitute a modification, amendment, or waiver of any other provision of the AMD Saxonia Wafer Purchase Agreement or any provisions of any other Operative Document. Except as specifically amended by this Fourth Amendment, the AMD Saxonia Wafer Purchase Agreement shall remain in full force and effect and is hereby ratified and confirmed.

(b) This Fourth Amendment shall be an Operative Document under and for purposes of the Sponsors' Support Agreement dated 11 March 1997, as amended by the First Amendment to Sponsors' Support Agreement dated 6 February 1998, the Second Amendment to Sponsors' Support Agreement dated 29 June 1999, the Third Amendment to Sponsors' Support Agreement dated 20 February 2001, the Accession Agreement and Fourth Amendment to Sponsors' Support Agreement dated as of 3 June 2002 and the Fifth Amendment to Sponsors' Support Agreement dated as of 20 December 2002 (as amended, the "Sponsors' Support Agreement").

(c) This Fourth Amendment is in the English language, which language shall be controlling in all respects.

(d) This Fourth Amendment may be executed in any number of counterparts and by different parties on separate counterparts which when taken together shall constitute one agreement.

(e) Sections 7.07, 7.08, 7.09, and 7.10 of the AMD Saxonia Wafer Purchase Agreement shall apply, *mutatis mutandis*, to this Amendment, as if set out herein in full.

[Remainder of page intentionally left blank]

IN WITNESS OF THE FOREGOING, AMD Holding and AMD Saxonia have caused this Fourth Amendment to be executed by their authorized representatives as of the date first written above.

AMD SAXONY HOLDING GMBH

By: _____ /s/ Hans-Raimund Deppe

Dr. Hans-Raimund Deppe
Its: Managing Director (Geschäftsführer)

**AMD SAXONY LIMITED LIABILITY COMPANY & CO.
KG, represented by its General Partner AMD SAXONY
LLC**

By: _____ /s/ Hans-Raimund Deppe

Name: Dr. Hans-Raimund Deppe
Its: Manager

(Translation)

JPY18,000,000,000

LOAN AGREEMENT

FASL JAPAN LIMITED

as Borrower

MIZUHO CORPORATE BANK, LTD.

as Arranger and Agent

MIZUHO CORPORATE BANK, LTD.

THE DAI-ICHI MUTUAL INSURANCE COMPANY

SHINKIN CENTRAL BANK.

THE BANK OF YOKOHAMA, LTD

as Lender

September 25, 2003

This translation is prepared pursuant to Clause 32.11 for reference purpose only. If there is a conflict between in any of the provision provided in this translation and that of the Japanese original, the Japanese original shall prevail.

Confidential treatment has been requested as to certain portions of this agreement. Such omitted confidential information has been designated by asterisks and has been filed separately with the Securities and Exchange Commission pursuant to Rule 25b-2 under the Securities Exchange Act of 1934, as amended, and the Commission's rules and regulations promulgated under the Freedom of Information Act, pursuant to a request for confidential treatment.

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LOAN AGREEMENT

FASL JAPAN LIMITED (hereinafter referred to as the "Borrower"); the financial institutions described in Part III of Schedule ONE (hereinafter respectively referred to as a "Lender", and collectively referred to as "All Lenders"); and MIZUHO CORPORATE BANK, LTD, (hereinafter referred to as the "Agent"), as of the date of September 25, 2003 enter into the following agreement (hereinafter referred to as this "Agreement").

1. DEFINITIONS

In this Agreement, the following terms shall have the meaning set forth below, unless it is apparent that such terms mean otherwise in the context hereof:

- 1.1 **Adjusted Tangible Assets**" means all of the Borrower's assets, determined on a consolidated basis (provided that if the Borrower does not have a balance sheet made in consolidated basis, the stand alone balance sheet shall be applied) in accordance with the accounting standards which is generally accepted as fair and appropriate one in Japan, except (a) deferred assets, other than prepaid insurance and prepaid taxes, (b) patents, copyright, trademarks, trade names, franchises, goodwill, and other similar intangibles and (c) unamortized debt discount and expense.
- 1.2 **Adjusted Tangible Net Worth**" means, at any date, (a) the book value (after deducting related depreciation, obsolescence, amortization, valuation, and other proper reserves as determined in accordance with the accounting standards which is generally accepted as fair and appropriate one in Japan) at which the Adjusted Tangible Assets would be shown on a balance sheet of the Borrower at such date prepared on a consolidated basis (provided that if the Borrower does not have a balance sheet made in consolidated basis, the stand alone balance sheet shall be applied) in accordance with the accounting standards which is generally accepted as fair and appropriate one in Japan less (b) the amount at which the Borrower's liabilities would be shown on such consolidated balance sheet (provided that if the Borrower does not have a balance sheet made in consolidated basis, the stand alone balance sheet shall be applied), including as liabilities all reserves for contingencies and other potential liabilities which would be required to be shown on such balance sheet.
- 1.3 **Affiliate**" means, as to any person, any other person which, directly or indirectly, is in control of, is controlled by, or in under common control with, such person or which owns, directly or indirectly, ten percent or more of the outstanding equity interest of such person. A person shall be deemed to control another person if the controlling person possesses, directly or indirectly, the power to direct or cause the direction of the management and policies of the other person, whether through the ownership of voting securities, by contract, or otherwise.
- 1.4 **"Agent Fee"** means the fees that the Borrower shall pay to the Agent as separately agreed upon between the Borrower and the Agent.

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- 1.5 “**Agent Services**” means the services set forth in the provisions of this Agreement whereby the Agent was entrusted by All Lenders to perform for the benefit of All Lenders.
- 1.6 “**Agent’s Account**” means the current deposit account (*toza yokin koza*) (Account No. [***]^{*}, Account Holder: FASL JAPAN LIMITED AGENT-GUCHI) held by the Agent at Mizuho Corporate Bank, Ltd., Head Office.
- 1.7 “**Aizu Facility**” means the Borrower’s existing and after acquired real property and improvements at its Aizu manufacturing facilities and ancillary facilities located in Aizu-Wakamatsu, Fukushima, Japan.
- 1.8 “**Applicable Interest Rate**” means the interest rate equal to the Base Rate plus the Spread.
- 1.9 “**Assignee**” means the person who receives the assignment of the Loan Receivables in accordance with Clause 29.1.
- 1.10 “**Assignor**” means the person who assigns the Loan Receivables in accordance with Clause 29.1.
- 1.11 “**Base Rate**” means the interest rate for the relevant Interest Period according to the Japanese Yen TIBOR (page 17097 of the Telerate) published by the Japanese Bankers Association at eleven (11) o’clock A.M. or at the nearest possible time after eleven (11) o’clock A.M. of the second Business Day prior to the commencement date of each Interest Period. Provided, however, that if such interest rate is not published for some reason, this rate shall be the interest rate (indicated as an annual rate) that is reasonably decided upon by the Agent as the offered rate applicable for a drawdown in yen for the relevant Interest Period in the Tokyo Interbank Market as of eleven (11) o’clock A.M. of the second Business Day prior to the commencement date of each Interest Period or the nearest time prior thereto.
- 1.12 “**Break Funding Cost**” means, in cases where the principal is repaid or set off before the Due Date of the Individual Loan, and where the Reinvestment Rate falls below the Applicable Interest Rate, the amount calculated as the principal amount with respect to which such repayment or set-off was made, multiplied by (i) the difference between the Reinvestment Rate and the Applicable Interest Rate, and (ii) the actual number of days of the Remaining Period. “**Remaining Period**” means the period commencing on the day the repayment or set-off was made and ending on the Interest Payment Date coming immediately thereafter, and the “**Reinvestment Rate**” means the interest rate reasonably determined by the Lenders as the interest rate to be applied on the assumption that the prepaid or off-set principal amount will be reinvested in the Tokyo Interbank Market during the Remaining Period. The calculation method for such Break Funding Cost shall be on a per diem basis, inclusive of first day and exclusive of last day, assuming that there are 365 days per year, wherein divisions shall be done at the end of the calculation, and fractions less than one yen shall be rounded down.
- 1.13 “**Business Day**” means any day other than those that are bank holidays in Japan.

* Confidential treatment has been requested pursuant to the Confidential Treatment Request dated November 26, 2003.

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- 1.14 **“Costs Increased Lender”** means a Lender that has incurred Increased Costs.
- 1.15 **“Debt For Borrowed Money”** means, as to person, debt for borrowed money or as evidenced by notes, bonds, debentures or similar evidences of any such debt of such person, the deferred and unpaid purchase price of any property or business (other than trade accounts payable incurred in the ordinary course of business and constituting current liabilities) and all obligation under the Lease.
- 1.16 **“Drawdown Date”** means September 30, 2003.
- 1.17 **“Due Date”** means, with respect to the principal to the Loans, the Repayment Date, the interest in relation to the Loans, the Interest Payment Date and with respect to other amounts, the date set forth as the date on which payments shall be made in accordance with this Agreement.
- 1.18 **“Due Time”** means, if any Due Dates are provided for herein, eleven (11) o’clock A.M. of such Due Date.
- 1.19 **“Enhanced Covenant Period”** means any period that the Borrower fails to maintain minimum cash balance than 1 billion yen.
- 1.20 **“Exemption Event”** means (i) an outbreak of a natural disaster or war, (ii) an interruption or difficulty in the electrical, communications or various settlement systems, (iii) any event that occurs within the Tokyo Interbank Market that disables loans in yen, and (iv) any other event not attributable to the Lenders that results in the Majority Lenders (if it is difficult to clarify the intention of the Majority Lenders, the Agent) determining that it is impossible to make the Loan.
- 1.21 **“FMH”** means Fujitsu Microelectronics Holding, Inc.
- 1.22 **“Guarantee”** means a guarantee made and submitted by the Guarantor to the Agent and All Lenders as of September 25, 2003, for the purpose of guaranteeing the obligations assumed by the Borrower under this Agreement in the form of Schedule FIVE.
- 1.23 **“Guarantor”** means Fujitsu Limited.
- 1.24 **“Increased Costs”** means the increased portion (the amount reasonably calculated by such Lender) of lending expenses, in cases where the Lender’s lending expenses under this Agreement are substantially increased (excluding any increase caused by a change in tax rates on taxable incomes of such Lender) due to, among other things, (i) any enactment or amendment of Laws and Ordinances, or any change in the interpretation or application thereof, or (ii) establishment or increase in capital reserves.
- 1.25 **“Individual Loan”** means a loan made by a Lender respectively pursuant to this Agreement.
- 1.26 **“Individual Loan Money”** means the money lent (or to be lent) by a Lender to the Borrower as an Individual Loan, and the **“Individual Loan Amount”** means the amount of the Individual Loan Money.

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- 1.27 **“Interest Payment Date”** means an interest payment date set forth in Schedule TWO, and if such corresponding day falls on a day other than a Business Day, the following Business Day shall be the Interest Payment Date. If such following Business Day occurs in the next month, the immediately preceding Business Day shall be the Interest Payment Date.
- 1.28 **“Interest Period”** means each period set forth in Clause 11.1 in respect of the Loan.
- 1.29 **“Inventory”** means all of the Borrower’s now owned and hereafter acquired inventory, goods and merchandise, wherever located, to be furnished under any contract of service or held for sale or lease, all returned goods, raw materials, other materials and supplies of any kind, nature or description which are or might be consumed in the Borrower’s business or used in connection with the packing, shipping, advertising, selling or finishing of such goods, merchandise and such other personal property, and all documents of title or other documents representing them.
- 1.30 **“Investments”** means to any person, any acquisition of property by such person in exchange for cash or other property, whether in the form of an acquisition of stock, debt, or other indebtedness or obligation, or the purchase or acquisition of any other property, or a loan, advance, capital contribution, or subscription.
- 1.31 **“Laws and Ordinances”** means the treaties, laws, cabinet orders, ministerial ordinances, rules, announcements, judgments, decisions, arbitral awards, directives, and policies of relevant authorities, which apply to this Agreement, the transactions pursuant hereto or the parties hereto.
- 1.32 **“Lease”** means any lease of property by the Borrower or its Subsidiary which, in accordance with the accounting standards which is generally accepted as fair and appropriate one in Japan, should be reflected as a lease on the consolidated balance sheet of the Borrower.
- 1.33 **“Lending Obligation”** means a Lender’s obligation to make Individual Loans to the Borrower upon the condition that the requirements set forth under each item of Clause 5 are satisfied.
- 1.34 **“Loan Receivables”** means the loan claim in relation to each Individual Loan.
- 1.35 **“Loan(s)”** means the aggregate of the Individual Loans made pursuant to this Agreement.
- 1.36 **“Majority Lenders”** means multiple Lenders whose Participation Ratios amount to 51% or more in total as of the Intention Clarification Time (provided, however, that, for the period after All Lenders’ Lending Obligations are extinguished, and where the repayment of all obligations pursuant to this Agreement in relation to the Loan have not been completed, the percentage shall be that of the total principal amount of the Outstanding Individual Loan Money per each Lender to the Total Outstanding Balance as of the Intention Clarification Time). **“Intention Clarification Time”** means, in cases where the Lender determines that any event requiring instructions by

the Majority Lenders has occurred, the point in time when the Agent receives notice under Clause 27.1(i), and in cases where the Agent determines it necessary to clarify the intention of the Majority Lenders, the point in time when the Agent gives notice under Clause 27.2.

- 1.37 **“Moody’s”** means Moody’s Investors Service, Inc.
- 1.38 **“Outstanding Individual Loan Money”** means the principal, the interest, default interest, the Break Funding Costs and any other payment obligation that the Borrower owes pursuant to this Agreement with respect to Individual Loan, and the **“Outstanding Individual Loan Amount”** means the amount of such Outstanding Individual Loan Money.
- 1.39 **“Participation Amount”** means the amount described in Schedule ONE with respect to each Lender.
- 1.40 **“Participation Ratio”** means the percentage of the Participation Amount of each Lender to the Total Lending Amount.
- 1.41 **“Repayment Date”** means a repayment date set forth in the Schedule TWO, and if such corresponding day falls on a day other than a Business Day, the following Business Day shall be the Repayment Date. If such following Business Day occurs in the next month, the immediately preceding Business Day shall be the Repayment Date.
- 1.42 **“Reports”** means (i) an audited operating statement (*eigyō houkokusho*) (balance sheet, profit and loss statement, statement of cash flow, and other documents incidental thereto. If the Borrower’s consolidated Subsidiary or Affiliate is established, an operating statement based on the consolidated basis shall be included.) based on the stand alone basis prepared by the Borrower within 90 days from the end of the fiscal year, (ii) an unaudited operating statement (*eigyō houkokusho*) (balance sheet, profit and loss statement, statement of cash flow, and other documents incidental thereto. If the Borrower’s consolidated Subsidiary or Affiliate is established, an operating statement based on the consolidated basis shall be included.) based on the stand alone basis prepared by the Borrower within 45 days from the quarter-end of the fiscal year, (iii) an audited financial statement (balance sheet, profit and loss statement, statement of cash flow, and other documents incidental thereto) based on the consolidated basis prepared by FASL LLC within 90 days from the end of the fiscal year, and (iv) an unaudited financial statement (balance sheet, profit and loss statement, statement of cash flow, and other documents incidental thereto) based on the consolidated basis prepared by FASL LLC within 45 days from the quarter-end of the fiscal year.
- 1.43 **“Spread”** means a spread described in Schedule THREE.
- 1.44 **“Status of the Establishment of the Collateral”** described in Schedule FOUR means the description of the assets offered as collateral under the Security Assignment Agreement (*Joto Tanpo Settei Keiyaku*) dated June 30, 2003, executed by and between the Guarantor and the Borrower, and the description of the assets offered as first mortgage under the Mortgage Agreement and the Letter Concerning

- 1.45 “**Subsidiary**” of a person means any corporation, association, partnership, joint venture or other business entity of which more than fifty percent of the voting stock or other equity interest (in the case of person other than corporation), is owned or controlled directly or indirectly by the person, or one or more of the Subsidiaries of the person, or a combination thereof.
- 1.46 “**Syndicate Account**” means the ordinary deposit account (*futsu yokin koza*) (Account No. ***, Account Holder: FASL JAPAN LIMITED) held by the Borrower at Mizuho Corporate Bank, Ltd., Uchisaiwaicho Corporate Banking Division.
- 1.47 “**Taxes and Public Charges**” means all public taxes or public charges including income taxes, corporate taxes and other taxes, which are applicable in Japan.
- 1.48 “**Temporary Advancement**” means, with respect to the Borrower’s repayment on a Due Date, the payment made by the Agent to the Lenders before the completion of the Borrower’s repayment of an amount equivalent to the amount to be distributed to the Lenders in accordance with Clause 17; or with respect to the Individual Loans made by the Lenders on the Drawdown Date, the payment made by the Agent to the Borrower before the Lender’s making the Individual Loan of an amount equivalent to the amount of the Individual Loan to be made to the Borrower.
- 1.49 “**Temporary Advancement Costs**” means, in cases where the Agent makes a Temporary Advancement, the amount calculated as the amount of Temporary Advancement, multiplied by (i) the Funding Rate, and (ii) the actual number of days of the Temporary Advancement Period. “**Temporary Advancement Period**” means the period commencing on the date that a Temporary Advancement is made and ending on the date that such Temporary Advancement is cleared, and the “**Funding Rate**” means the interest rate that the Agent reasonably determines as the interest rate to fund the amount of Temporary Advancement through the Temporary Advancement Period. The calculation method for such Temporary Advancement Costs shall be on a per diem basis, inclusive of first day and exclusive of last day, assuming that there are 365 days per year, wherein divisions shall be done at the end of the calculation, and fractions less than one yen shall be rounded down.
- 1.50 “**Total Lending Amount**” means the total of the Participation Amounts of All Lenders.
- 1.51 “**Total Outstanding Balance**” means the total principal amount of the Outstanding Individual Loan Money owed to All Lenders.
- 2. RIGHTS AND OBLIGATIONS OF LENDERS**
- 2.1 The Lenders shall owe the Lending Obligations.
- 2.2 Unless otherwise provided for in this Agreement, the obligations of each Lender under this Agreement shall be independent, and a Lender shall not be released from

its obligations under this Agreement for the reason that any of the other Lenders fails to perform such obligations. A Lender shall not be responsible for any failure of other Lenders to perform their obligations under this Agreement.

2.3 If a Lender, in breach of its Lending Obligation, fails to make an Individual Loan on the Drawdown Date, such Lender shall, upon request by the Borrower, immediately compensate the Borrower for all damages, losses and expenses incurred by the Borrower as a result of such breach; provided, however, that the maximum amount of such compensation to the Borrower for the damages, losses and expenses incurred shall be the difference between (i) the interest and other expenses that is required or would be required to be paid if the Borrower separately makes a drawdown as a result of the Individual Loan's failure to be made on the Drawdown Date, and (ii) the interest and other expenses that would have been required to be paid if the Individual Loan were made on the Drawdown Date.

2.4 Unless otherwise provided for in this Agreement, each Lender may exercise its rights under this Agreement separately and independently.

3. USE OF PROCEEDS

The Borrower shall use the money raised by the Loan as long-term working capital and repayment fund for the borrowings of 18 billion yen (bridge finance) under Over-draft Loan Facility Agreement dated as of June 30, 2003 between Mizuho Corporate Bank, Ltd.

4. CONDITIONS PRECEDENT FOR EFFECTIVENESS OF THIS AGREEMENT

This Agreement shall take effect at such time that the Borrower and the Guarantor shall have submitted all of the following documents to the Agent and All Lenders, and the Agent and All Lenders are satisfied with the details thereof:

- (a) the certificate of seal registration of the representative of the Borrower and the Guarantor as of July 1, 2003 or thereafter, who shall sign and affix their seal to this Agreement and the Guarantee;
- (b) a certified copy of the certificate of corporate registration (an entire certificate of record matter or an entire certificate of present matter) of the Borrower and the Guarantor as of July 1, 2003 or thereafter;
- (c) the articles of incorporation of the Borrower and the Guarantor, with certification attached thereto certifying that it is a copy of the original (the date of such certification shall be July 1, 2003 or thereafter); and
- (d) the confirmation letter prepared by the representative director of the Borrower and certifying that all internal procedures of the company necessary for the execution of this Agreement and the drawdown pursuant to this Agreement have completed.

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- (e) the confirmation letter prepared by the representative director of the Guarantor and certifying that all internal procedures of the company necessary for the execution of this Agreement and the making of the guarantee pursuant to this Agreement have completed.

5. CONDITIONS PRECEDENT FOR LENDING OBLIGATIONS

The Lender shall owe the Lending Obligations upon the condition (irrespective of whether or not notice under Clause 7.1 was given) that the conditions set forth in each of the following items are satisfied at the time of the making of the Individual Loan. The satisfaction of such conditions shall be determined individually by each Lender, and no other Lender or the Agent shall be responsible for a Lender's determination or refusal to make a Loan.

- (1) The Lending Obligations of All Lenders have not been exempted pursuant to Clause 8.2.
- (2) All the matters described in each item of Clause 18 of this Agreement and each item of Clause 2 of the Guarantee are true and correct.
- (3) The Borrower and the Guarantor have not breached any provision of this Agreement and the Guarantee, and there is no threat that such breach may occur on or after the Drawdown Date.
- (4) No consultation pursuant to the provisions of Clause 31 has been held.

6. MAKING OF LOANS

- 6.1 If a Lender does not give notice pursuant to Clause 7.1, and all conditions set forth in each item of Clause 5 are satisfied at the time of the drawdown of the Individual Loan, the Lender shall remit the Individual Loan Amount to the Agent's Account by eleven (11) o'clock of the Drawdown Date. The Individual Loan shall be deemed to have been made by that Lender as of the time that the Agent remits such money to the Syndicate Account.
- 6.2 When the Loan is made pursuant to Clause 6.1, the Borrower shall immediately send to the Agent a written receipt describing the amount of the Loan and the specifics of the Individual Loan. The Agent shall, upon receiving such receipt, promptly provide a copy thereof to the Lender who made the Individual Loan. The Agent shall retain the original receipt on behalf of that Lender until the Outstanding Individual Loan Money in relation to such Individual Loan is repaid in full.
- 6.3 If notice under Clause 7.1 has not been given, the Agent may make the Individual Loan on behalf of a Lender through Temporary Advancement. After such Temporary Advancement, the relevant Lender shall remit the full equivalent amount of the Individual Loan Money to the Agent's Account by eleven (11) o'clock of the Drawdown Date, and if such remittance is not completed by that time, the Lender shall, promptly upon the Agent's request, pay to the Agent the Temporary Advancement Costs making required in such Temporary Advancement.

7. REFUSAL TO MAKE LOANS

- 7.1 A Lender who decides not to make the Individual Loan for the reason that all or part of the conditions under Clause 5 are not satisfied (the “Non-Drawdown Lender”) may notify the Agent, the Borrower, the Guarantor and all other Lenders of the decision with the reason affixed thereto by three (3) o’clock P.M. of the first Business Day prior to the Drawdown Date. Provided, however, that if, notwithstanding the satisfaction of all the conditions under Clause 5, such notice is given and the Individual Loan is not made, the Non-Drawdown Lender may not be released from liabilities arising from the breach of its Lending Obligations.
- 7.2 The Borrower shall be responsible for any damages, losses or expenses incurred by the Non-Drawdown Lender or the Agent as a result of the failure to make the Individual Loan by that Non-Drawdown Lender. Provided, however, that the foregoing shall not apply if the failure to make the Individual Loan constitutes a breach of the Non-Drawdown Lender’s Lending Obligations.

8. EXEMPTION OF LENDER

- 8.1 If an Exemption Event occurs with respect to a Lender, the Agent shall immediately notify the Borrower, the Guarantor and All Lenders of such event in writing.
- 8.2 All Lenders shall be exempted from their Lending Obligations If an Exemption Event occurs.

9. INCREASED COSTS

- 9.1 A Costs Increased Lender may, by notifying the Borrower in writing via the Agent, request the Borrower to elect either to bear the Increased Costs or to prepay to the Costs Increased Lender. The Borrower shall respond to such request by giving written notice to the Costs Increased Lender via the Agent.
- 9.2 If the Borrower elects to bear the Increased Costs in response to the Costs Increased Lender’s request under Clause 9.1, the Borrower shall pay, in accordance with the provision of Clause 16, the Costs Increased Lender the money equivalent to such costs.
- 9.3 If the Borrower elects to prepay to the Costs Increased Lender in response to the request under Clause 9.1, the Borrower shall notify the Agent and All Lenders in writing by tenth (10) Business Day prior to the date the Borrower desires to prepay (the “Desired Prepayment Date”), of (a) the desire to prepay, and (b) the Desired Prepayment Date.
- 9.4 If the notice under Clause 9.3 is given, the Borrower shall pay, in accordance with the provision of Clause 16, to the Costs Increased Lender on the Desired Prepayment Date all obligations which the Borrower owes to the Costs Increased Lender under this Agreement. In this case, until the Borrower completes payment of all obligations which the Borrower owes to the Costs Increased Lender under this Agreement, the relevant provisions of this Agreement regarding the performance of such obligations shall remain in full force and effect with respect to the Costs Increased Lender.

9.5 If the Borrower completes repayment to the Cost Increased Lender pursuant to Clause 9.4, the Participation Ratio of the Lenders other than the relevant Cost Increased Lender shall be adjusted as follows;

- (i) the Participation Amount of the relevant Cost Increased Lender shall be subtracted from the Total Lending Amount before making the adjustment, and the Total Lending Amount shall be adjusted accordingly
- (ii) the Participation Ratio of the Lenders other than the relevant Cost Increased Lender shall be adjusted to the percentage of the respective Participation Amount of each Lender to the Total Lending Amount after making the adjustment under the preceding item.

10. REPAYMENT OF PRINCIPAL

The Borrower shall repay the principal of the Loan in the amount set forth in the Schedule TWO on the Repayment Date in accordance with the provision of Clause 16.

11. INTEREST

11.1 The Interest Period shall be three (3) month and the period shall be from the Interest Payment Date (provided that the initial base date for the first Interest Period shall be the Drawdown Date) to the Interest Payment Date coming immediately thereafter.

11.2 The Borrower shall pay to each Lender in accordance with the provision of Clause 16, the total amount of interest calculated as the principal amount in relation to the Individual Loan granted by such Lender, multiplied by (i) the Applicable Interest Rate, and (ii) the actual number of days of the Interest Period, on the Interest Payment Date which is the final date of the relevant Interest Period.

11.3 The calculation method for interest under Clause 11.2 shall be on a per diem basis, inclusive of first and exclusive of last day, assuming that there are 365 days per year, wherein divisions shall be done at the end of the calculation, and fractions less than one yen shall be rounded down.

12. PREPAYMENT

12.1 The Borrower may not prepay all or any part of the principal of the Loan before its Due Date (a "Prepayment"). Provided, however, that this shall not apply if the Prepayment is made pursuant to Clause 9 or Clause 31, or if the Borrower, in accordance with the procedures set forth below, obtains the prior written approval of all of the Lenders who made the Loan in respect of which the Borrower gave notice of its desire to prepay ("Relevant Prepayment Lenders"), and the Agent.

12.2 If the Borrower desires to make a Prepayment, the Borrower shall give a written notice to the Agent by the tenth Business Day prior to the date the Borrower desires to make the Prepayment (the "Desired Prepayment Date"), stating (a) the principal

amount the Borrower desires to prepay (not less than 1,200 million yen, in increments of 1,200 million yen), (b) that the Borrower will pay in full on the Desired Prepayment Date, the interest (the "Accrued Interest") on the principal amount desired to be prepaid that has accrued by the Desired Prepayment Date (inclusive), and (c) the Desired Prepayment Date. After receiving notice from the Borrower, the Agent shall notify the Relevant Prepayment Lenders of items (a) through (c) of this Clause 12.2 by the ninth Business Day prior to the Desired Prepayment Date, whereupon the Relevant Prepayment Lenders shall notify the Agent by the fifth Business Day prior to the Desired Prepayment Date of whether or not it approves such Prepayment. If such notice by any Relevant Prepayment Lender does not reach the Agent by the fifth Business Day prior to the Desired Prepayment Date, it shall be deemed that the Relevant Prepayment Lender did not approve such Prepayment. The Agent shall judge the acceptability of the Prepayment by the fourth Business Day prior to the Desired Prepayment Date, and notify the result to the Borrower and the Relevant Prepayment Lenders.

12.3 If the Prepayment is approved in accordance with Clause 12.2, the Relevant Prepayment Lenders shall notify the Agent of the Break Funding Cost by the second Business Day prior to the Desired Prepayment Date. After receiving such notice, the Agent shall notify the Borrower of the same by the first Business Day prior to the Desired Prepayment Date. The Borrower shall pay, in accordance with Clause 16, the total of the principal, the Accrued Interest and the Break Funding Cost in respect of the Loan to be prepaid on the Desired Prepayment Date.

12.4 The amount prepaid under this Clause shall be preferentially appropriated to the obligation with respect to the later Repayment Date. The Borrower shall not be entitled to demand to re-borrow the prepaid amount.

13. DEFAULT INTEREST

13.1 If the Borrower fails to perform its obligations under this Agreement owing to a Lender or the Agent when due, the Borrower shall, immediately upon the Agent's request and in accordance with Clause 16, for the period commencing on the Due Date (inclusive) of such defaulted obligation (the "Defaulted Obligations") and ending on the day (inclusive) the Borrower performs all Defaulted Obligations, pay default interest calculated by multiplying the amount of the Defaulted Obligations by the higher of either (to the extent not in violation of Laws and Ordinances) (i) the rate obtained by adding the rate of 2% per annum to the reasonable cost (calculated at the interest rate that the creditor reasonably decides upon) incurred by the creditor of the Defaulted Obligations for raising the amount in default, or (ii) the rate of 14% per annum.

13.2 The calculation method for default interest under Clause 13.1 shall be on a per diem basis, inclusive of first and last day, assuming that there are 365 days per year, wherein divisions shall be done at the end of the calculation, and fractions less than one yen shall be rounded down.

14. AGENT FEE

The Borrower shall pay the Agent Fee to the Agent as separately agreed between the Borrower and the Agent, for the performance of the Agent Services set forth in this Agreement.

15. EXPENSES; TAXES AND PUBLIC CHARGES

15.1 All expenses (including attorney's fees) incurred in connection with the preparation and any revision or amendment of this Agreement, and all expenses (including attorney's fees) incurred in relation to the maintenance and enforcement of the rights or the performance of the obligations by the Lender and the Agent pursuant to this Agreement shall be borne by the Borrower to the extent that it is not in violation of Laws and Ordinances. If any Lender or the Agent has paid these expenses in the place of the Borrower, the Borrower shall, immediately upon the Agent's request, pay the same in accordance with the provision of Clause 16.

15.2 The stamp duties and any other similar Taxes and Public Charges incurred in relation to the preparation, amendment or enforcement of this Agreement and any documents related hereto shall be borne by the Borrower. If any Lender or the Agent has paid these Taxes and Public Charges in the place of the Borrower, the Borrower shall, immediately upon the Agent's request, pay the same in accordance with the provision of Clause 16.

16. PERFORMANCE OF BORROWER'S OBLIGATIONS

16.1 In order to repay the obligations under this Agreement, the Borrower shall remit the relevant amount to the Agent's Account (i) by the Due Time, for those obligations the Due Date of which is provided for herein, or (ii) immediately upon the Agent's request, for those obligations the Due Date of which is not provided for herein. In such cases, the Borrower's obligations to the Agent or a Lender shall be deemed to have been performed upon the time of the remittance of the relevant amount to the Agent's Account.

16.2 Unless otherwise provided for in this Agreement, a payment by the Borrower directly to a Lender other than the Agent contrary to the provisions of Clause 16.1 of amounts owing under this Agreement shall not be deemed to constitute the due performance of obligations under this Agreement. In this case, the Lender receiving such payment shall immediately pay the money it receives to the Agent, and the obligations with respect to such money shall be deemed to have been performed upon the Agent's receipt of such money. Provided, however, that the Borrower, upon giving prior written notice to the Agent, disposes (*nini-baikyaku*) the assets subject to floating security interest (*ne-tanpoken*) that have been granted in favour of a Lender as the secured party of the floating security interest, and directly pays to that Lender the proceeds it receives from such disposal in order to perform its obligations under this Agreement, such direct payment shall be considered to constitute the due performance of obligations under this Agreement. The Borrower may not perform its obligations under this Agreement by deed-in-lieu of performance (*daibutsu bensai*) unless the Agent and All Lenders give their prior written approval.

16.3 The Borrower's payments pursuant to this Clause 16 shall be applied in the order set forth below; provided, however, that the provisions of Clause 17.4 shall apply if any obligation of the Borrower becomes immediately due and payable pursuant to Clause 22:

- (i) those expenses to be borne by the Borrower under this Agreement, which the Agent has incurred in the place of the Borrower, and the Agent Fee;

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- (ii) those expenses to be borne by the Borrower under this Agreement, payable to a third party;
 - (iii) those expenses to be borne by the Borrower under this Agreement, which any Lender has incurred in place of the Borrower;
 - (iv) the default interest and the Break Funding Cost;
 - (v) the interest on the Loan; and
 - (vi) the principal of the Loan.
- 16.4 Upon the application under Clause 16.3, if the amount to be applied falls short of the amount outlined in any of the items thereunder, with respect to the first item not fully covered (the "Item Not Fully Covered"), the remaining amount, after the application to the item of the next highest order of priority, shall be applied after the proration in proportion to the amount of the individual payment obligations owed by the Borrower regarding the Item Not Fully Covered, which have become due and payable.
- 16.5 Unless otherwise required by Laws and Ordinances, the Borrower shall not deduct Taxes and Public Charges from the amount of obligations to be paid pursuant to this Agreement. If it is necessary to deduct Taxes and Public Charges from the amount payable by the Borrower, the Borrower shall additionally pay the amount necessary in order for the Lender to be able to receive the amount that it would receive if no Taxes and Public Charges were imposed. In such cases, the Borrower shall, within thirty (30) days from the date of payment, directly send to the Lender the certificate of tax payment in relation to withholding taxes issued by the tax authorities or other competent governmental authorities in Japan.
- 17. DISTRIBUTION TO LENDERS**
- 17.1 If there still exist any remaining amounts after deducting the amount equivalent to the amount described in Clause 16.3(i) and Clause 16.3(ii) from the amount paid by the Borrower pursuant to Clause 16, the Agent shall immediately distribute such remaining amount to the Lenders in accordance with the provision of this Clause 17. Provided, however, that if such money was paid by the Borrower pursuant to Clause 9.2 or Clause 9.4, notwithstanding the provision of this Clause 17, the Agent shall promptly distribute such money to the Costs Increased Lender.

17.2 If, prior to distribution by the Agent to the Lenders pursuant to this Clause 17, (a) an order for provisional attachment (*kari-sashiosae*), preservative attachment (*hozen-sashiosae*) or attachment (*sashiosae*) in relation to the Loan Receivables is served on the Borrower, or (b) an assignment in relation to the Loan Receivables is made, the rights and obligations of the Borrower, the Agent and the Lenders shall be regulated in accordance with the following provisions:

- (a) (i) If the Agent completes the distribution to the Lenders pursuant to this Clause 17 before receiving notice from the Borrower pursuant to Clause 19.4 that it has received service of an order for provisional attachment (*kari-sashiosae*), preservative attachment (*hozen-sashiosae*) or attachment (*sashiosae*) with respect to the Loan Receivables:

In this case, even if the creditor obtaining an order for provisional attachment (*kari-sashiosae*), preservative attachment (*hozen-sashiosae*) or attachment (*sashiosae*), the Borrower, the Lenders or any other third party suffers damages, losses or expenses (the "Damages") as a result of such distribution by the Agent, the Agent shall not be liable in relation thereto, and the Borrower shall deal with them at its own cost and liability. The Borrower shall compensate the Agent for any Damages incurred by the Agent due to such distribution.

- (ii) If the Agent, after the Borrower's remittance of money to the Agent's Account and before the completion of the distributions to the Lenders pursuant to this Clause 17, receives notice from the Borrower pursuant to Clause 19.4 that it has received service of an order for provisional attachment (*kari-sashiosae*), preservative attachment (*hozen-sashiosae*) or attachment (*sashiosae*) with respect to the Loan Receivables for which such distribution is made:

In this case, (1) with respect to the money relating to such notice, the Agent may withhold the distributions pursuant to this Clause 17, and may take other measures in the manner that the Agent deems reasonable; and (2) the Agent shall distribute to All Lenders other than the Lender subject to such notice, the money paid by the Borrower excluding those subject to such notice. If the creditor obtaining an order for provisional attachment (*kari-sashiosae*), preservative attachment (*hozen-sashiosae*) or attachment (*sashiosae*), the Borrower, the Lenders or any other third party suffers any Damages as a result of the distribution by the Agent pursuant to (1) of this Item (ii), the Agent shall not be liable in relation thereto, and the Borrower shall deal with them at its own cost and liability. The Borrower shall compensate the Agent for any Damages incurred by the Agent due to such distribution.

- (b) If the Assignor and the Assignee, under joint names, or if the Borrower, under its single name, notifies the Agent of an assignment of the Loan Receivables in accordance with Clause 29.1:

In this case, the Agent shall, after receiving either of these notices, immediately commence all administrative procedures necessary in order to treat such Assignee as the creditor of such Loan Receivables, and the Agent shall be exempt insofar as the Agent treats the previous Lender as the party in interest until the Agent notifies the Borrower, the Assignor and the Assignee that such procedures have been completed. If the Assignee or any other third party suffers Damages due to such treatment by the Agent,

the Agent shall not be liable in relation thereto, and the Borrower and the Assignor of such Loan Receivables shall deal with them at their own cost and liability. The Borrower and the Assignor of such Loan Receivables shall jointly compensate the Agent for any Damages incurred by the Agent arising out of this Item (b).

- 17.3 The distributions by the Agent to the Lenders shall be made in order, starting from Clause 16.3(iii) to Clause 16.3(vii). If there is an Item Not Fully Covered regarding the amounts to be distributed, the application and distribution with respect to such Item Not Fully Covered shall be made in accordance with the provisions of Clause 16.4.
- 17.4 Notwithstanding Clause 16.3, Clause 16.4 and Clause 17.3, if the Borrower's obligations hereunder become immediately due and payable pursuant to Clause 22, the Agent shall distribute the remaining amount after deducting the amounts described under Clause 16.3(i) and Clause 16.3(ii) from the amount paid by the Borrower, in proportion to the amount of the obligations that the Borrower owes to the Lenders under this Agreement, in which case, the application shall be made in the order and method that the Agent deems appropriate.
- 17.5 If the remittance of money by the Borrower provided for in Clause 16.1 fails to be completed by the Due Time, the Agent shall be under no obligation to make the distributions set forth in Clause 17.1 on the same date. In such cases, the Agent shall make such distributions immediately after the remittance from the Borrower, and the Borrower shall bear any damages, losses and expenses incurred by the Lender or the Agent in connection therewith.
- 17.6 Upon request from the Agent, and if such request is based on a reasonable cause, the Lenders receiving such request shall immediately notify the Agent of the amount (including specifics) of the receivables they hold against the Borrower under this Agreement. In this case, the obligation of the Agent to make distributions set forth in Clause 17.1 shall arise at the time all such notices reach the Agent. In the case where a Lender delays this notice without reasonable cause, such Lender shall bear all damages, losses or expenses incurred by any Lender or the Agent due to such delay.
- 17.7 The Agent may make the distributions to the Lenders by Temporary Advancement (provided that the Agent shall not be obligated to make such Temporary Advancement.). If the Temporary Advancement is not cleared by the Due Time, the Lender who received the distribution pursuant to this Clause 17.7 shall, immediately upon the Agent's request, reimburse to the Agent the amount of such Temporary Advancement that it received. The Lender shall, immediately upon the Agent's request, pay to the Agent any Temporary Advancement Costs required in making such Temporary Advancement, per the amount of Temporary Advancement that it received.

18. BORROWER'S REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants to a Lender and the Agent that each of the following matters is true and correct at the execution date of this Agreement and at

the Drawdown Date. In the event that any of the following matters is found to be untrue or incorrect, the Borrower shall fully indemnify all of the losses and costs incurred by the Lender and the Agent by such untrue or incorrect representation and warranty:

- (i) The Borrower is a stock company (*kabushiki kaisy*) duly incorporated and validly existing under the laws of Japan.
- (ii) The Borrower has a legal capacity (*sui juris*) necessary for execution and performance of this Agreement, the execution and performance of this Agreement by the Borrower and any transactions associated herewith are within the corporate purposes of the Borrower and the Borrower has duly completed all procedures necessary therefor under the Laws and Ordinances, the Articles of Incorporation and other internal company rules of the Borrower.
- (iii) The execution and performance of this Agreement by the Borrower and any transactions associated herewith does not result in (a) any violation of Laws and Ordinances which bind the Borrower, (b) any breach of its Articles of Incorporation and other internal company rules of the Borrower, and (c) any material breach of a third-party contract to which the Borrower is a party or which binds the Borrower or the assets of the Borrower.
- (iv) The person who signed or attached his/her name and seal to this Agreement is authorized to sign or attach his/her name and seal to this Agreement as the representative of the Borrower by all procedures necessary pursuant to the Laws and Ordinances, Articles of Incorporation or other internal company rules of the Borrower.
- (v) This Agreement constitutes legal, valid and binding obligations of the Borrower, and is enforceable against the Borrower in accordance with the terms of this Agreement.
- (vi) All Reports prepared by the Borrower are accurately and duly prepared in accordance with the accounting standards which is generally accepted as fair and appropriate one in Japan.
- (vii) After the last day of the fiscal year ended on March 31, 2003, no material change, which will cause a material deterioration of the business, assets, or financial condition of the Borrower described in the audited fiscal statement of that fiscal year and which may materially affect the performance of the obligations of the Borrower under this Agreement, has occurred.
- (viii) No lawsuit, arbitration, administrative procedure, or any other dispute has commenced or, to the knowledge of the Borrower, is likely to commence with respect to the Borrower, which will or may materially cause adverse effects on the performance of its obligations under this Agreement.
- (ix) No matter described in the items of Clauses 22.1 and 22.2 has occurred or is likely to occur.

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- (x) The Guarantor owns 100% of the shares of FMH outstanding, FMH owns not less than 40% of the shares of FASL LLC outstanding, and FASL LLC owns 100% of the shares of the Borrower outstanding.
 - (xi) The Borrower has not provided any collateral to any third party to secure the Borrower's obligations, other than the securities described in Schedule FOUR.
 - (xii) The assets described in Schedule FOUR will constitute all assets that are necessary to keep the Borrower's business and have been provided as collateral.

19. BORROWER'S COVENANTS

19.1 The Borrower covenants to perform, at its expense, the matters described in each of the following items on and after the date of this Agreement, and until this Agreement is terminated and the Borrower completes the performance of all of its obligations under this Agreement to each Lender and the Agent.

- (i) If any matter described in each item of Clause 22.1 or 22.2 (including the event which constitutes default when a default is not cured upon passage of the relevant curing period) has occurred, or is likely to occur, the Borrower shall immediately notify the Agent and All Lenders thereof.
- (ii) The Borrower shall submit a copy of the Reports, within 60 days from the first quarter-end, second quarter-end, and third quarter-end of the fiscal year, respectively, to All Lenders through the Agent.
- (iii) The Borrower shall submit a copy of the audited Reports, within 105 days from end of the fiscal year, to All Lenders through the Agent.
- (iv) The Borrower shall submit to the Agent any documents, with the number of copies and in the form designated by the Agent, that could confirm the compliance of matters described in Article 20 and Article 21 below, respectively within 60 days from the end of each fiscal quarter and six months closing (mid-year), as well as within 105 days from the end of each fiscal year.
- (v) The Borrower shall submit a copy of the Reports, within 60 days from the first quarter-end, second quarter-end, and third quarter-end of the fiscal year, respectively, of FASL LLC, to All Lenders through the Agent.
- (vi) The Borrower shall submit a copy of the audited Reports of FASL LLC, within 105 days from end of the fiscal year of FASL LLC, to All the Lenders through the Agent.
- (vii) Upon a request made by the Agent or a Lender through the Agent, the Borrower shall immediately notify to the Agent of the conditions of the assets, management, or businesses of the Borrower, its Subsidiary and FASL

LLC, and shall provide the necessary assistance to facilitate the investigations thereof.

- (viii) If any material change has occurred, or is found to be likely to occur with the passage of time, to the conditions of the assets, management, or businesses of the Borrower and its Affiliates, or if any lawsuit, arbitration, administrative procedure, or any other dispute, which will materially affect, or is likely to materially affect, the performance of the obligations of the Borrower under this Agreement, has commenced, or is found to be likely to commence, the Borrower shall immediately notify the Agent thereof.
- (ix) If any change occurs to the Status of the Establishment of the Collateral described in Schedule FOUR, the Borrower shall immediately notify thereof to the Agent in writing.
- (x) If any of the items described in Clause 18 is found untrue, the Borrower shall immediately notify thereof to the Agent.

19.2 The Borrower shall not offer any collateral to secure its obligations under this Agreement for the benefit of certain Lenders on and after the date of this Agreement, and until this Agreement is terminated and the Borrower completes the performance of all of its obligations under this Agreement to each Lender and the Agent, unless All Lenders and the Agent give prior written consent thereto.

19.3 The Borrower shall, on and after the date of this Agreement, and until this Agreement is terminated and the Borrower completes the performance of all of its obligations under this Agreement to each Lender and the Agent, affirmatively covenant to be in compliance with matters described in the items below. Upon applying the item (iv) and (v) below, any actions taken by the Borrower or any of its Subsidiaries and any events or circumstances occurring or arising during any time that is not the Enhanced Covenant Period, which actions, events or circumstances were permitted under the terms of this Agreement at the time taken, occurring or arising, shall not constitute a breach of the applicable covenant referencing such Enhanced Covenant Period during any subsequent Enhanced Covenant Period notwithstanding that such actions, events or circumstances would not have been permitted under such covenant, or would have constituted such a breach, had such actions, events or circumstances been taken, occurred or arisen during such Enhanced Covenant Period:

- (i) The Borrower will maintain licenses and other similar permits that are necessary to conduct the Borrower's main business, and continue to carry out the business in compliance with material provisions of all Laws and Ordinances.
- (ii) The Borrower will not change its main business.
- (iii) The Borrower will not, unless otherwise specified in the Laws and Ordinances, subordinate the payment of any of its debts under this Agreement to the payment of any unsecured debts (including any secured debts that will not be fully collected after the foreclosure sale of the collateral), or at least will treat them equally.

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- (iv) The Borrower and its Subsidiaries will not, during the Enhanced Covenant Period, enter into any transaction of merger, reorganization, or consolidation, or transfer, sell, assign, lease, or otherwise dispose of all or any part of property of it or any of its Subsidiaries, or agree to do any of the foregoing, except (a) sales of the Inventory in the ordinary course of its business or such Subsidiary's business; (b) sales or other disposition of assets in the ordinary course of business that is obsolete, worn-out or no longer useable by the Borrower in its business; (c) Investments by the Borrower or any of its Subsidiaries in the Borrower or any of its Subsidiary (provided that the amount of all such Investments made by the Borrower or any of its Japan Subsidiary during the Enhanced Covenant Period may not exceed 3 billion yen in the aggregate); (d) sales or other dispositions of assets where the aggregate book value of assets so sold by the Borrower and its Subsidiaries, together, shall not exceed 6 billion yen from and after the execution date of this Agreement; (e) mergers or consolidations between the Borrower and any of its Subsidiaries and between any of its Subsidiaries and any other Subsidiaries of the Borrower (provided that, with respect to any such transaction involving the Borrower, the Borrower shall be continuing or surviving entity); (f) transfers of the Inventory between the Borrower or its Subsidiaries, and among its Subsidiaries (provided that the terms of any such transactions shall be no less favourable to the Borrower and its Subsidiaries than would be obtained in a comparable arm's length transaction with a third party who is not the Affiliate); or (g) transactions set forth in the item (v) below. Notwithstanding anything to the contrary in this item (iv), and whether or not the Enhanced Covenant Period then exists, (I) the Borrower shall not at any time consolidate or merge with or into, or sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of its properties or assets to any person, and (II) the removal of the equipment from the Aizu Facility and the sale or other disposition of the Aizu Facility, which will substantially affect the Borrower's financial ability to fulfil repayment of debts under this Agreement, shall not be permitted without a consent of the Majorities Lenders, except as permitted under the preceding clause (f).
- (v) The Borrower and its Subsidiaries will not declare or make, or incur any liability to make any of the payment or making of dividend, or the redemption or acquisition of any capital stock of the Borrower or its Subsidiaries or any option of such capital stock (the "Distribution") more frequently than after the end of each fiscal quarter to the extent that no event of default of this Agreement and an agreement (other than this Agreement) entered into between the Borrower and the third party would occur after giving effect to any such payment and, during the Enhanced Covenant Period, (a) declare or make, or incur any liability to make any Distribution, except (I) the Distribution to the Borrower by its Subsidiaries, (II) the Distribution by any wholly-owned Subsidiaries of the Borrower to the Borrower or any other wholly-owned Subsidiaries of the Borrower and (III) redemptions, repurchase, retirements or other acquisitions of any equity interests of the Borrower in exchange for other equity interests of the Borrower or out of the proceeds of the substantially concurrent sale (other than to its Subsidiaries) of other equity interests of the Borrower, or (b) make any change in its capital

structure (including reduction of capital) which will substantially affect the Borrower's financial ability to fulfil repayment of debts under this Agreement.

- (vi) The Borrower will not change its accounting standard to the one not in accordance with the accounting standards which is generally accepted as fair and appropriate one in Japan.
- (vii) The Borrower and its Subsidiaries will not make any borrowing from a third party or any guaranteeing and lending to a third party which will substantially affect the Borrower's financial ability to fulfil repayment of debts under this Agreement.
- (viii) The Borrower and its Subsidiaries will not make any transaction which will substantially affect the Borrower's financial ability to fulfil repayment of debts under this Agreement.

19.4 If the Borrower receives any service of an order for provisional attachment (*kari-sashiosae*), preservative attachment (*hozen-sashiosae*), or attachment (*sashiosae*) with respect to the Loan Receivables, the Borrower shall immediately notify thereof to All Lenders through the Agent in writing, together with a photocopy of such order.

20. RESTRICTIONS ON COLLATERAL

The Borrower shall not offer any collateral to secure its obligations or any third party's obligations (other than those under this Agreement) on and after the date of this Agreement, and until this Agreement is terminated and the Borrower completes the performance of all of its obligations under this Agreement to each Lender and the Agent, unless Majority Lenders and the Agent give prior written consent thereof. Provided, however, that this provision shall not apply in the cases described below and if the Borrower gives prior written notice to the Agent of such offering of collateral. For the purpose of this Clause 20, the offer of collateral shall mean the creation of security interests on any assets of the Borrower, the pre-engagement of the creation of security interests on the particular assets of the Borrower, or the promise not to offer the particular assets of the Borrower as collateral for the obligations other than specific obligations, and does not include any collateral pursuant to the Laws and Ordinances, such as lien or possessory lien.

- (i) The cases where the Borrower offers any collateral for borrowings from Japan Bank for International Cooperation, Development Bank of Japan, Government Pension Investment Fund, or Employment and Human Resources Development Organization of Japan and such offer of collateral is required by the Laws and Ordinances.
- (ii) The cases where the Borrower offers, regarding loans taken for the purpose of acquiring assets, such assets as collateral.
- (iii) The cases where the Borrower newly acquires assets on which security interests have already been established.

- (iv) The cases where the Borrower offers any collateral for financing through securitization of assets (or so called liquidation of assets (*shisan-no-ryudoka*) under the Japanese law).
- (v) The cases where the Borrower offers any collateral to the Guarantor.

21. FINANCIAL RESTRICTIONS

The Borrower shall promise to comply with the following items, on and after the date of this Agreement, and until this Agreement is terminated and the Borrower completes the performance of all of its obligations under this Agreement to each Lender and the Agent.

- (i) The Borrower will ensure to keep the asset exceeding the liability in each of its stand-alone basis balance sheets as of each fiscal year-ends and mid-year-ends (six months closing).
- (ii) The Borrower will maintain the Adjusted Tangible Net Worth, determined as of the last day of each fiscal quarter, of not less than 60 billion yen.
- (iii) The Borrower will maintain the total net income and depreciation as of the last day of each fiscal period set forth below of not less than the amount set forth below opposite such fiscal period:

<u>Period</u>	<u>Amount</u>
1-3 quarter fiscal year 2003	5,760 million yen
Full fiscal year 2003	8,400 million yen
1 quarter fiscal year 2004	2,490 million yen
1-2 quarter fiscal year 2004	7,320 million yen
Full fiscal year 2004	22,920 million yen
Full fiscal year 2005	21,125 million yen
Full fiscal year 2006	19,500 million yen

- (iv) The Borrower shall not permit, as of the last day of any fiscal quarter, the ratio of (a) net income plus depreciation to (b) the sum of (1) interest expense for such period plus (2) scheduled amortization of Debt For Borrowed Money for such period including Lease rentals plus (3) maintenance capital expenditures for Aizu Facility, to less than:

<u>Period</u>	<u>Percentage</u>
2-4 quarter fiscal year 2003	90%
1 quarter fiscal year 2004	100%
2 quarter fiscal year 2004	110%
3-4 quarter fiscal year 2004	120%
Full fiscal year 2005	120%
Full fiscal year 2006	120%

22. ACCELERATION

22.1 If any of the events described in the items below has occurred to the Borrower or the Guarantor, all of the Borrower's debts under this Agreement payable to All Lenders and the Agent shall automatically become due and payable without any notice or demand by a Lender or the Agent, and the Borrower shall immediately pay the principal and the interest of the Loan, the Break Funding Costs and any other payment obligation that the Borrower owes pursuant to this Agreement in accordance with the provisions of Clause 16, whereby All Lenders' Lending Obligations shall cease to be effective:

- (i) If any payment by the Borrower or the Guarantor has been suspended, or if a petition (including similar petition filed outside Japan) of specific conciliation (*tokutei-chotei*), bankruptcy (*hasan*), commencement of civil rehabilitation procedures (*minjisaiseituzuki-kaishi*), commencement of corporate reorganization procedures (*kaishakoseituzuki-kaishi*), commencement of corporate rearrangement (*kaishaseiri-kaishi*), commencement of special liquidation (*tokubetuseisan-kaishi*), or commencement of any other similar legal procedures against the Borrower or the Guarantor;
- (ii) If the resolution for dissolution is adopted or the Borrower or the Guarantor receives order of dissolution;
- (iii) If the Borrower or the Guarantor abolishes its business;
- (iv) If transactions of the Borrower or the Guarantor have been suspended by a clearinghouse; or
- (v) If any order or notice of provisional attachment (*kari-sashiosae*), preservative attachment (*hozen-sashiosae*), or attachment (*sashiosae*) (including any such procedure taken outside Japan) has been sent out, or any adjudication that orders an enforcement of preservative attachment (*hozen-sashiosae*) or attachment (*sashiosae*) has been rendered, with respect to the deposit receivables or other receivables (including all kinds of receivables under an agreement for insurance) held by the Borrower or the Guarantor against a Lender. In this case, the said Lender shall immediately notify the Borrower, the Guarantor, all other Lenders, and the Agent of the occurrence of any such matters.

22.2 If any of the events described in the items below has occurred with respect to the Borrower or the Guarantor, all of the Borrower's debts under this Agreement payable to All Lenders and the Agent shall become due and payable upon notice to the Borrower from the Agent, the notice of which is requested by the Majority Lender, and the Borrower shall immediately pay the principal and the interest of the Loan, the Break Funding Costs and any other payment obligation that the Borrower owes pursuant to this Agreement in accordance with the provisions of Clause 16, whereby All Lenders' Lending Obligations shall cease to be effective:

- (i) If the Borrower or the Guarantor has failed to perform its payment obligations when due, whether under this Agreement or not, payable to a Lender or the Agent in whole or in part;

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- (ii) If any matters described in the items of Clause 18 of this Agreement and Clause 2 of the Guarantee have been found to be untrue;
 - (iii) Except for the cases described in the preceding two items, if the Borrower or the Guarantor breached any of its obligations under this Agreement or the Guarantee, and such breach has not been remedied for five (5) or more Business Days;
 - (iv) If any order or notice of attachment (*sashiosae*), provisional attachment (*kari-sashiosae*), preservative attachment (*hozen-sashiosae*), or provisional disposition (*kari-shobun*) (including similar procedure taken outside Japan) has been sent out or auction procedures (*keibaitetuzuki*) have been commenced with respect to anything that is the subject of collateral offered by the Borrower;
 - (v) If any order or notice of attachment (*sashiosae*) has been sent out or auction procedures (*keibaitetuzuki*) have been commenced with respect to anything that is the subject of collateral offered to a financial institution (including the Lender) by the Guarantor;
 - (vi) If any of the Borrower's debts other than those under this Agreement has become due and payable; or if any of the Borrower's guaranty obligations for the benefit of a third party has become due and payable, and the Borrower is unable to perform such obligations (provided that the aggregate amount of such obligations shall exceed 200 million yen for this provision to apply);
 - (vii) If any of the Guarantor's pecuniary obligation other than those under this Agreement have not been performed within five Business Days after giving notice (provided that the aggregate amount of a single pecuniary obligation shall exceed 1 billion yen for this provision to apply);
 - (viii) Notwithstanding any matters described in the foregoing items, when the Borrower's or the Guarantor's business condition or financial condition has deteriorated, or when there is a fear that the Borrower's or the Guarantor's business condition or financial condition will deteriorate and all of the Borrower's obligation must be considered to have become default in order to preserve the rights and benefits of the Lender; or
 - (ix) If the Borrower or the Guarantor has suspended its business or received dispositions such as suspension of business or others from the competent government authority.

22.3 If the notice dispatched pursuant to Clause 22.2 has been delayed or has not been delivered to the Borrower due to fault of the Borrower or the Guarantor, all of the Borrower's debts under this Agreement shall become due and payable by the time such request or notice should have been delivered, and the Borrower shall immediately pay the principal and the interest of the Loan, the Break Funding Costs

and any other payment obligations that the Borrower owes pursuant to this Agreement, in accordance with the provisions of Clause 16, whereby All Lenders' Lending Obligations shall cease to be effective.

22.4 If a Lender has become aware of the occurrence of any events described in the items of Clauses 22.1 or 22.2 with respect to the Borrower or the Guarantor, the Lender shall immediately notify the Agent of such occurrence, and the Agent shall notify all other Lenders of the occurrence of such events.

23. SET-OFF; EXERCISE OF FLOATING SECURITY INTERESTS

23.1 When the Borrower is required to perform its obligations to a Lender upon their due date, upon acceleration or otherwise, (a) the Lender may set off the receivables it has against the Borrower under this Agreement against its deposit obligations or other obligations (including all kinds of obligations under an agreement for insurance) owed to the Borrower whether or not such obligations are due and payable, regardless of Clause 16.2, and (b) the Lender may also omit giving prior notice and following established procedures, may take the deposited amount on behalf of the Borrower, and apply this amount to the payment of obligations. The interest, the Break Funding Cost and default interest and others for the receivables and obligations involved in such a set-off or application to payment shall be calculated up to the time of such calculation, and in such calculation, the interest rate and default interest rate shall be in accordance with each agreement, and the foreign exchange rate at the time such calculation is made, as reasonably determined by the Lender, shall be applied. If the amount to be set-off or applied to payment is not sufficient to extinguish all of the Borrower's debts, the Lender may apply such set-off amount in the order and method it deems appropriate, and the Borrower shall not object to such application.

23.2 The Borrower may, upon the Due Date of payment of the Loan, and if it is necessary for the Borrower to preserve its deposit receivables or any other receivables (including all kinds of receivables under an agreement for insurance) that it has against a Lender that became due, set off such receivables against its obligations owed to the Lender under this Agreement, regardless of Clause 16.2. In this case, the Borrower shall give written set-off notice to the Lender and immediately submit to the Lender the receivable certificates for the deposit receivables or other receivables being set-off and the passbook impressed with the seal of the seal impression submitted. The interest and default interest for the receivables and obligations involved in such a set-off shall be calculated up to the day of receipt of such set-off notice, and in such calculation, the interest rate and default interest rate shall be figured in accordance with each agreement, and the foreign exchange rate at the time such calculation is made, as reasonably determined by the Lender, shall be applied. If the Borrower's receivables to be set-off are not sufficient to extinguish all of its debts, the Borrower may apply such set-off amount in the order and method it deems appropriate. Provided, however, that if the Borrower does not instruct such order or method, any such amounts may be applied in the order and method deemed appropriate by each Lender, and the Borrower shall not object to such application.

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- 23.3 When the Borrower is required to perform its obligations to a Lender when due or upon acceleration or otherwise, the Lender may exercise its floating security interest (the "Exercise of Floating Security") over the receivables against the Borrower under this Agreement, regardless of Clause 16.2.
- 23.4 If a set-off is performed pursuant to Clause 23.1 or 23.2 above, or if the Exercise of floating security interest is carried out pursuant to Clause 23.3, the Lender in the case described in Clauses 23.1 and 23.3 and the Borrower in the case described in Clause 23.2 shall immediately notify the Agent of the details thereof in writing. If any damage, loss, or expenses are incurred by the Lender or the Agent due to delay of such notice without any reasonable cause, either the Lender or the Borrower who has failed to give such notice shall bear such damages.

24. ARRANGEMENTS AMONG LENDERS

- 24.1 If a set-off is performed by a Lender pursuant to Clause 23.1 (such Lender, hereafter, a "Set-off Initiating Lender"), the Lender shall make arrangements for each Individual Loan subject to the set-off (such Individual Loan, in this Clause 24.1, a "Set-off Individual Loan") by way of assigning receivables pursuant to the procedures described in the items below:
- (i) The Agent shall calculate each amount (the "Intended Distribution Amount") that the Lender (hereafter in this Clause 24.1, the "Remaining Lender"), who has made the Individual Loan (other than the Set-off Individual Loan) (hereafter in this Clause 24.1, the "Remaining Individual Loan") should have received pursuant to Clauses 17.1 through 17.4 assuming that the amount of debt obligations in relation to a Set-off Individual Loan, which has been extinguished due to the performance of a set-off, had been paid to the Agent.
 - (ii) The Set-off Initiating Lender shall purchase from the Remaining Lender the loan receivables of the amount equivalent to the Intended Distribution Amount from and among the Remaining Individual Loan at their face value; provided, however, that the Remaining Lender may refuse such sale.
 - (iii) If the assignment under the immediately preceding item is made, the Remaining Lender shall, at its own expense, notify the Borrower immediately after the assignment by a document bearing a confirmed date (*kakutei-hizuke*) pursuant to Article 467 of the Civil Code.
- 24.2 If a set-off is performed by the Borrower against a Lender pursuant to Clause 23.2 (such Lender, hereafter, a "Set-off Receiving Lender"), only if a Lender other than the Set-off Receiving Lender requests, the Lender shall make arrangement for each Individual Loan subject to the set-off (such Individual Loan, in this Clause 24.2, a "Set-off Individual Loan") by way of assigning receivables pursuant to the procedures described in the items below:
- (i) The Agent shall calculate each Intended Distribution Amount that the Lender (hereafter in this Clause 24.2, the "Remaining Lender"), who has made the Individual Loan (other than the Set-off Individual Loan) (hereafter in this Clause 24.2, the "Remaining Individual Loan") should have received

pursuant to Clauses 17.1 through 17.4 assuming that the amount of debt obligations in relation to a Set-off Individual Loan, which has been extinguished due to the performance of a set-off, had been paid to the Agent.

- (ii) The Set-off Receiving Lender shall purchase from the Remaining Lender the loan receivables of the amount equivalent to the Intended Distribution Amount from and among the Remaining Individual Loan at their face value.
- (iii) If the assignment under the immediately preceding item is made, the Remaining Lender shall, at its own expense, notify the Borrower immediately after the assignment by a document bearing a confirmed date (*kakutei-hizuke*) pursuant to Article 467 of the Civil Code.

24.3 If a Lender exercises its floating security interest pursuant to Clause 23.3, or if a Lender receives any repayment of debt obligations it has against the Borrower under this Agreement with respect to its floating security interest as a result of any compulsory execution or exercise of security interest through a foreclosure by a third party, the assignment of receivables described in Clause 24.1 will not be performed. Provided, however, that if a Lender exercises its security interest of the security established by the Borrower's violation of the provisions of Clause 19.2, or if a Lender receives any repayment of debt obligations it has against the Borrower under this Agreement based on such security interest, the Lender shall assign receivables pursuant to the provisions of Clause 24.1 above.

24.4 The provisions of Clause 24.1 shall apply to the cases where a Lender receives any repayment of debt obligations it has against the Borrower under this Agreement as a result of compulsory execution or exercise of security interest (excluding any security interest offered upon consent pursuant to the proviso of Clause 19.2 and Clause 20) through foreclosure by the Lender's petition with respect to certain assets of the Borrower (hereafter, in this Clause 24.4, the "Compulsory Execution"), or as a result of the Lender requesting a distribution in relation to the Compulsory Execution by any third party. Provided, however, that upon applying the provisions of Clause 24.1, the amount equal to any expenses arising from its performance of Compulsory Execution (including attorney's fees) or any expenses arising from its request for a distribution in relation to the Compulsory Execution by any third party (including attorney's fees) shall belong to the Lender, and the Agent shall calculate the Intended Distribution Amount assuming that the amount of any proceeds earned as a result of the Compulsory Execution, less such expenses, were paid to the Agent.

25. RIGHTS AND DUTIES OF THE AGENT

25.1 The Agent shall, pursuant to the entrustment by All Lenders, perform the Agent Services and exercise rights for the benefit of All Lenders, and shall exercise the rights which, in the Agent's opinion, are ordinarily necessary or appropriate, upon performing the Agent Services. The Agent shall not be liable for the duties other than those expressly specified in each provision of this Agreement, nor shall be liable for any non-performance of obligations by the Lenders under this Agreement. The Agent shall be an agent of the Lenders and, unless otherwise provided, shall never act as an agent of the Borrower.

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- 25.2 The Agent may rely upon any communication, instrument and document that has been delivered between appropriate persons and has been signed or has the name and seal attached by such appropriate persons and believed by the Agent to be true and correct, and may act in reliance upon any written opinion or explanatory letter of experts appointed by the Agent within the reasonably necessary extent in relation to this Agreement.
- 25.3 The Agent shall perform its duties and exercise its authorities provided for in this Agreement with the due care of a good manager.
- 25.4 Neither the Agent nor any of its directors, employees or agents shall be liable to the Lenders for any acts or omissions conducted by the Agent pursuant to, or in connection with this Agreement, except for its or their willful misconduct or gross negligence. The Lenders (other than Lenders who act as the Agent) shall jointly and severally indemnify the Agent for any and all liabilities, damages, losses and expenses (including, without limitation, any expenses paid to avoid or minimize any damages or losses and paid in order to recover any damages or losses (including attorney's fees)) incurred by the Agent in the course of the performance of its duties under this Agreement, to the extent not reimbursed by the Borrower, and only for the amount outstanding after deducting the portion for which the Agent should contribute, calculated pursuant to the Agent's Participation Ratio. Provided, however, that if any of the Lenders cannot perform the indemnity for which it is liable, the Agent's Participation Ratio shall be figured by dividing the Agent's Participation Ratio by the aggregate of the Participation Ratio of the Lenders other than such non-indemnifying Lenders.
- 25.5 The Agent shall not be liable for the validity of this Agreement, nor shall guarantee any matters represented by the parties in this Agreement. The Lenders shall enter into, and conduct transactions contemplated in, this Agreement at its sole discretion by conducting investigations as to the necessary matters including creditworthiness of the Borrower on the basis of the documents, information and other data as it has deemed appropriate.
- 25.6 In cases where the Agent is also acting as a Lender, the Agent shall have the same rights and obligations as each other Lender, irrespective of the Agent's obligations under this Agreement. The Agent may engage in commonly accepted banking transactions with the Borrower other than under this Agreement. In this case, the Agent shall not be required to disclose to other Lenders the information in relation to the Borrower it has obtained through the transactions with the Borrower other than under this Agreement, nor shall the Agent be required to distribute to other Lenders any money it has received from the Borrower through transactions with the Borrower other than under this Agreement. (Any information that has been disclosed to the Agent by the Borrower shall be, unless expressly identified as being made in relation to this Agreement, deemed disclosed in relation to the transactions with the Borrower other than under this Agreement, and the Agent shall not be required to disclose any of the same to other Lenders.)
- 25.7 In cases where the Agent is also acting as a Lender, the calculation of the amounts to be distributed to each Lender pursuant to the provisions of Clause 17 shall be made in accordance with the following: (i) for amounts to be distributed to each Lender

other than the Agent, any amount less than one yen shall be rounded down, and (ii) for amounts to be distributed to a Lender who is also appointed as the Agent shall be the difference between the aggregate of the amounts to be distributed to All Lenders and the aggregate of the amounts distributed to other Lenders.

25.8 Except for the cases under Clause 25.7, all calculations of fractions less than one yen that are required under this Agreement shall be made in the manner the Agent deems appropriate.

25.9 If the Agent receives any notice from the Borrower which is required to be given to each Lender in relation to this Agreement, the Agent shall immediately inform All Lenders of the details of such notice, or if the Agent receives any notice from a Lender which is required to be given to the Borrower or other Lenders, the Agent shall immediately inform the Borrower or All Lenders, as the case may be, of the details of such notice. The Agent shall make any documents, which the Agent has obtained from the Borrower and has kept, available for review by a Lender during the ordinary business hours.

26. RESIGNATION AND DISMISSAL OF THE AGENT

26.1 The resignation of the Agent shall follow the procedures described below:

- (i) The Agent may resign its position as the Agent by giving written notice to All Lenders and the Borrower; provided, however, that such resignation shall not become effective until a successor Agent is appointed and such successor accepts such appointment.
- (ii) If the Agent gives notice pursuant to the preceding item, the Majority Lenders may appoint a successor Agent upon obtaining consent from the Borrower.
- (iii) If a successor Agent is not appointed by the Majority Lenders within thirty (30) days (including the same day of notice) after the notice of resignation is given as described in Item (i) above, or if the entity being appointed by the Majority Lenders as a successor Agent does not accept its assumption of the office of the Agent, the Agent in office at that time shall, upon obtaining consent from the Borrower, appoint a successor Agent on behalf of the Majority Lenders.

26.2 The dismissal of the Agent shall follow the procedures described below:

- (i) The Majority Lenders may dismiss the Agent by giving written notice thereof to each of the other Lenders, the Borrower, and the Agent; provided, however, that such dismissal shall not become effective until a successor Agent is appointed and such successor accepts such appointment.
- (ii) If the Majority Lenders gives notice pursuant to the preceding item, the Majority Lenders may appoint a successor Agent upon obtaining consent from the Borrower.

26.3 If the entity appointed as the successor Agent pursuant to Clause 26.1 or 26.2 accepts the assumption of the office, the former Agent shall deliver to the successor Agent all documents and the materials it has kept as the Agent under this Agreement, and shall give all the support necessary for the successor Agent to perform the duties of the Agent under this Agreement.

26.4 The successor Agent shall succeed to the rights and obligations of the former Agent under this Agreement, and the former Agent shall, at the time of the assumption of office by the successor Agent, be exempted from all of its obligations as the Agent; provided, however, that the provisions of this Agreement relevant to any actions (including omissions) conducted by the former Agent during the period it was in office shall remain in full force and effect.

27. CLARIFICATION OF THE INTENTION OF THE MAJORITY LENDERS

27.1 The clarification of the intention of the Majority Lenders shall follow the procedures described below:

- (i) If a Lender deems that any event which requires the instructions of the Majority Lenders in this Agreement has occurred, such Lender may give notice to the Agent to request the clarification of the intention of the Majority Lenders.
- (ii) The Agent shall, upon receipt of a notice described in the preceding item, immediately give to All Lenders notice to seek the clarification of the intention of the Majority Lenders.
- (iii) Each Lender shall, upon receipt of the notice described in the preceding item, make its decision on the relevant event and inform the Agent of such decision within three (3) Business Days after the receipt.
- (iv) If a decision of the Majority Lenders is made pursuant to the preceding three items, the Agent shall immediately notify the Borrower and All Lenders of such decision as the instruction by the Majority Lenders.

27.2 If the Agent deems that any event which requires the clarification of the intention of the Majority Lenders occurs, other than in the case of Clause 27.1, the Agent may give to All Lenders notice to seek such clarification. In such case, procedures to be taken after giving the notice shall follow the provisions of Items (ii) through (iv) of Clause 27.1.

28. AMENDMENT TO THIS AGREEMENT

This Agreement may be amended in the case agreed upon in writing by the Borrower, the Guarantor, the Majority Lenders, and the Agent. Provided, however, that the agreement in writing by the Borrower, the Guarantor, All Lenders, and the Agent shall be required to amend the following matters which materially affect the right and obligation of the Lender;

- (i) the amendment to and waiver of the precedent condition set forth in Clause 4 and Clause 5.

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- (ii) the addition and expansion of the obligation of the Lender.
 - (iii) the reduction of the amount of the principal and interest of the Individual Loan and other amount paid by the Borrower under this Agreement.
 - (iv) the postponement of the payment date of the principal and interest of the Individual Loan and other obligation of the Borrower under this Agreement.
 - (v) the decrease of the Spread or the Applicable Interest Rate set forth in the Clause 1.
 - (vi) the change of the percentage for determining the Majority Lenders set forth in Clause 1.
 - (vii) the change of the restrictions on collateral set forth in Clause 20
 - (viii) the change of the financial restrictions set forth in Clause 21
 - (ix) the change of the event of default set forth in Clause 22
 - (x) the amendment to Clause 28.
 - (xi) any other material matter that the Agent finds it as diminishing the ability to perform the right or obligation of the Lender, or increasing the obligation of the Lender.

29. ASSIGNMENT OF LOAN RECEIVABLES

29.1 The Lender may assign its Loan Receivables in the event that prior written consent by the Borrower and the Agent (except for the assignment of the Loan Receivables set forth in Clause 24) is obtained and all requirements described in each item below are satisfied. The Borrower and the Agent may not unreasonably refuse to such assignment. The Assignor and the Assignee shall perfect the assignment against the third parties and the obligor regarding the assignment of receivables promptly after the assignment as of the date of the assignment. In this case, the Assignor and Assignee shall, under their joint name, and the Borrower shall, in its sole name, notify the Agent of the fact that such assignment was made without delay. In the case an assignment of the Loan Receivables has occurred pursuant to this Clause 29.1, the Assignee shall be treated as a Lender upon applying each provision in relation to the Loan Receivables under this Agreement.

- (i) The Assignee agrees that the Loan Receivables it has succeeded to will be bound upon by each provision in relation to the Loan Receivables under this Agreement. (The Assignee shall not bear any Lending Obligations.)
- (ii) The Assignee is a company located in Japan (any of the head office, branch office or business office thereof shall be established in Japan and be registered under the Japanese laws), and is either a financial institution

(bank, insurance company or institutional investor etc.) or a special purpose company established for the purpose of securitization of assets (or so called liquidation of assets (*shisan-no-ryudoka*) under the Japanese law).

- (iii) If the assignment is made in divided portions of the Loan Receivables, the value of each Loan Receivables after such division is equal to or more than 1 billion yen.
- (iv) No withholding tax or other taxes arise from the assignment, and there will be no increase in the amount of the Borrower's interest expense payable to the Assignee.

29.2 All expenses incurred from the assignment set forth in Clause 29.1 shall be borne by the Assignor or the Assignee, as the case may be. The provision of Clause 9 shall apply with respect to any Increased Costs incurred after the assignment. The Assignor or the Assignee shall pay to the Agent, by the actual date of such assignment, the amount of 500,000 yen per Assignee, together with applicable consumption tax, as consideration for administrative duties performed in connection with the assignment.

30. COLLECTION FROM THIRD PARTY

- 30.1 No repayment of the Borrower's debt obligations under this Agreement by any party other than the Borrower is allowed, unless it obtains prior written consent from the Agent and All Lenders.
- 30.2 The Borrower shall not, on or after the date of this Agreement, consign any third party to guarantee (including any guarantee by property) the Borrower's performance of its debt obligations under this Agreement, nor shall the Borrower make any third party assume its debt obligations under this Agreement, unless it obtains prior written consent from the Agent and All Lenders.
- 30.3 If a Lender enters into a guarantee without consignment to the Guarantor by the Borrower (including any property guarantee) or a debt assumption with any third party with respect to the Borrower's obligations under this Agreement, the Lender shall have obtained prior written consent of the third party with respect to each item described below. In this case, if the Lender receives any repayment from the third party pursuant to such guarantee or debt assumption, no arrangement among the Lenders pursuant to the assignment of receivables under Clause 24.1 shall be made.
 - (i) The third party shall have the same obligations as a Lender has against the Agent, other Lenders and the Borrower under this Agreement with respect to any exercise of its right for recourse and the contractual rights hereunder arising as a result of the performance of its guarantee obligation.
 - (ii) The third party shall be bound upon by each provision of this Agreement.
 - (iii) The third party is a company located in Japan (any of the head office, branch office, or business office thereof shall be established in Japan and be registered under the Japanese laws), and is a financial institution (bank,

insurance company or institutional investor etc.) or a special purpose company established for the purpose of securitization of assets (or so called liquidation of assets (*shisan-no-ryudoka*) under the Japanese law), and as of September 25, 2003, neither the third party nor the Borrower is the Subsidiary or the Affiliate of either party.

- (iv) The value of the Loan Receivables that the third party obtains by subrogation is equal to or more than 1 billion yen.
- (v) There will be no increase in the amount of the Borrower's interest expense payable to the third party, and no withholding tax or other taxes arise from any such obtainment by subrogation.

In the case of any acquisition of the Loan Receivables by subrogation by the third party pursuant to the provisions of Item (i) above, such acquisition by subrogation shall be considered an assignment of the Loan Receivables pursuant to Clause 29, and the provisions of Clauses 29.2 shall apply.

31. TERMINATION OF THIS AGREEMENT

If the execution and performance of this Agreement and any transactions contemplated under this Agreement become contrary to any Laws and Ordinances applicable to any Lender, the Lender shall consult with the Borrower and all other Lenders through the Agent and take measures to cure the situation. In this case, the Borrower and All Lenders excluding the relevant Lender may not refuse the termination of this Agreement with respect to the relevant Lender without reasonable cause.

32. GENERAL PROVISIONS

32.1 Confidentiality Obligations

The Borrower shall raise no objection to the disclosure of information set forth in each item below:

- (i) If the notice of refusal to make an Individual Loan has been given pursuant to the provisions of Clause 7.1, or if any of the events described in the items of Clause 22.1 or 22.2 have occurred, or if the clarification of the intention of the Majority Lenders has been required pursuant to the provisions of Clause 27, the Agent and a Lender may, by imposing a confidentiality obligation to the receiving party, disclose any information with regard to the Borrower or the transaction with the Borrower, which either party has obtained through this Agreement or an agreement other than this Agreement, to the extent reasonably required.
- (ii) Upon the assignment of the Loan Receivables pursuant to Clause 29, a Lender may disclose any information with regard to this Agreement to the Assignee or a person considering becoming an Assignee (including an intermediary of such assignment), on the condition that those agree to be bound by the confidentiality obligations. The information with regard to

this Agreement in this item shall mean any information regarding the Borrower's credit that has been obtained in connection with this Agreement, any information regarding the contents of this Agreement and other information incidental thereto, and any information regarding the contents of the Loan Receivables to be assigned and other information incidental thereto, and shall not include any information regarding the Borrower's credit that has been obtained in connection with any agreement other than this Agreement.

32.2 Risk Bearing; Exemption, Compensation, and Indemnification

- (i) If any documents furnished by the Borrower to the Agent or each Lender have been lost, destroyed, or damaged for any unavoidable reasons such as incidents or natural disasters, the Borrower shall, upon consultation with the Agent, perform its obligations under this Agreement based on the records, such as books and vouchers, of the Lender or the Agent. The Borrower shall, upon request of the Agent or a Lender through the Agent, forthwith prepare substitute documents and furnish them to the Agent or the Lender through the Agent.
- (ii) If each Lender or the Agent performs transactions after comparing, with due care, the seal impression of the representative and agent of the Borrower to be used for the transactions in relation to this Agreement with the seal impression submitted by the seal submitted by the Borrower in advance, the Borrower shall bear any damages, loss or expenses incurred as a result of an event such as forgery, alteration, or theft of seal.
- (iii) The Borrower shall bear any damages, loss and expenses arising with respect to a Lender or the Agent as a result of the Borrower's breach of this Agreement or as a result of a Lender not performing indemnity pursuant to the provisions of Clause 25.4.

32.3 Severability

Should any provision of this Agreement be held null, illegal, or unenforceable, validity, legality and enforceability of all other provisions shall in no way be prejudiced or affected.

32.4 Exceptions to the Application of the Bank Transactions Agreement

The Agreement on Bank Transactions separately submitted by the Borrower or made and entered into by and between the Borrower and a Lender shall not apply to this Agreement and the transactions contemplated in this Agreement.

32.5 Notices

- (i) Any notice under this Agreement shall be made in writing expressly stating that it is made for the purpose of this Agreement, and given by any of the methods described in (a) to (d) below to the address of the receiving party described in Schedule ONE. Each party to this Agreement may change its address by giving notice thereof to the Agent.
 - (a) Personal delivery;

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- (b) Registered mail or courier service;
 - (c) Transmission by facsimile; or
 - (d) E/X (only for any notice among Lenders and the Agent).
- (ii) The notice pursuant to the preceding item shall be deemed to have been delivered at the time, in the case of transmission by facsimile, when receipt of facsimile is confirmed, and in the case of any other methods, when actually received.

32.6 Changes in Notified Matters

- (i) In the case of changes in the matters of which a Lender or the Borrower notified to the Agent, such as the trade name, representative, agent, signature, seal, or address, the Lender and the Borrower shall immediately notify the Agent of such changes in writing. In the case of any such change to the Agent, or upon such change to any contact information of the Borrower or the Lenders, the Agent shall immediately notify All Lenders and the Borrower of such changes in writing.
- (ii) If notice given under this Agreement is delayed or not delivered as a result of the failure to notify as described in the preceding item, such notice shall be deemed to have arrived at the time when it should have normally arrived.

32.7 Funds Transfer

- (i) Any settlement of funds between the Agent and the Lender shall be made through National Bank Data Communication System (“Zengin System”), and if the Lender desires to make such settlement through Bank of Japan Data Communication System (“Nichigin Net”), the relevant Lender shall consult with the Agent in advance. Provided, however, that if the Lender is not a member of Zengin System, the settlement of funds shall be made with the bank account established at a bank which is a member of Zengin System. In such case, the Lender shall designate the bank which is a member of Zengin System.
- (ii) The party who shall make the transfer the funds, as provided in the preceding item, shall bear any costs in connection therewith.

32.8 Calculation

Unless otherwise expressly provided for with respect to any calculation under this Agreement, all calculation shall be inclusive of first and last day, on a per diem basis assuming that there are 365 days per year, wherein the division shall be done at the end of the calculation, and fractions less than one yen shall be rounded down.

32.9 Preparation of the Notarized Deed

The Borrower shall, at any time upon the request of the Agent or the Majority Lender, take the necessary procedures to entrust a notary public to execute a notarized deed in which the Borrower acknowledges its indebtedness under this Agreement and agrees to compulsory execution with regard thereto.

32.10 Governing Law and Jurisdiction

This Agreement shall be governed by the laws of Japan, and the Tokyo District Court shall have the exclusive jurisdiction over any disputes arising in connection with this Agreement.

32.11 Language

This Agreement shall be prepared in the Japanese language and the Japanese language version shall be deemed the original copy. The Agent shall prepare the English translation of this Agreement, however, the Agent does not warrant the truthfulness and correctness of such translation and is not responsible for the truthfulness and correctness.

32.12 Consultation

Any matters not provided for in this Agreement, or in the case of any doubt among the parties with respect to the interpretation, the Borrower and the Lenders shall consult through the Agent and shall determine the response therefor.

IN WITNESS WHEREOF, the representatives or the agents of the parties hereto have caused this Agreement to be signed and sealed herein, and the Agent has kept the original and has distributed a copy thereof to each of the Borrower, the Guarantor and All Lender upon confirming that such copy is the same content as its original.

September 25, 2003

THE BORROWER:

By: /s/ SHINJI SUZUKI

THE AGENT AND THE LENDER:

By: /s/ HIROSHI SAITO

MIZUHO CORPORATE BANK, LTD.

THE LENDER:

By: /s/ TOMIJIRO MORITA

THE DAI-ICHI MUTUAL LIFE INSURANCE
COMPANY

THE LENDER:

By: /s/ JYUNICHI HAITORI

SHINKIN CENTRAL BANK.

THE LENDER:

By: /s/ SHINOBU SUZUKI

THE BANK OF YOKOHAMA, LTD.

Address of the Parties and the Participation Amount of the LenderPart I - The Borrower

<u>Borrower and department thereof</u>	<u>Address</u>	<u>Telephone Facsimile</u>
FASL JAPAN LIMITED	4-33, Nishi-Shinjuku 4-chome, Shinjuku-ku, Tokyo 160-0023	Tel: 03-5302-2200 Fax: 03-5302-2674

Part II - The Agent

<u>Agent and department thereof</u>	<u>Address</u>	<u>Telephone Facsimile</u>
Mizuho Corporate Bank, Ltd. Syndicated Finance Administration Division	3-3, Marunouchi 1-chome, Chiyoda- ku, Tokyo 100-8210	Tel: 03-5200-7085 Fax: 03-3201-0704

Part III - The Lenders

<u>Lender and department thereof</u>	<u>Address Telephone Facsimile</u>	<u>Detail of Lender's Account</u>	<u>Participation Amount (Yen) Participation Ratio (%)</u>
Mizuho Corporate Bank, Ltd. Uchisaiwaicho Corporate Banking Division	1-5, Uchisaiwaicho 1-chome, Chiyoda-ku, Tokyo 100-0011 Tel: 03-3596-5644 Fax: 03-3596-5691		90 Billion Yen 90/180
The Dai-ichi Mutual Life Insurance Company	13-1, Yurakucho 1-chome, Chiyoda-ku, Tokyo 100-8411 Tel: 03-5221-4049 Fax: 03-5211-4048	Mizuho Corporate Bank, Ltd. Head Office Current deposit (<i>toza yokin</i>) Account Number: [***]* Account Holder: The Dai-ichi Mutual Life Insurance Company	50 Billion Yen 50/180

* Confidential treatment has been requested pursuant to the Confidential Treatment Request dated November 26, 2003.

Shinkin Central Bank.	8-1, Kyobashi 3-chome, Chyuo-ku, Tokyo 104-0031 Tel:03-3563-7505 Fax:03-3563-5437	Shinkin Central Bank. Head Office Others Account Number: [***]* Account Holder: Business Administration & Operations Division	30 Billion Yen 30/180
The Bank of Yokohama, Ltd. Tokyo Branch	8-2, Nihonbashi 2-chome, Chyuo-ku, Tokyo 103-0027 Tel:03-3272-4171 Fax:03-3272-0850	The Bank of Yokohama, Ltd. Tokyo Branch Special deposit (<i>betsudan yokin</i>) Account Number: [***]* Account Holder: FASL JAPAN LIMITED Syndicate Loan	10 Billion Yen 10/180
		Total	180 Billion Yen 100.0%

The Participation Ratio described above is the Participation Ratio at the time of entering into this Agreement, and it may be amended pursuant to the provisions of this Agreement.

* Confidential treatment has been requested pursuant to the Confidential Treatment Request dated November 26, 2003.

Repayment Schedule

<u>The Repayment Date and the Interest Payment Date</u>	<u>The repayment amount of the principal</u>
December 31, 2003	\1,200,000,000
March 31, 2004	\1,200,000,000
June 30, 2004	\1,200,000,000
September 30, 2004	\1,200,000,000
December 31, 2004	\1,200,000,000
March 31, 2005	\1,200,000,000
June 30, 2005	\1,200,000,000
September 30, 2005	\1,200,000,000
December 31, 2005	\1,200,000,000
March 31, 2006	\1,200,000,000
June 30, 2006	\1,200,000,000
September 30, 2006	\1,200,000,000
December 31, 2006	\1,200,000,000
March 31, 2007	\1,200,000,000
June 29, 2007	\1,200,000,000

Spread

(billions of yen)

The Guarantor's rating of long-term obligation by Moody's	The Borrower's non-consolidated net asset value (as of fiscal-end)						
	Less than 65	65 or more - less than 67.5	67.5 or more - less than 70	70 or more - less than 72.5	72.5 or more - less than 75	75 or more - less than 85	85 or more
Aa3 or higher	1.400	0.900	0.800	0.700	0.600	0.525	0.400
A3-A1	1.900	1.150	1.025	0.900	0.775	0.650	0.525
Baa2-Baa1	2.400	1.775	1.550	1.300	1.100	0.900	0.775
Baa3	2.700	2.100	1.800	1.550	1.300	1.025	0.900
Baa3 or lower	3.000	2.400	2.100	1.800	1.450	1.150	1.050

(% as one unit)

1. Spread for the first Interest Period shall be 0.900%, and spread for the second Interest Period and thereafter shall be determined by the Guarantor's rating of long-term obligation by Moody's as of eleven (11) o'clock A.M. on the Second Business Day prior to the commencement date of the relevant Interest Period. Possible figures of spread for the second Interest Period and thereafter are shown in the above chart. Figures for the Borrower's non-consolidated net asset value shown in the above chart shall be the value as of the final day of each fiscal year-end, and the relevant spread will be applied to the next coming Interest Payment Date on June 30 every year. The spread applied to the Loan shall be applied to the whole relevant Interest Period, and will not be changed until the relevant Interest Period is ended.
2. When the Guarantor discontinues obtaining the rating of the long-term obligation (including the case of removal or cancellation of such rating), the applicable spread shall be decided by the consent of the Majority Lenders, the Borrower and the Guarantor upon the consultation among the all parties hereof.
3. If the Guarantor can not ensure to keep the amount of capital described in each of its consolidate balance sheets as of each fiscal year-ends to 75 % or higher over that of the last fiscal year and to not less than 526.7 billion yen (provided that if such amount of capital becomes less than 526.7 billion yen, the Guarantor shall be deemed to be default of this clause even if the amount of capital is 75% or higher over that of the last fiscal year), 0.1% shall be added to the spread shown in the above chart.

Status of Establishment of Collateral (as of September 25, 2003)

Description of Security Interest by Assignment (Mortgage by Transfer)

Locations: 6, 5-4, 5-11, 31-6, Kogyo Danchi, Monden-machi, Aizu-Wakamatsu City

Building No. 1 (JV#1)

Asset No.	Product Name	Drawing No.	Manufacturer	Acquisition Date
E39100001	Ion implantation	E220	Tokyo Electron	199408
E39100002	Ion implantation	E1000	Tokyo Electron	199408
E39100003	Ion implanter	E220	Tokyo Electron	199508
E39100004	Ion implanter	VIISION2 00	Tokyo Electron	199508
E39100005	Ion implantation	E220HP	Tokyo Electron	199602
E39100006	Ion implantation	VIISION 80	Tokyo Electron	199602
E39100007	Ion implantation	E220	Tokyo Electron	199603
E39100008	Ion implantation	VIISION 80	Tokyo Electron	199603
E39100009	Ion implantation	E220	Tokyo Electron	199607
E39100010	Ion implantation	VIISION80	Tokyo Electron	199607
E39100011	Ion implantation	VIISION 80	Tokyo Electron	199703
E39100018	Ion implantation	XR80	Applied Materials	199806
E39600014	UV eraser	VUM-3359-C	Innotech	199708
E39600015	UV eraser	VUM-3359-C	Innotech	199708
E39600016	UV eraser	VUM-3359-C	Innotech	199708
E48100002	Pilot asher	TCA-3822	Tokyo Ohka Kogyo	199408
E48100003	ILD asher	TCA-3822	Tokyo Ohka Kogyo	199408
E48100005	Stacked-gate etch	P-5090E (3CHB)	Applied Materials	199408
E48100006	HF vapor etch	EXCALIBUR1200	M-FSI	199408
E48100007	Asher	RAM-8500	MC Electronics	199409
E48100008	Asher	RAM-8500	MC Electronics	199409
E48100009	Asher	RAM-8500	MC Electronics	199409
E48100010	Polysilicon	P-5020E	Applied Materials	199409
E48100011	Silicon nitride	TE-8400	Tokyo Electron	199409
E48100012	Silicon oxide etch	TE8500	Tokyo Electron	199409
E48100013	Silicon oxide etch	TE8500	Tokyo Electron	199409
E48100016	AL etcher	TCP-9600	Sumitomo Metals	199410
E48100017	AL etcher	TCP-9600	Sumitomo Metals	199410
E48100021	Asher	RAM-8500	MC Electronics	199505
E48100023	Asher	RAM-8500	MC Electronics	199505
E48100025	Asher	RAM-8500	MC Electronics	199509
E48100026	Asher	RAM-8500	MC Electronics	199509
E48100027	Asher	RAM-8500	MC Electronics	199509
E48100028	W-etchback etch	TE8600	Tokyo Electron	199509
E48100030	Stacked-gate etch	P-5090E (3CHB)	Applied Materials	199509
E48100031	Asher	RAM-8500	MC Electronics	199509
E48100035	AL etcher	TCP-9600	Lam Research	199512
E48100036	ILD asher	TCA-3822	Tokyo Ohka Kogyo	199603
E48100037	Silicon nitride etch	TE-8400	Tokyo Electron	199604
E48100038	Silicon nitride etch	TE-8400	Tokyo Electron	199604
E48100039	Silicon nitride etch	TE-8400	Tokyo Electron	199604
E48100040	W-etchback etch	TE-8600	Tokyo Electron	199604
E48100042	Asher	RAM-8500	MC Electronics	199605
E48100043	Asher	RAM-8500	MC Electronics	199605

E48100044	Asher	RAM-8500	MC Electronics	199605
E48100045	Asher	RAM-8500	MC Electronics	199605
E48100046	Polysilicon etcher	P-5090E (3CHB)	Applied Materials	199605
E48100047	Polysilicon etcher	P-5090E (3CHB)	Applied Materials	199605
E48100048	Asher	RAM-8500	MC Electronics	199606
E48100049	Asher	RAM-8500	MC Electronics	199606
E48100050	Asher	RAM-8500	MC Electronics	199606
E48100051	Silicon nitride etch	TE-8400	Tokyo Electron	199606
E48100052	Silicon nitride etch	TE-8400	Tokyo Electron	199606
E48100053	Asher	RAM-8500	MC Electronics	199606
E48100055	Asher	RAM-8500	MC Electronics	199606
E48100056	Asher	RAM-8500	MC Electronics	199606
E48100057	Asher	RAM-8500	MC Electronics	199606
E48100058	Asher	RAM-8500	MC Electronics	199606
E48100059	Silicon oxide etcher	UNITY85DATC (2CH+1)	Tokyo Electron	199606
E48100060	Silicon oxide etcher	UNITY85DATC (2CH+1)	Tokyo Electron	199606
E48100061	Silicon oxide etcher	UNITY85DATC (2CH+1)	Tokyo Electron	199606
E48100062	Silicon oxide etcher	UNITY85D (2CH)	Tokyo Electron	199606
E48100063	Silicon oxide etcher	UNITY85D (2CH)	Tokyo Electron	199606
E48100064	Silicon oxide etcher	UNITY85D (2CH)	Tokyo Electron	199606
E48100065	Asher	RAM-8500	MC Electronics	199606
E48100066	Silicon oxide etcher	UNITY85D (2CH)	Tokyo Electron	199607
E48100067	Polysilicon etcher	P-5090E (3CHB)	Applied Materials	199607
E48100068	Polysilicon etcher	P-5090E (3CHB)	Applied Materials	199607
E48100069	AL etcher	TCP-9600	Lam Research	199609
E48100070	AL etcher	TCP-9600	Lam Research	199609
E48100071	AL etcher	TCP-9600	Lam Research	199609
E48100072	AL etcher	TCP-9600	Lam Research	199609
E48100073	AL etcher	TCP-9600	Lam Research	199703
E48100075	Poly etcher	TCP-9400	Lam Research	199703
E48100076	Asher	RAM-8500	MC Electronics	199703
E48100077	Asher	RAM-8500	MC Electronics	199704
E48100078	Silicon oxide etcher	UNITY85DATC (2CH+1)	Tokyo Electron	199705
E48100107	Etcher	CENTURA 5200 ETCH DPS	Applied Materials	199807
E48200001	Wet station	WS-810	Dainippon Screen	199408
E48200002	Wet station	WS-840	Dainippon Screen	199408
E48200003	Wet station	WS-822	Dainippon Screen	199408
E48200004	Wet station	WS-823	Dainippon Screen	199408
E48200005	Wet station	WS-851	Dainippon Screen	199408
E48200006	Wet station	WS-853	Dainippon Screen	199408
E48200007	Wet station	WS-854	Dainippon Screen	199408
E48200008	Wet station	WS-880	Dainippon Screen	199408
E48200009	Isotropic etch	WS-860	Dainippon Screen	199408
E48200010	Wet station	WS-821	Dainippon Screen	199508
E48200011	Wet station	WS-852	Dainippon Screen	199508
E48200012	Wet station	WS-825	Dainippon Screen	199603
E48200013	Wet station	WS-827	Dainippon Screen	199603
E48200014	Wet station	WS-852	Dainippon Screen	199603
E48200015	Wet station	WS-851	Dainippon Screen	199603
E48200016	Wet station	WS-852	Dainippon Screen	199603
E48200017	Wet cleaner	MERCURY	M-FSI	199603
E48200018	Wet cleaner	MERCURY	M-FSI	199603
E48200019	Wet station	WS-825	Dainippon Screen	199604
E48200020	Wet station	WS-826	Dainippon Screen	199604

E48200021	Wet station	WS-852	Dainippon Screen	199604
E48200022	Wet etch system	FWET	Dainippon Screen	199605
E48200023	Wet station	WS-840	Dainippon Screen	199704
E48200040	Mercury for CM	MERCURY	M-FSI	199806
E48200041	Mercury for II	MERCURY WITH ROBOT	M-FSI	199806
E48300003	Plasma CVD system	P-5000 (3CHB)	Applied Materials	199408
E48300004	Plasma CVD system	CONCEPTONE-W	Seki Technotron	199408
E48300005	Plasma CVD system	P-5000 (2CHB)	Applied Materials	199408
E48300008	Plasma CVD system	P-5000 (3CHB)	Applied Materials	199505
E48300009	Vertical CVD furnace	Alpha-808SC	Tokyo Electron	199505
E48300011	Plasma CVD system	P-5000 (2CHB)	Applied Materials	199510
E48300012	Plasma CVD system	P-5000 (3CHB)	Applied Materials	199510
E48300013	BPSG deposition system	APT-5800	CANON	199602
E48300014	Plasma CVD system	P-5000 (3CHB)	Applied Materials	199603
E48300015	Plasma CVD system	P-5000 (3CHB)	Applied Materials	199603
E48300016	WSi deposition system	MB2-730	Tokyo Electron	199603
E48300017	Plasma CVD system	P-5000 (3CHB)	Applied Materials	199603
E48300018	BPSG deposition system	APT-5800	CANON	199603
E48300019	Plasma CVD system	CONCEPT ONE	Seki Technotron	199603
E48300020	BPSG deposition system	APT-5800	CANON	199604
E48300021	Plasma CVD system	P-5000 (3CHB)	Applied Materials	199605
E48300022	Plasma CVD system	P-5000 (3CHB)	Applied Materials	199605
E48300023	Plasma CVD system	CONCEPT ONE-W	Seki Technotron	199607
E48300024	BPSG deposition system	APT-5800 BPSG	CANON	199610
E48300025	Plasma CVD system	P-5000 (3CHB)	Applied Materials	199703
E49100001	Wet strip	WSST	Tokyo Electron	199408
E49100004	Wet strip	WSST	Tokyo Electron	199505
E49100006	Wet strip	WSST (2CHB)	Tokyo Electron	199511
E49100007	Spray solvent tool	DUAL CHAMBER	Tokyo Electron	199603
E49100008	Spray solvent tool	DUAL CHAMBER	Tokyo Electron	199603
E49200001	Spin scrubber	SSW-80A-AR (2 lanes)	Dainippon Screen	199408
E49200002	Spin scrubber	SSW 80A AVR (2 lanes)	Dainippon Screen	199408
E49200003	Spin scrubber	SSW-80A-AR (2 lanes)	Dainippon Screen	199504
E49200004	SOS coater	SC-W80A-AVG (BLQ)	Dainippon Screen	199511
E49200005	Spin scrubber	SSW-80A-AVR	Dainippon Screen	199603
E49200006	Spin scrubber	SSW-80A-AVR	Dainippon Screen	199603
E49200007	Spin scrubber	SSW-80A-AVR	Dainippon Screen	199603
E49200008	Spin scrubber	SSW-80A-AVR	Dainippon Screen	199603
E49200009	Spin scrubber	SSW-80A-AVR	Dainippon Screen	199603
E49200011	Coater / developer	CLEANTRACK-MK8	Tokyo Electron	199703
E49200012	Coater / developer	CLEANTRACK-MK8	Tokyo Electron	199703
E49200013	Coater / developer	CLEANTRACK-MK8	Tokyo Electron	199706
E49200014	Coater / developer	CLEANTRACK-MK8	Tokyo Electron	199706
E49200015	Coater / developer	CLEANTRACK-MK8	Tokyo Electron	199706
E50100002	Polisher	AVANTI472	Tokyo Electron	199512
E50100003	Cleaner	MERCURY MP	M-FSI	199512
E50100008	Polisher	AVANTI 472	Tokyo Electron	199603
E50100009	Polisher	AVANTI472	Tokyo Electron	199708
E50100013	CMP	STRB-6DS	SC Semicon Technology	199806
E51100002	Sputtering system	ENDURA HP	Applied Materials	199408
E51100003	Sputtering system	ENDURA HP	Applied Materials	199408
E51100005	Sputtering system	ENDURA5500 HP	Applied Materials	199507
E51100006	Back-grinder	DFG-840	Disco	199603
E51100007	Sputtering system	ENDURA-5500-HP	Applied Materials	199604

E51100008	Sputtering system	ENDURA-5500-HP	Applied Materials	199604
E51100009	Sputtering system	ENDURA 5500 HP	Applied Materials	199605
E51100010	Sputtering system	ENDURA 5500 HP	Applied Materials	199605
E51100012	Back-grinder	DFG-840	Disco	199801
E52100001	SOG system	CLEANTRACK-MK8	Tokyo Electron	199408
E52100002	Coater / developer	CLEANTRACK-MK8	Tokyo Electron	199408
E52100003	Coater / developer	CLEANTRACK-MK8	Tokyo Electron	199408
E52100004	Coater / developer	CLEANTRACK-MK8	Tokyo Electron	199408
E52100005	Coater / developer	CLEANTRACK-MK8	Tokyo Electron	199408
E52100006	Coater / developer	CLEANTRACK-MK8	Tokyo Electron	199408
E52100007	Quick rework	CLEANTRACK-MK7	Tokyo Electron	199408
E52100009	Coater / developer	CLEANTRACK-MK8	Tokyo Electron	199504
E52100012	Coater / developer	CLEANTRACK-MK8	Tokyo Electron	199507
E52100013	Coater / developer	CLEANTRACK-MK8	Tokyo Electron	199508
E52100016	Coater / developer	CLEANTRACK-MK8	Tokyo Electron	199508
E52100017	SOG system	CLEANTRACK-MK8	Tokyo Electron	199509
E52100018	Coater / developer	CLEANTRACK-MK8	Tokyo Electron	199509
E52100019	Coater / developer	CLEANTRACK-MK8	Tokyo Electron	199510
E52100020	Coater / developer	CLEANTRACK-MK8	Tokyo Electron	199511
E52100021	Coater / developer	CLEANTRACK-MK8	Tokyo Electron	199511
E52100022	Coater / developer	CLEANTRACK-MK8	Tokyo Electron	199512
E52100023	Coater / developer	CLEANTRACK-MK8 AO	Tokyo Electron	199602
E52100024	SOG system	CLEANTRACK-MK8	Tokyo Electron	199603
E52100025	Coater / developer	CLEANTRACK-MK8	Tokyo Electron	199603
E52100026	Coater / developer	CLEANTRACK-MK8	Tokyo Electron	199604
E52100027	Coater / developer	CLEANTRACK-MK8	Tokyo Electron	199604
E52100028	Coater / developer	CLEANTRACK-MK8	Tokyo Electron	199604
E52100029	Coater / developer	CLEANTRACK-MK8	Tokyo Electron	199604
E52100030	Coater / developer	CLEANTRACK-MK8	Tokyo Electron	199604
E52100031	Coater / developer	CLEANTRACK-MK8	Tokyo Electron	199604
E52100032	Coater / developer	CLEANTRACK-MK8	Tokyo Electron	199604
E52100033	Coater / developer	CLEANTRACK-MK8	Tokyo Electron	199604
E52100034	Coater / developer	CLEANTRACKMARK-8	Tokyo Electron	199605
E52100035	Coater / developer	CLEANTRACKMARK-8	Tokyo Electron	199605
E52100036	Coater / developer	CLEANTRACKMARK-8	Tokyo Electron	199605
E52100037	Coater / developer	CLEANTRACKMARK-8	Tokyo Electron	199605
E52100038	Coater / developer	CLEANTRACKMARK-8	Tokyo Electron	199605
E52100039	Coater / developer	CLEANTRACKMARK-8	Tokyo Electron	199605
E52100040	SOG system	CLEANTRACK-MK8 Beta	Tokyo Electron	199607
E52100041	Coater / developer	CLEANTRACK-MK8	Tokyo Electron	199607
E52100042	Coater / developer	CLEANTRACK-MK8	Tokyo Electron	199705
E52100048	Coater / developer	CLEANTRACK-MK8 (TARC)	Tokyo Electron	199806
E52100049	Coater / developer	CLEANTRACK-MK8 (TARC)	Tokyo Electron	199806
E60100011	Process gas monitor	RGA	Innotech	199508
E60100016	Process gas monitor	RGA	Innotech	199605
E60100017	Process gas monitor	RGA	Innotech	199605
E60100018	Process gas monitor	RGA	Innotech	199605
E60100019	Process gas monitor	RGA	Innotech	199605
E60100020	Process gas monitor	RGA	Innotech	199610
E62100001	Vertical diffusion	Alpha-808SD	Tokyo Electron	199408
E62100002	Vertical diffusion	Alpha-808SD	Tokyo Electron	199408
E62100003	Vertical diffusion	Alpha-808SD	Tokyo Electron	199408
E62100004	Vertical diffusion	Alpha-808SD	Tokyo Electron	199408
E62100005	Vertical diffusion	Alpha-808SD	Tokyo Electron	199408

E62100006	Vertical diffusion	Alpha-808SD	Tokyo Electron	199408
E62100007	Vertical diffusion	Alpha-808SD	Tokyo Electron	199408
E62100008	Vertical diffusion	Alpha-808SD	Tokyo Electron	199408
E62100009	Vertical diffusion	Alpha-808SD	Tokyo Electron	199408
E62100010	Vertical furnace	Alpha-808D	Tokyo Electron	199408
E62100012	Vertical CVD furnace	Alpha-808SC	Tokyo Electron	199408
E62100013	Vertical CVD furnace	Alpha-808SC	Tokyo Electron	199408
E62100014	Vertical CVD furnace	Alpha-808SC	Tokyo Electron	199408
E62100015	Vertical CVD furnace	Alpha-808SC	Tokyo Electron	199408
E62100017	Vertical diffusion	Alpha-808SD	Tokyo Electron	199505
E62100018	Vertical diffusion	Alpha-808SD	Tokyo Electron	199509
E62100019	Vertical diffusion	Alpha-808SD	Tokyo Electron	199509
E62100020	Vertical diffusion	Alpha-808SD	Tokyo Electron	199509
E62100021	Vertical CVD furnace	Alpha-808SC	Tokyo Electron	199509
E62100022	Vertical CVD furnace	Alpha-808SC	Tokyo Electron	199509
E62100025	Vertical diffusion	Alpha-808SD	Tokyo Electron	199509
E62100026	Vertical CVD furnace	Alpha-808SC	Tokyo Electron	199509
E62100027	Vertical CVD furnace	Alpha-808SD (DCEOX)	Tokyo Electron	199512
E62100028	Furnace	Alpha-808SD (SOS Cure)	Tokyo Electron	199512
E62100029	Vertical diffusion furnace	Alpha-808SD	Tokyo Electron	199603
E62100030	Vertical diffusion furnace	Alpha-808SD	Tokyo Electron	199603
E62100031	Vertical diffusion furnace	Alpha-808SD	Tokyo Electron	199603
E62100032	Vertical diffusion furnace	Alpha-808SD	Tokyo Electron	199603
E62100033	Vertical diffusion furnace	Alpha-808SD	Tokyo Electron	199603
E62100034	Vertical diffusion furnace	Alpha-808SD	Tokyo Electron	199603
E62100035	Vertical diffusion furnace	Alpha-808SD	Tokyo Electron	199603
E62100036	Vertical CVD furnace	Alpha-808SD	Tokyo Electron	199603
E62100037	Vertical CVD furnace	Alpha-808SC	Tokyo Electron	199603
E62100038	Vertical CVD furnace	Alpha-808SC	Tokyo Electron	199603
E62100039	Vertical CVD furnace	Alpha-808SC	Tokyo Electron	199603
E62100040	Vertical CVD furnace	Alpha-808SC	Tokyo Electron	199603
E62100041	Vertical CVD furnace	Alpha-808SC	Tokyo Electron	199603
E62100043	Vertical furnace	Alpha-808D	Tokyo Electron	199603
E62100044	Vertical CVD furnace	Alpha-808SC	Tokyo Electron	199603
E62100045	Vertical CVD furnace	Alpha-808SC	Tokyo Electron	199603
E62100046	Vertical diffusion furnace	Alpha-808SD	Tokyo Electron	199604
E62100047	Vertical diffusion furnace	Alpha-808SD	Tokyo Electron	199604
E62100048	Vertical diffusion furnace	Alpha-808SD	Tokyo Electron	199604
E62100049	Vertical diffusion furnace	Alpha-808SD	Tokyo Electron	199604
E62100050	Vertical diffusion furnace	Alpha-808SD	Tokyo Electron	199604
E62100051	Vertical diffusion furnace	Alpha-808SD	Tokyo Electron	199604
E62100052	Vertical diffusion furnace	Alpha-808SD	Tokyo Electron	199604
E62100053	Vertical diffusion furnace	Alpha-808SD	Tokyo Electron	199604
E62100054	Vertical diffusion furnace	Alpha-808SD	Tokyo Electron	199604
E62100055	Vertical CVD furnace	Alpha-808SC	Tokyo Electron	199604
E62100056	Vertical CVD furnace	Alpha-808SC	Tokyo Electron	199604
E62100057	Vertical CVD furnace	Alpha-808SC	Tokyo Electron	199604
E62100058	Vertical CVD furnace	Alpha-808SC	Tokyo Electron	199604
E62100059	Vertical CVD furnace	Alpha-808SC	Tokyo Electron	199604
E62100060	Vertical diffusion furnace	Alpha-808SD	Tokyo Electron	199604
E62100063	Vertical diffusion furnace	Alpha-808SD (IOX/WL)	Tokyo Electron	199703
E62100064	Vertical diffusion furnace	Alpha-808SD (TNOX/GOX)	Tokyo Electron	199703
E62100065	Vertical CVD furnace	Alpha-808SC (HTO)	Tokyo Electron	199703
E62100066	Vertical CVD furnace	Alpha-808SC (DASI)	Tokyo Electron	199703

E62100067	Vertical diffusion furnace	Alpha-808SD IOX/WL	Tokyo Electron	199705
E62100068	Vertical diffusion furnace	Alpha-808SD IOX/WL	Tokyo Electron	199705
E62100069	Vertical diffusion furnace	Alpha-808SD WOX	Tokyo Electron	199705
E62100101	Vertical CVD furnace	Alpha-808SC	Tokyo Electron	199806
E62100102	Vertical CVD furnace	Alpha-808SC	Tokyo Electron	199806
E62100103	Vertical CVD furnace	Alpha-808SC	Tokyo Electron	199806
E62100104	SOS cure furnace	Alpha-808SD	Tokyo Electron	199806
E62400001	RTA	LA-W815-AV2.5	Dainippon Screen	199408
E62400003	RTA	LA-820	Dainippon Screen	199603
E62400004	RTA	LA-820	Dainippon Screen	199603
E62500001	UV cure	M200PCU	Tokyo Electron	199408
E62500002	UV cure	M200PCU	Tokyo Electron	199603
E63100003	Rinser drier	ST-880S	Tokyo Electron	199408
E63100004	Spin rinser drier	ST-880S	Tokyo Electron	199511
E67100001	Stepper	FPA-2500I3	Canon Sales	199408
E67100002	Stepper	FPA-2500I3	Canon Sales	199408
E67100003	Stepper	FPA-2500I3	Canon Sales	199408
E67100004	Stepper	FPA-2500I3	Canon Sales	199408
E67100005	Stepper	FPA-2500I3	Canon Sales	199408
E67100009	Stepper	M2241I	Innotech	199507
E67100010	Stepper	FPA-2500I3	CANON	199508
E67100011	Stepper	FPA-2500I3	CANON	199508
E67100015	Stepper	FPA-2500I3	CANON	199509
E67100016	Stepper	FPA-2500I3	CANON	199509
E67100017	Stepper	FPA-2500I3	CANON	199510
E67100019	Stepper	FPA-3000I4	CANON	199601
E67100020	Stepper	FPA-3000I4	CANON	199602
E67100021	Stepper	FPA-3000IW	CANON	199603
E67100022	Stepper	FPA-3000IW	CANON	199603
E67100023	Stepper	FPA-3000IW	CANON	199604
E67100024	Stepper	FPA-3000IW	CANON	199604
E67100025	Stepper	FPA-3000IW	CANON	199604
E67100026	Stepper	FPA-3000IW	CANON	199604
E67100027	Stepper	FPA-3000I4	CANON	199604
E67100028	Stepper	FPA-3000I4	CANON	199604
E67100029	Stepper	FPA-3000I4	CANON	199604
E67100030	Stepper	FPA-3000I4	CANON	199604
E67100031	Stepper	FPA-3000I4	CANON	199604
E67100032	Stepper	FPA-3000I4	CANON	199604
E67100033	Stepper	FPA-3000I4	CANON	199604
E67100034	Stepper	FPA-3000I4	CANON	199606
E67100035	Stepper	FPA-3000I4	CANON	199607
E67100036	Stepper	FPA-3000I4	CANON	199607
E67100037	Stepper	FPA-3000I5	CANON	199703
E67100038	Stepper	FPA-3000I5	CANON	199703
E67100039	Stepper	FPA-3000I5	CANON	199705
E67100040	Stepper	FPA-3000I5	CANON	199706
E67100041	Stepper	FPA-3000I5	CANON	199706
E67100042	Stepper	FPA-3000I5	CANON	199709
E67100054	Stepper	FPA-3000I5	CANON	199806
E67100055	Stepper	FPA-3000I5	CANON	199806
E70100001	Tape laminator	DR-8500	Chiyoda Denshi	199408
E70100002	Tape remover	HR-8500	Chiyoda Denshi	199408
F18200007	Particle	SFS-6400	Tokyo Electron	199408

F18200008	Particle	SFS-6400	Tokyo Electron	199408
F18200010	Analysis station	KLA-2551X	Tokyo Electron	199408
F18200011	Review station	KLA-2608	Tokyo Electron	199408
F18200023	Film thickness	FT-530/E	Sumisho Electronics	199408
F18200024	X-ray fluorescence	SYSTEM-3630	Rigaku	199408
F18200025	Stress	FLX-2328	Innotech	199408
F18200027	Film thickness	P2	Tokyo Electron	199408
F18200029	Dose monitor	TP-400XP	Hakuto	199408
F18200031	Microscope	IM-15	Daito Shoji (now Daito Electron)	199408
F18200032	Microscope	IM-15	Daito Shoji (now Daito Electron)	199408
F18200036	Film thickness	P2	Tokyo Electron	199408
F18200068	Film thickness	FT-700	Sumisho Electronics	199504
F18200069	Film thickness	FE-IV	Tokyo Electron	199505
F18200070	Microscope	1M-15	Daito Shoji (now Daito Electron)	199505
F18200071	Microscope	1M-15	Daito Shoji (now Daito Electron)	199505
F18200083	Analysis station	KLA-2552	KLA	199507
F18200084	Inspection system	KLA-2131	KLA	199507
F18200100	Tilt SEM	JWS-7500E	JEOL	199511
F18200102	Reflectance measurement	FT-750	Tencor	199511
F18200103	Surfscan	SFS6420	Tencor	199511
F18200104	Microscope	BIN (Camera)	Fujitsu Tohoku Electronics	199511
F18200112	Film thickness	FE4	Tokyo Electron	199602
F18200113	Film thickness	FT-750	Tencor	199602
F18200114	Resistivity mapping	OMNI MAP 55	Tencor	199602
F18200115	Microscope	IM-15	Daito Shoji (now Daito Electron)	199602
F18200116	Microscope	IM-15	Daito Shoji (now Daito Electron)	199602
F18200117	Microscope	IM-15	Daito Shoji (now Daito Electron)	199602
F18200118	Microscope	IM-15	Daito Shoji (now Daito Electron)	199602
F18200119	Microscope	IM-15	Daito Shoji (now Daito Electron)	199602
F18200120	Microscope	IM-15	Daito Shoji (now Daito Electron)	199602
F18200121	SEM	S-8820	Nissei Sangyo (now Hitachi High-Technologies)	199602
F18200123	SEM	S-8820	Nissei Sangyo (now Hitachi High-Technologies)	199602
F18200124	Reflectance measurement	FT-750	Tencor	199602
F18200127	Particle counter	SFS-7700	Tencor	199602
F18200128	Wafer inspection	KLA-2132	Tokyo Electron	199602
F18200129	UV transmissivity	UV1050	Tencor	199602
F18200130	Review station	INS2000	Dainippon Screen	199602
F18200136	Wafer inspection	KLA-2112	Tokyo Electron	199603
F18200137	Wafer inspection	KLA-2112	Tokyo Electron	199603
F18200138	Analysis station	KLA-2552	Tokyo Electron	199603
F18200158	Film thickness	FE7	Tokyo Electron	199606
F18200161	Overlay measurement	KLA-5100	Tokyo Electron	199607
F18200243	Wafer inspection	KLA-2115	KLA	199711
F20200001	Microscope (camera)	CHIVI (BIN)	Fujitsu Tohoku Electronics	199408
F20200002	Microscope	CHIVI (BIN)	Fujitsu Tohoku Electronics	199408
F20200003	Microscope (camera)	CHIVI (BIN)	Fujitsu Tohoku Electronics	199408
F20200004	Microscope (camera)	CHIVI (BIN)	Fujitsu Tohoku Electronics	199408
F20200005	Microscope (camera)	CHIVI (BIN)	Fujitsu Tohoku Electronics	199408
F20200006	Microscope (camera)	CHIVI (BIN)	Fujitsu Tohoku Electronics	199408
F20200010	Microscope	CHIVI (BIN)	Fujitsu Tohoku Electronics	199408
F20200016	Microscope (camera)	CHIVI (BIN)	Fujitsu Tohoku Electronics	199602
F20200018	Microscope (camera)	CHIVI (BIN)	Fujitsu Tohoku Electronics	199602
F20200019	Microscope (camera)	CHIVI (BIN)	Fujitsu Tohoku Electronics	199602
F20200020	Microscope (camera)	CHIVI (BIN)	Fujitsu Tohoku Electronics	199602

F20200021	Microscope (camera)	CHIVI (BIN)	Fujitsu Tohoku Electronics	199602
F20400002	Fully automatic exposure system	PM-PB20	Ryokosha	199408
F20500001	Analytical balance	MODEL AB-300	AMD	199602
F60100001	Diode array spectrophotometer	HP8452A	Nishikawa Keisoku	199411
H16600001	Sheet resistance	M-GAGE300	Tokyo Electron	199408
J00000147	Vertical diffusion furnace	ALPHA-8/SD	Tokyo Electron	199910
J00000156	Dry etcher	TE8401	Tokyo Electron	200003
J00000157	Dry etcher	TE8401	Tokyo Electron	200004
J00000198	Plasma CVD system	P-5000 (SiN)	Applied Materials	199912
J00000239	WSi CVD system	MB2-730 (DCS)	Fujitsu, Mie Plant	200002
J00000523	Vertical diffuser	DD-823V-8BL	Kokusai Electric	200004
J00000524	Vertical diffuser	DD-823V-8BL	Kokusai Electric	200004
J00000613	Dry etcher	CENTURA-5200	Applied Materials	200007
J00000622	Lamp anneal	LA-W820	Dainippon Screen	200007
J00001122	Vertical Diffusion Furnace	ALPHA-8SE-ZA (Hi Temp)	Tokyo Electron	200103
J00001209	CVD machine	CONCEPT TWO	Novellus Systems Japan	200110
J00001371	Sputtering system	ENDURA-CVD	Fujitsu Microelectronics	200208
J00001372	Sputtering system	ENDURA-CVD	Fujitsu Microelectronics	200212
J00001375	Plasma CVD system	P-5000 (ARC)	Fujitsu Microelectronics	200208
J00001377	Vertical diffusion furnace	a-8SED (GOX)	Fujitsu Microelectronics	200209
J00001381	Coater / developer	ACT8 CAR	Fujitsu Microelectronics	200211
J00001382	Sputtering system	ENDURA-CVD	Fujitsu Microelectronics	200208
J00001383	Plasma CVD system	MB2-730 (DCS)	Fujitsu Microelectronics	200209
J00001386	Poly etch	CENTURA-MXP	Fujitsu Microelectronics	200210
J00001387	Etcher	UNITY85-DI	Fujitsu Microelectronics	200210
J00001388	Etcher	UNITY85-DI	Fujitsu Microelectronics	200210
J00001389	Plasma CVD system	P-5000SA (BPSG)	Fujitsu Microelectronics	200212
J00001411	Vertical diffusion furnace	a-8SED (GOX)	Fujitsu Microelectronics	200209
J00001414	Stepper	FPA-3000EX6	Fujitsu Microelectronics	200211
J00001811	Dry etcher	TE8401	Tokyo Electron	200209
J00001812	Dry etcher	TE8401	Tokyo Electron	200209
K00000460	Patterned wafer inspection system	IS2510	Hitachi Electronics Engineering	199906
K00000461	Non-contact-type sheet resistance meter	NC110	KLA Tencor	199905
K00000817	Particle inspection	IS1600	Hitachi Electronics Engineering	200006
K00002122	SEM	S9220 (Etch)	Fujitsu Microelectronics	200209
K00002123	Microscope	Chivi-7	Fujitsu Microelectronics	200206
K00002125	Film thickness	UV-1080	Fujitsu Microelectronics	200208
K00002126	Overlay measurement	KLA-5200XP	Fujitsu Microelectronics	200208
K00002128	Film thickness	FE-7	Fujitsu Microelectronics	200211
K00002129	Overlay measurement	KLA 5200	Fujitsu Microelectronics	200210
K00002131	SEM	S9200 (Etch)	Fujitsu Microelectronics	200303
K00002132	SEM	S9200 (Photo)	Fujitsu Microelectronics	200207
K00002135	Film thickness	UV-1280SE	Fujitsu Microelectronics	200208
K00002137	Stress measurement	FLX-5410	Fujitsu Microelectronics	200302
K00002138	Resistivity mapping	OMNI RS-75/tc	Fujitsu Microelectronics	200303
K00002190	Particle	SFS6420	Fujitsu Microelectronics	200211
K00002191	Wafer inspection	KLA 2139	Fujitsu Microelectronics	200303

Description of Real Estate Security Interest (Mortgage Collateral)

1. Descriptions of Buildings

Location: 6, 5-4, 5-11, 31-6, Kogyo Danchi, Monden-machi, Aizu-Wakamatsu City
Building no.: No. 6
Main building
Type: Factory
Construction: Building with reinforced concrete and steel-frame construction, galvanized sheet iron flat roof, 4 floors and basement
Floor areas:
1st floor 23848.72 m²
2nd floor 23326.16 m²
3rd floor 2601.05 m²
4th floor 4472.75 m²
Basement 887.27 m²

Attached building: No. 1
Type: Janitor's room
Construction: Building with steel-frame construction, flat roof, 1 floor
Floor area: 48.75 m²

Attached building: No. 2
Type: Garage
Construction: Building with steel-frame construction, galvanized sheet iron roof, 1 floor
Floor area: 59.63 m²

Attached building: No. 3
Type: Storage warehouse
Construction: Building with steel-frame construction, galvanized sheet iron roof, 1 floor
Floor area: 54.24 m²

Attached building: No. 4
Type: Business offices
Construction: Building with reinforced concrete and steel-frame construction, flat roof, 4 floors
Floor areas: 1st floor 385.94 m²
2nd floor 1281.00 m²
3rd floor 1281.00 m²
4th floor 1333.52 m²

Location: 5-1, 4, Kogyo Danchi, Monden-machi, Aizu-Wakamatsu City
Building no.: 5-1
Type: Drainage purification room
Construction: Building with steel-frame construction, galvanized sheet iron flat roof, 3 floors
Floor areas: 1st floor 2904.00 m²
2nd floor 1270.09 m²
3rd floor 54.75 m²

Location: 4, Kogyo Danchi, Monden-machi, Aizu-Wakamatsu City
Building no.: 4-2
Type: Electric generator room, business offices
Construction: Building with steel-frame construction, galvanized sheet iron roof, 5 floors
Floor areas: 1st floor 877.92 m²
2nd floor 109.80 m²
3rd floor 877.50 m²
4th floor 865.62 m²
5th floor 865.62 m²

2. Descriptions of Buildings

Location:	1-11, Higashi-Takaku, Takaku-aza, Kozashi-machi Oaza, Aizu-Wakamatsu City	
Building no.:	1-11	
Main building		
Type:	Factory	
Construction:	Building with reinforced concrete and steel-frame construction, galvanized sheet iron roof, 4 floors	
Floor areas:	1 st floor	12562.17 m ²
	2 nd floor	1940.94 m ²
	3 rd floor	4879.27 m ²
	4 th floor	4944.77 m ²
Attached building:	No. 1	
Type:	Factory	
Construction:	Building with reinforced concrete and steel-frame construction, galvanized sheet iron roof, 4 floors and basement	
Floor areas:	1 st floor	34265.00 m ²
	2 nd floor	4062.00 m ²
	3 rd floor	17050.00 m ²
	4 th floor	836.67 m ²
	Basement	2082.55 m ²
Attached building:	No. 2	
Type:	Electric generator room	
Construction:	Building with steel-frame construction, flat roof, 1 floor	
Floor area:	2340.00 m ²	
Attached building:	No. 3	
Type:	Storeroom	
Construction:	Building with concrete block construction, galvanized sheet iron roof, 1 floor	
Floor area:	25.22 m ²	

Attached building:	No. 4
Type:	Storage warehouse
Construction:	Building with steel-frame construction, galvanized sheet iron roof, 1 floor
Floor area:	80.04 m ²
Attached building:	No. 5
Type:	Warehouse
Construction:	Building with concrete block construction, galvanized sheet iron roof, 1 floor
Floor area:	47.77 m ²
Attached building:	No. 6
Type:	Guard's room
Construction:	Building with steel-frame construction, flat roof, 1 floor
Floor area:	72.00 m ²
Attached building:	No. 7
Type:	Garage
Construction:	Building with steel-frame construction, flat roof, 1 floor
Floor area:	78.23 m ²

Guarantee

(Translation)

This translation is prepared for reference purpose only. If there is a conflict between in any of the provision provided in this translation and that of the Japanese original, the Japanese original shall prevail.

GUARANTEE

September 25, 2003

MIZUHO CORPORATE BANK, LTD.
THE DAI-ICHI MUTUAL INSURANCE COMPANY
SHINKIN CENTRAL BANK.
THE BANK OF YOKOHAMA, LTD

as Lender

MIZUHO CORPORATE BANK, LTD.

as Agent

Address:
Guarantor: Fujitsu Ltd.

The Guarantor hereby undertakes the obligations set forth herein in connection with the Loan Agreement of JPY 18,000,000,000 in aggregate (the "Agreement") dated September 25, 2003, by and among FASL Japan Limited as the Borrower, [Name] as the Lender, and Mizuho Corporate Bank, Ltd. as the Agent. The capitalized terms used herein shall have the meaning set forth in the Agreement unless otherwise defined in this Guarantee.

1 Guarantee

- 1.1 The Guarantor shall jointly and severally guarantee all of the obligations undertaken by the Borrower against the Lender and the Agent under the Agreement. If any obligation, which the Borrower undertook by the Agreement, has become due or demanded, the Guarantor shall, in accordance with the procedure set forth under Clause 16 of the Agreement, fully pay to the Agent, which has become payable to the Agent, and to the Lender via the Agent, which has become payable to the Lender.

-
- 1.2 Even in case the Borrower has any defense (other than the defense of the obligations being undue) in respect of the obligations of the Borrower under the Agreement, the Guarantor shall undertake obligations in the same term with such obligations, which the Borrower would have incurred if there has not been any defense, and if any such obligation has become due or demanded, the Guarantor shall, in accordance with the procedure set forth under Clause 16 of the Agreement, immediately and fully pay to the Agent, which has become payable to the Agent, and to the Lender via the Agent, which has become payable to the Lender.
 - 1.3 Even in case any obligation of the Borrower under the Agreement has become affected by default, merger, reorganization to a holding company or its subsidiary, spin-off, or any other regime similar to the foregoing by the Borrower, or has become affected by change of laws etc. (including foreign laws) applicable to the Borrower, the guarantee obligations of the Guarantor under this Clause shall be deemed to have no consequence thereof.
 - 1.4 Even in case the Guarantor becomes a creditor by performance of the guarantee obligation under this Clause or any other obligation, until all of the Borrower's obligations under the Agreement are fulfilled, the Guarantor shall not exercise any right as the creditor without the Agent's consent, and even if the Guarantor exercise such rights, such exercise shall be subordinated to the Lender's rights against the Borrower.

2 Representations and Warranties

The Guarantor represents and warrants to the Lender and the Agent that each of the following matters is true and correct at the execution date of this Guarantee and at the Drawdown Date. In the event that any of the following matters is found to be untrue or incorrect, the Guarantor shall fully indemnify all of the losses and costs incurred by the Lender and the Agent by such untrue or incorrect representation and warranty:

- (i) The Guarantor is a stock company (*kabushiki kaisya*) duly incorporated and validly existing under the laws of Japan.
- (ii) The Guarantor has a legal capacity (*sui juris*) necessary for execution and performance of this Guarantee, execution and performance of this Guarantee by the Guarantor and any transactions associated herewith are within the corporate purposes of the Guarantor, and the Guarantor has duly completed all procedures necessary therefor under the Laws and Ordinances, the Articles of Incorporation and other internal company rules of the Guarantor.

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- (iii) The execution and performance of this Guarantee by the Guarantor and any transactions associated herewith does not result in (a) any violation of Laws and Ordinances which bind the Guarantor, (b) any breach of its Articles of Incorporation and other internal company rules of the Guarantor, and (c) any material breach of a third-party contract to which the Guarantor is a party or which binds the Guarantor or the assets of the Guarantor.
 - (iv) The person who signed or attached his/her name and seal to this Guarantee is authorized to sign or attach his/her name and seal to this Guarantee as the representative of the Guarantor by all procedures necessary pursuant to the Laws and Ordinances, Articles of Incorporation or other internal company rules of the Guarantor.
 - (v) This Guarantee constitutes legal, valid and binding obligations of the Guarantor, and is enforceable against the Guarantor in accordance with the terms of this Guarantee.
 - (vi) All reports such as annual securities report (*yukashoken-houkokusho*), semi-annual report (*hanki-houkokusho*), extraordinary report (*rinji-houkokusho*) and revision report (*teisei-houkokusho*) prepared by the Guarantor are accurately and duly prepared in accordance with the accounting standards which is generally accepted as fair and appropriate one in Japan.
 - (vii) After the last day of the fiscal year ended on March 31, 2003, no material change, which will cause a material deterioration of the business, assets, or financial condition of the Guarantor described in the audited fiscal statement of that fiscal year and which may materially affect the performance of the obligations of the Guarantor under this Guarantee, has occurred.
 - (viii) No lawsuit, arbitration, administrative procedure, or any other dispute has commenced, or, to the knowledge of the Guarantor, is likely to commence with respect to the Guarantor, which will or may materially cause adverse effects on the performance of its obligations under this Guarantee.
 - (ix) No event of default has occurred to any pecuniary obligation exceeding a value of 1 billion yen (JPY 1,000,000,000) under any agreement (including this Guarantee) which the Guarantor is a party to.
 - (x) The Guarantor owns 100% of the shares of FMH outstanding, FMH owns not less than 40% of the shares of FASL LLC outstanding, and FASL LLC owns 100% of the shares of the Borrower outstanding.

3 Guarantor's Covenants

- 3.1 The Guarantor covenants to perform, at its expense, the matters described in each of the following items on and after the date of this Guarantee, and until the Agreement is terminated and the Borrower or the Guarantor completes the performance of all of its obligations under the Agreement and the Guarantee to each Lender and Agent:
- (i) If any matter described in each item of Clause 22.1 or Clause 22.2 of the Agreement has occurred, or is likely to occur, the Guarantor shall immediately notify the Agent and All Lenders thereof in writing.
 - (ii) If the annual securities report (*yukashoken-houkokusho*) is made, the Guarantor shall submit a copy of the annual securities report (*yukashoken-houkokusho*), within 120 days from the end of each fiscal year, to All Lenders through Agent.
 - (iii) If the semi-annual report (*hanki-houkokusho*) is made, the Guarantor shall submit a copy of the semi-annual report (*hanki-houkokusho*), within 120 days from the end of each fiscal year, to All Lenders through the Agent.
 - (iv) If the extraordinary report (*rinji-houkokusho*) or revision report (*teisei-houkokusho*) is made, the Guarantor shall submit a copy of such report to All Lenders through the Agent without delay.
 - (v) Upon a request made by the Agent or the Lender through the Agent, the Guarantor shall immediately notify in writing to the Agent of the conditions of the assets, management, or businesses of the Guarantor, and shall provide the necessary assistance to facilitate the investigations thereof.
 - (vi) If any material change has occurred, or is found to be likely to occur with the passage of time, to the conditions of the assets, management, or businesses of the Guarantor, or if any lawsuit, arbitration, administrative procedure, or any other dispute, which will materially affect, or is likely to materially affect, the performance of the obligations of the Guarantor under this Guarantee, has commenced, or is found to be likely to commence, the Guarantor shall immediately notify the Agent thereof in writing.
 - (vii) If any change is made to the rating of the Guarantor's short-term or long-term debt by Moody's or Rating and Investment Information, Inc. (including rendering of a new rating or withdrawal of the existing rating), the Guarantor shall immediately notify the Agent thereof in writing.
 - (viii) If any of the foregoing items is found untrue, the Guarantor shall immediately notify thereof to the Agent in writing.

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- 3.2 The Guarantor shall not offer any collateral to secure its obligations under this Guarantee for the benefit of certain Lenders on and after the date of this Guarantee, and until the Agreement is terminated and the Borrower and the Guarantor complete the performance of all of their obligations under the Agreement and this Guarantee to each Lender and Agent, unless All Lenders and the Agent give prior written consent thereto.
- 3.3 The Guarantor shall, on and after the date of this Guarantee, and until the Agreement is terminated and the Borrower and the Guarantor completes the performance of all of their obligations under the Agreement and this Guarantee to each Lender and Agent, affirmatively covenants to be in compliance with matters described in the items below:
- (i) The Guarantor will maintain licenses and other similar permits that are necessary to conduct the Guarantor's main business, and continue to carry out the business in compliance with material provisions of all Laws and Ordinances.
 - (ii) The Guarantor will not change its main business.
 - (iii) The Guarantor will not, unless otherwise specified in the Laws and Ordinances, subordinate the payment of any of its debts under this Guarantee to the payment of any unsecured debts (including any secured debts that will not be fully collected after the foreclosure sale of the collateral), or at least will treat them equally.
 - (iv) The Guarantor will not assign material party of its business or all or part of its assets to a third party unless a written consent by the Majority Lenders is obtained; provided, however, that if the value of the business or assets to be assigned in one transaction is less than 100 billion yen, such assignment shall be permitted.
 - (v) The Guarantor will not change its accounting standard to the one not in accordance with the accounting standard which is generally accepted as fair and appropriate one in Japan.
 - (vi) The Guarantor will maintain the rating of its long-term debt by Rating and Investment Information, Inc. to BBB- or higher.
 - (vii) The Guarantor will maintain the shareholding ratio of FMH shares by the Guarantor to 100%, will maintain the shareholding ratio of FASL LLC shares by FMH to not less than 40%, and will maintain the shareholding ratio of the Borrower shares by FASL LLC to 100%.
 - (viii) Regardless of any reason, the Guarantor will not do any of the matters provided below unless a written consent by the Majority Lenders is obtained; provided, however, that the consent by the Majority Lenders shall not be withheld unreasonably, such as the case where the Lender's rights will not be affected negatively:

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- a) Termination or amendment of the Security Assignment Agreement (*Joto Tanpo Settei Keiyaku*) dated June 30, 2003, executed by and between the Guarantor and the Borrower (the “Security Assignment Agreement”), and the Mortgage Agreement and the Letter Concerning Establishment of Security Interest (*Tanpo Sashiire Sho*) dated June 30, 2003, executed by and between the Guarantor and the Borrower (the “Mortgage Agreement”).
 - b) Assignment, establishment of security interest over the original security interest (*tenteito*), and disposal in any other way of the security interest (*kyototanpo-ken*) based on the Security Assignment Agreement. Disposal of the asset subject to such security interest; provided, however, that disposal of such asset within the normal course of business shall be permitted (including disposition by renewal).
 - c) Assignment, establishment of security interest over the original security interest (*tenteito*), change in the priority (*kyuni-no-henko*), assignment of the priority (*kyuni-no-kyoto*), and disposal in any other way of the security interest (*teito-ken*) based on the Mortgage Agreement. Disposal of the asset subject to such security interest.
- (ix) The Guarantor will obtain perfection in connection with the Security Assignment Agreement and the Mortgage Agreement, and will maintain such perfection.

4 Confidentiality Obligations

The Guarantor shall raise no objection to the disclosure of information set forth in each item below:

- (i) If the notice of refusal to make an Individual Loan has been given pursuant to the provisions of Clause 7.1 of the Agreement, or if any of the events described in the items of Clause 22.1 or 22.2 of the Agreement have occurred, or if the clarification of the intention of the Majority Lenders has been required pursuant to the provisions of Clause 27 of the Agreement, the Agent and a Lender may, by imposing a confidentiality obligation to the receiving party, disclose any information with regard to the Guarantor or the transaction with the Guarantor, which either party has obtained through the Agreement, this Guarantee or an agreement other than this Guarantee, to the extent reasonably required.
- (ii) Upon the assignment of the Loan Receivables pursuant to Clause 29 of the Agreement, a Lender may disclose any information with regard to

the Agreement or this Guarantee to the Assignee or a person considering to become an Assignee (including an intermediary of such assignment), on the condition that those shall be imposed by the confidentiality obligations. The information with regard to the Agreement or this Guarantee in this item shall mean any information regarding the Guarantor's credit that has been obtained in connection with the Agreement or this Guarantee, any information regarding the contents of the Agreement or this Guarantee and other information incidental thereto, and any information regarding the contents of the Loan Receivables to be assigned and other information incidental thereto, and shall not include any information regarding the Guarantor's credit that has been obtained in connection with any agreement other than the Agreement or this Guarantee.

5 Risk Bearing; Exemption, Compensation, and Indemnification

- 5.1 If any document furnished by the Guarantor to the Agent or each Lender have been lost, destroyed, or damaged for any unavoidable reasons such as incidents or natural disasters, the Guarantor shall, upon consultation with the Agent, perform its obligations under this Guarantee based on the records, such as books and vouchers, of the Lender or the Agent. The Guarantor shall, upon request of the Agent or a Lender through the Agent, forthwith prepare substitute document and furnish it to the Agent or the Lender through the Agent.
- 5.2 If each Lender or the Agent performs transactions after comparing, with due care, the seal impression of the representative and agent of the Guarantor to be used for the transactions in relation to this Guarantee with the seal impression submitted by the seal submitted by the Guarantor in advance, the Guarantor shall bear any damages, loss or expenses incurred as a result of an event such as forgery, alteration, or theft of seal.

6 Changes in Notified Matters

In the case of changes in the matters notified to the Agent, such as the trade name, representative, agent, signature, seal, or address, the Guarantor shall immediately notify the Agent of such changes in writing.

7 Governing Law and Jurisdiction

This Guarantee shall be governed by the laws of Japan, and the Tokyo District Court shall have the exclusive jurisdiction over any disputes arising in connection with this Guarantee.

IN WITNESS WHEREOF, the Guarantor has caused this Agreement to be signed and sealed herein and has delivered to the Agent, and the Agent has kept the original and has distributed a copy thereof to the Borrower, the Guarantor and All Lenders upon confirming that such copy is the same content as its original.

AGREEMENT

between

SI INVESTMENT LIMITED LIABILITY COMPANY & CO KG

and

M + W ZANDER FACILITY ENGINEERING GMBH

Pertaining to the
Design and Construction of Fab X, Dresden, Germany

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P R E A M B L E

This Design/Build Agreement (hereinafter referred to as "**Agreement**") is made and entered into this 20th of November, 2003 by and between SI Investment Limited Liability Company & Co KG, Louis-Braille-Straße 5, 01099 Dresden, Germany (hereinafter referred to as "**Company**") and M+W Zander Facility Engineering GmbH, Lotterbergstraße 30, 70499 Stuttgart, Germany (hereinafter referred to as "**Contractor**"). **Company** and **Contractor**, are collectively referred to as "**Parties**" or each separately as "**Party**".

R E C I T A L S

A. Company will purchase certain land located in Dresden, Wilschdorfer Straße marked in the plan attached as Exhibit 1 Site Plan in blue (the "**Site**").

B. Contractor, or a joint venture of which **Contractor** forms part respectively, entered into a **Co-Operation Agreement** (Kooperationsvertrag vom 20. November 2003) under the conditions of which **Contractor** shall enter into a partnership agreement. Therefore, **Contractor**, or a joint venture of which **Contractor** forms part respectively, is not only **Party** to this **Agreement** but also limited partner (*Gesellschafter/Kommanditist*) of **Company**.

C. Company desires to obtain a new state-of-the-art microprocessor wafer fabrication facility for designing and producing integrated circuits (300 mm microprocessor wafers (65 nm technology, [***])* (to the degree defined in this **Agreement**) and associated support facilities to be located on the **Site**. The result (*Werkerfolg*) of the works and services to be executed or rendered under this **Agreement** is referred to as "**Fab X**" (also referred to as "**S.I.L.K.**"). **Company** commissions **Contractor** to plan, design, construct, erect, install, equip, start up, calibrate, adjust and turn over **Fab X** and execute all and any works, render all and any services and make all and any deliveries (hereinafter collectively referred to as "**Works**") which are necessary or expedient for completing **Fab X** in a turn-key and functional manner and in a ready for unrestricted hook up condition, including, but not limited to, all and anything which

* Confidential treatment has been requested pursuant to section IV.2. of the Confidential Treatment Request dated March 9, 2004.

is technically or functionally necessary or expedient therefore, including, but not limited, to all and any items which could have an impact on productivity, yield or ease of use but excluding any works and services explicitly excluded in this **Agreement**.

D. Contractor desires to plan, design, construct, erect, install, equip, start up, certify, calibrate, adjust and turn over **Fab X** in the manner provided for in **Recital C** and to execute all **Works** necessary or expedient therefore and to execute the **Works** and to complete **Fab X** in a way meeting the standards provided for in this **Agreement**. As consideration in full for executing the **Works** and completing **Fab X** in accordance with this **Agreement**, **Company** will pay to **Contractor** the lump sum provided for in this **Agreement**

E. On the site adjacent to the **Site**, **Contractor** (or **Contractor**'s legal predecessor Meissner + Wurst GmbH + Co. KG) completed a wafer fabrication support facility as well as later extensions and improvements thereto (this fabrication, the support facilities, the extensions and improvements is hereinafter referred to as "**Fab 30**") under a number of agreements, including a Design/Build Agreement with a third party (AMD Saxony Manufacturing GmbH, the legal predecessor of AMD Saxony Limited Liability Company & Co. KG) of November 15, 1996 as amended, a hook-up agreement of February 28, 1998 as amended and under later agreements especially under a letter of intent of June 7, 2000, an agreement of June 22, 2001 and a contract of November 28,/December 5, 2002).

From being involved in the works, services and deliveries under the aforementioned agreements, contracts and letters of intent and especially the details related to and underlying the execution, rendering or making the works, services and deliveries, **Contractor** is aware of the details of the completion of a state-of-the-art microprocessor wafer fabrication facility referred to in **Recital C**. Therefore, and because of surveys and examinations carried out by, or on behalf of, **Contractor**, **Contractor** is aware of the standards and requirements of such project, especially about all specifics and requirements of clean room conditions and is aware of the **Site Condition**, including the subsurface, environmental and hydrological condition. Moreover, **Contractor** is aware of the impact executing the **Works** under this **Agreement** could have on the operation of, and the production in, the adjacent **Fab 30**. **Contractor** acknowledges that **Contractor** is aware that any detrimental impact the execution of the **Works** may have on **Fab 30** and the operation of, and production in, **Fab 30** could lead to losses, damages, claims etc, for which **Contractor** is liable to the extent provided for in this **Agreement**. **Contractor**, therefore, knows and acknowledges that all and any **Works** to be executed under this **Agreement** shall – unless otherwise agreed upon by the **Parties**—be executed in a manner not affecting, influencing, disturbing or having any other detrimental impact, including, but not limited to, detrimental impact by vibrations, on the operation of **Fab 30** or the production within **Fab 30**, including, but not limited to, the production of semiconductor processors. **Contractor** has examined and reviewed, and is aware of, all and any conditions relating to the **Site**, including, but not limited to, ground conditions, subsurface conditions and

hydrological conditions and **Contractor** is aware of all and any requirements and conditions of a proper operation and production (including, but not limited to, the production of semiconductor processors) within **Fab 30** as well as within **Fab X** (all these conditions are hereinafter referred to as „**Site Conditions**”). **Contractor** is liable for executing the **Works** in the aforementioned manner and meeting the requirements of the **Site Conditions**.

F. Company desires and **Contractor** acknowledges and is aware that it is essential that **Fab X** is completed within the milestones provided for in this **Agreement** and that meeting the given time frame is a presupposition (*Voraussetzung*) for **Company** being able to operate **Fab X** and produce in **Fab X**, otherwise an economical and efficient operation and production will be threatened or not be possible. Therefore, **Contractor** undertakes to complete the Works in the given time frame. Moreover, **Parties** are aware that the environmental, health, safety and security requirements provided for in this agreement to be met on **Site**, when executing the works and by **Fab X** are far above average standard and **Contractor** undertakes to meet such requirements.

Moreover, both **Parties** explicitly acknowledge and confirm that they are aware that for being granted the allowances **Company** applied for under the code of allowances (*Investitionszulagengesetz*) based on which the financial concept underlying this project was developed it is of utmost importance to reach the respective degree of completion described under no. 7.1.c) until [***]*.

G. Company's ability to carry out the project underlying this **Agreement** depends on the fact that the financial presuppositions the project is based on are met or maintained. Therefore, **Parties** agree that **Company** has an extraordinary termination right under circumstances described in this **Agreement** the impact of which on the remuneration is stipulated in this **Agreement**.

H. Contractor confirms that **Contractor** will at all and any time keep the project underlying this **Agreement** equipped with all and any resources, know-how, work force and all and any means and measures necessary to properly execute the **Works** under this **Agreement** and to complete **Fab X** in time and that **Contractor** will not reduce its activities, work force or personnel and executing other projects or contracts will not detrimentally impact the project..

* Confidential treatment has been requested pursuant to section IV.1.(a) of the Confidential Treatment Request dated March 9, 2004.

PROVISIONS

1. Parts of this Agreement

In the event of discrepancies, the following parts of this **Agreement** shall be applicable in the order set forth hereinafter:

- a) this document (“**Document**”)
- b) the Exhibits to this **Document**
 - aa) Exhibit 1: Site Plan
 - bb) Exhibit 2: ITRS Roadmap
 - cc) Exhibit 3: Design
 - dd) Exhibit 4: List of Interfaces
 - ee) Exhibit 5: Design Documents
 - ff) Exhibit 6: Company’s Inspections
 - gg) Exhibit 7: Payment Schedule
 - hh) Exhibit 8: Operation and Maintenance Data
 - ii) Exhibit 9: EHS Program
 - jj) Exhibit 10: Clean Protocol
 - kk) Exhibit 11: Lump Sum Price Calculation
 - ll) Exhibit 12: List of Subcontractors consented to
 - mm) Exhibit 13: Workforce Regulations
 - nn) Exhibit 14: Milestone Definitions
 - oo) Exhibit 15: Time Schedule

-
- pp) Exhibit 16: Performance Guarantee
 - qq) Exhibit 17: Defects Liability Guarantee
 - c) the rules of sound engineering practice (*anerkannte Regeln der Technik*)
 - d) the applicable *DIN*, *VDI* and *VDE* regulations)
 - e) the provisions of *VOB/B (Verdingungsordnung für Bauleistungen, Teil B)* The parties clarify that this does not mean that VOB/A is applicable as well.
 - f) the German Civil Code (BGB = Bürgerliches Gesetzbuch).

2. Scope of Work

2.1. Scope of Work

Contractor is obliged to deliver to **Company** a new state-of-the-art microprocessor wafer fabrication facility for designing and producing integrated circuits (300 mm microprocessor wafers (65 nm technology, [***])* ([***])* defined in the roadmap attached hereto as **Exhibit 2 ITRS Roadmap**) and associated support facilities to be located on the **Site**. **Contractor** shall plan, design, construct, erect, install, equip, start up, calibrate, adjust and turn over **Fab X** and execute all **Works** which are necessary or expedient for completing **Fab X** in a turn-key and functional manner and in accordance with the specifications and descriptions contained in **Exhibit 3 Design** and in a ready for unrestricted hook up condition, regardless of whether the respective item or component is explicitly mentioned in **Exhibit 3 Design** and including, but not limited to, all and anything which is technically or functionally necessary or expedient therefore, including, but not limited to, all and any items which could have an impact on productivity, yield or ease of use but excluding any works and services as named as excluded in the list of interfaces attached as **Exhibit 4 List of Interfaces**.

* Confidential treatment has been requested pursuant to section IV.2. of the Confidential Treatment Request dated March 9, 2004.

If and to the extent the description of **Fab X** is insufficient in order to define specifications for **Fab X** reference shall be made to the specifications and descriptions under the agreement of November 28./December 5, 2002 relating to the Advanced Technology and Process Center (ATPC) or, if this agreement is insufficient to the specifications and descriptions under the Design/Build Agreement of November 15, 1996.

The parties acknowledge and confirm that in case more than one way of executing the **Works** leads to completion of **Fab X** or a component or part thereof meeting the standards and requirements provided in this **Agreement**, **Company** has the right to choose the way of execution. If exercising such right to choose leads to cost or time impact this impact is covered by the change procedure provided for in no. 4.

These aforementioned obligations include, but are not limited to, all and any **Works** described and provided for in the design documents attached as **Exhibit 3 Design**. All standards or requirements necessary or expedient as described herein for completing **Fab X** in a turn-key and functional manner and in a ready for unrestricted hook up condition shall be met by the **Works**, this includes, but is not limited to, meeting all standards and requirements provided for in the design documents attached as **Exhibit 3 Design**.

As exception, the **Parties** clarify that to the extent regulations in **Exhibit 3 Design** deal with the technical solution for insurance reasons (FM or VDS) (which is still pending) elements of the **Works** are only covered by the lump sum provided for in no. 3.1 to the extent these aforementioned elements of the **Works** are explicitly described in **Exhibit 3 Design**. To the extent that regarding the aforementioned elements of the **Works** works or services other than those contained in **Exhibit 3 Design** are requested the impact on the remuneration shall be determined in accordance with the procedure provided for under no. 4.

The **Contractor** shall with regard to planning, designing, constructing, erecting, installing, equipping, starting up, calibrating, adjusting and turning over use best efforts to secure maximum possible value added and to execute the **Works** in a manner that there is no detrimental impact on the operation of, and production in, **Fab 30**.

Moreover, **Contractor** is aware of the impact executing the **Works** under this **Agreement** could have on the operation of, and the production in, the adjacent **Fab 30**. **Contractor** acknowledges that **Contractor** is aware that any

detrimental impact the execution of the **Works** may have on **Fab 30** and the operation of, and production in, **Fab 30** could lead to losses, damages, claims etc, for which **Contractor** is liable to the extent provided for in this **Agreement**. **Contractor**, therefore, knows and acknowledges that all and any **Works** to be executed under this **Agreement** shall – unless otherwise agreed upon by the **Parties** - be executed in a manner not affecting, influencing, disturbing or having any other detrimental impact, including, but not limited to, detrimental impact by vibrations, on the operation of **Fab 30** or the production within **Fab 30**, including, but not limited to, the production of semiconductor processors. **Contractor** has examined and reviewed, and is aware of, all and any conditions relating to the **Site**, including, but not limited to, ground conditions, subsurface conditions and hydrological conditions and **Contractor** is aware of all and any requirements and conditions of a proper operation and production (including, but not limited to, the production of semiconductor processors) within **Fab 30** as well as within **Fab X** (to all these conditions is hereinafter referred to as „**Site Conditions**“). **Contractor** is liable for executing the **Works** in the aforementioned manner and meeting the requirements of the **Site** Conditions but shall be entitled to an adjustment of the remuneration or an extension of time under the respective applicable provision of this **Agreement** if and to the extent findings (*Kampfmittel* or *archäologische Funde*) lead to a change of the scope of work.

2.2. Document Flow

Contractor shall submit all **Design Documents** as defined in **Exhibit 5 Design Documents** to **Company** for approval (approval means written consent). Such approval by **Company** shall not unreasonably be withheld. **Company** shall approve or disapprove such documents latest within five (5) working days (working days in the meaning of this **Agreement** are all days from Monday through Saturday except for days which are public holidays (*gesetzliche Feiertage*) in the Free State of Saxony) from receipt. If **Contractor** has not received the approval or disapproval (defining the reason(s) for disapproval at the same point in time) within this period from **Company** receiving the particular document, **Contractor** shall give **Company** notice of **Company's** failure to respond in time. If **Contractor** has not received **Company's** approval or disapproval within 24 hours from **Company's** receipt of such notice, the particular document shall be deemed to be approved by **Company**. **Contractor** shall not be entitled to an extension of time because of **Company's** justified refusal to approve a certain document.

2.3. Conduct of Executing Works

All **Works** to be executed shall, in addition to being executed in a manner meeting the standards and requirements in other parts or provisions of this **Agreement**, be executed in a manner meeting clean room standards as defined in **Exhibit 3 Design**.

Contractor explicitly acknowledges that **Contractor** is aware of the conditions and requirements of a 300 mm microprocessor wafer fabrication facility and the standards to be met by such facility (which are far higher than the standards of regular industrial construction), especially those to be met by the **Works** and **Fab X**, including, but not limited to, cleanroom conditions. **Contractor** explicitly warrants that **Contractor** sufficiently informs all subcontractors of all conditions, requirements and standards to be met on or by such facility, including, but not limited to, cleanroom conditions.

Company has an absolute ban on smoking in place over the entire **Site** and in all its buildings, with the exception of smoking zones marked accordingly. For reasons of personal and general safety, the consumption of any alcoholic beverages during work, or starting work in an intoxicated condition, is prohibited. This also applies for other drugs.

Contractor hereby undertakes to strictly monitor compliance with these prohibitions on the part of its employees or the staff of any subcontractors used. Repeated breaches or offences, in spite of a warning, shall be a valid basis for expulsion of the employee or the subcontractor from the **Site**.

2.4. Materials

Contractor shall, on demand of **Company**, submit for **Company**'s approval, detailed information, including, but not limited to, model number, quality, manufacturer, about all materials **Contractor** intends to use. In addition, **Contractor** shall submit to **Company**, for **Company**'s approval, detailed information about all materials which are exposed to parts of **Fab X** which are to be or might be operated under clean room conditions. Such approval shall not unreasonably be withheld by **Company**.

2.5. Company's inspections

Company shall, at any time, have the right to review and inspect all and any of the **Works** by **Contractor**, including but not limited to, any **Works** documents, plans, drawings, **Design Documents**, discs, electronic data and like (except for commercial data which shall – unless provided otherwise in this **Agreement**—only be disclosed if and to the extent necessary for determining price adjustments under no. 4.2 of this **Document**). Moreover, **Contractor** shall – on demand – submit to **Company** copies of any of such documents and all documentation and information related to the execution of the **Works** to be executed. **Exhibit 6 Company's Inspections** shall apply accordingly to any **Works** to be executed under this **Agreement**.

2.6. Obligations

The **Parties** clarify and acknowledge that the obligations which form part of the **Works** include, but are not limited to, the following:

2.6.1. Statutory and like Requirements

Contractor shall obey Baustellenverordnung and all and any statutory and like requirements including, but not limited to *Arbeitsstättenverordnung, Arbeitnehmerüberlassungsgesetz, Bundesimmissionsschutzgesetz, Strahlen- und Röntgenschutzverordnung, Sicherheitsbestimmungen, Bestimmungen der Berufsgenossenschaften* and all and any *Unfallverhütungsvorschriften* (accident prevention regulations) and all and any accident prevention obligations and EU directives and shall impose this duty on all subcontractors. This includes, but is not limited to, **Contractor's** obligation to develop a security and health plan (*Sicherheits- und Gesundheitsschutzplan*). If **Contractor** proves that changes of such statutory or like requirements becoming effective after conclusion of this **Agreement** of which **Contractor** has not been aware at the time of concluding this **Agreement** results in changes in the scope of work the financial impact of the total of such changes of such laws or like is more than Euro 75,000.00 (seventy five thousand Euro) the change order procedure provided for in no. 4 shall apply on the entire amount (if the amount is Euro 75,000.00 or less the change order procedure shall not apply but the resulting impact on the scope of work shall be covered by the lump sum provided for in no. 3.1).

2.6.2. Progress Updates

Contractor shall provide **Company**, with monthly status and progress reports and – upon reasonable and justified request of **Company** – with periodic progress reports in the frequency justified by the situation. In addition **Contractor** shall provide **Company** with weekly progress updates. Moreover, **Contractor** shall provide **Company** with technical progress reports relating to all completions of relevant parts of **Fab X** (for example “Fab construction weathertight” or “clean room ready for equipment”) and of milestones provided for in this **Agreement** and for completions which trigger – under the payment schedule for progress payments attached as **Exhibit 7 Payment Schedule** - payments on account.

2.6.3. Construction Diary

Contractor shall keep a construction diary (*Bautagebuch*) on an at least daily basis.

2.6.4. Calibrating, Adjusting, Testing

The obligations of **Contractor** shall include, but not be limited to, all and any calibrating, adjusting, testing and like of **Fab X** and all and any parts and components thereof to the extent necessary or expedient for completing **Fab X** in accordance with this **Agreement**.

2.6.5. Permits

Contractor shall be obliged to procure all necessary permits, acceptances and like which are necessary or expedient for executing or completing the **Works** or completing **Fab X** in accordance with this **Agreement**, including, but not limited to, the building permit, necessary permits under water law (*wasserrechtliche Genehmigungen, Erlaubnisse etc.*), permits required under the Working Hours Law (*Arbeitszeitgesetz*) (e.g. for work on Sundays).

2.6.6. Construction Management

Contractor shall render all and any construction management and supervision services necessary or expedient for the execution and completion of the **Works** and the completion of **Fab X** in accordance with this **Agreement**. This includes, but is not limited to, **Contractor**'s obligation to coordinate with persons, including but not limited to work or services performed by **Company** and with other contractors employed by **Company**, acting on the **Site** on behalf of **Company**. Such person acting on behalf of **Company** shall obey **Contractor**'s construction site rules and shall attend **Contractor**'s coordination meetings which **Contractor** shall carry out in a form, number and in intervals (at least weekly) as, and with all participants, necessary and expedient and invite **Company** to, and provide **Company** with protocols of all coordination meetings. However, **Contractor** shall not be liable and responsible for conduct of such persons acting on behalf of **Company** (*Erfüllungsgehilfen des Auftraggebers*) unless such conduct is caused by **Contractor**. **Company** shall instruct and inform any such person accordingly. The obligations of **Contractor** shall include, but shall not be limited to, coordinating the timing of work done by **Contractor** with that carried out by third parties,

- coordinating the physical location and personnel allocation arrangements for work done by **Contractor** and third party works,
- harmonizing the structural engineering aspects of the work done by **Contractor** with third party contributions to the project and
- coordinating works and firms, so that all aspects of the construction project will proceed in accordance with the accident prevention regulations.

2.6.7. Planning, Engineering, Designing, Architectural and like Works

The obligations of **Contractor** shall include all and any planning, engineering, designing, architectural and like works or services necessary or expedient for the execution or completion of the **Works** and **Fab X** in accordance with this **Agreement**. **Contractor** shall be obliged to deliver the completed design for **Fab X**.

These planning, engineering, designing, architectural and like works, include, but shall not be limited to, preparation and submission of all and any **Design Documents** defined in **Exhibit 5 Design Documents**.

2.6.8. Operation and Maintenance Data

With respect to the obligation of **Contractor** regarding Operation and Maintenance Data, the provisions of **Exhibit 8 Operation and Maintenance Data** shall apply to the extent reasonably applicable unless explicitly provided for otherwise in this **Document**.

2.6.9. Mechanical, Electrical, Processing Components

The obligations of **Contractor** shall include, but shall not be limited to, all and any **Works** necessary or expedient for planning, designing, constructing, erecting, installing, equipping, starting up, calibrating, adjusting and turning over the completed shell and all mechanical, electrical and processing components of **Fab X** in a turn-key and functional manner and in a ready for unrestricted hook up condition in accordance with this **Agreement**.

2.6.10. Letter of Intent

The works and services rendered under the letter of intent of May 16, 2003 as amended under the letters of August 13, 2003 and November 3, 2003.

2.6.11. Health and Safety Plan/Site Rules

Contractor shall formulate a health and safety plan and a set of site rules, and shall make the required prior notification to the competent factory inspectorate authority (*Gewerbeaufsichtsamt*).

2.6.12. Environmental, Health, Safety and Security Requirements

Contractor shall meet all environmental, health, safety and security requirements provided for in **Exhibit 9 EHS Program**.

2.6.13. Obligation to observe Rules

Contractor shall place its employees and any subcontractors employed under a written obligation to observe the safety and discipline rules in force at that location and **Contractor** shall clearly mark the rooms and areas used by it with its company name.

2.6.14. Acceptances by Authorities

Contractor shall carry out, or have carried out, acceptances by authorities (*Behördenabnahmen*).

2.6.15. Health and Safety Coordinator

Contractor shall appoint and commission the services of a health and safety coordinator (HSC), at its expense, pursuant to the Construction Site Regulations (*Baustellenverordnung*), VBG 1 and of the Industrial Safety Law (*Arbeitsschutzgesetz*). Moreover, **Contractor** shall provide suitable training for his personnel in all health and safety requirements, including, but not limited to, disposal of hazardous or toxic waste. **Contractor** shall not remove the safety and health engineer prior to completion of all and any **Works** on the site. This shall not be prior to remedying – and formally accepting by **Company** that the defects had properly been remedied – all defects which had been detected in the course of the final acceptance. **Contractor** may, upon **Company's** prior written consent, appoint another person as health and safety coordinator.

2.6.16. Clean Site

The **Site** must be kept tidy, in accordance with accident prevention regulations, for the entire duration of the **Works**. Rubbish and packaging material is generally to be disposed of immediately. Rubbish containers shall be emptied regularly. In particular, care shall be taken to ensure that there is no lasting impact on subsequent works from rubbish, dust and other contamination. The **Site** is generally to be kept clean both inside and outside. The **Site** shall be cleaned to the extent provided for in the clean protocol (**Exhibit 10 Clean Protocol**).

2.6.17. Construction Supervisor

The construction supervisor's rights and obligations pursuant to the Building Regulations of Saxony (*sächsische Bauordnung*) apply to the **Contractor Company** shall be notified of the name, address and contact details of the construction supervisor in good time and may only object to such person for good cause.

2.6.18. Clean Roads

Public roads and works roads shall be kept clean at all times, with any soiling to be cleaned up immediately.

2.6.19. Security

Contractor shall be solely and completely responsible for, and shall establish and maintain, the security of the **Site**, including protection of personnel, the work and materials.

3. Remuneration

3.1. Lump Sum Price

As consideration in full for the **Works** to be executed and all obligations of **Contractor** under this **Agreement Company** shall pay to **Contractor** a fixed lump sum (*Pauschalpreis*) of Euro 380,500,000.00 plus VAT as applicable from time to time.

The lump sum price shall be fixed up to and including final acceptance of the entirety of **Works** (*Der Pauschalpreis gilt bis einschließlich der Schlußabnahme der Gesamtleistung*).

The parties acknowledge and confirm that the payments to be rendered under the letter of intent of May 16, 2003 as amended under the letters of August 13, 2003 and November 3, 2003 shall form part of the aforementioned lump sum

and no additional remuneration shall be paid for these works and services which shall form part of the **Works**.

3.2. Payments on Account

Contractor shall be entitled to payments on account as provided in **Exhibit 7 Payment Schedule**. All payments except for the final payment shall be considered payments on account (*Abschlagszahlungen*) and shall not be deemed to signify or imply acknowledgement (*Anerkenntnis*) or acceptance of the **Works** to which the particular payment on account relates. Invoices regarding payments on account (*Abschlagsrechnungen*) shall – to the extent provided for in no 10.1 and if the respective underlying **Works** were completed—become due for payment within 45 days from being received by **Company**.

On **Company**'s request **Contractor** shall – within one week from receipt of the request – provide **Company** with invoices on account relating to **Works** which **Company** requests to be invoiced.

If mutually agreed upon by the parties **Contractor** has the right to submit to **Company** a partial final invoice (*Teilschlußrechnung*) relating to parts being subject to prior use or partial acceptance, provided that such partial final invoice does not constitute acceptance or transfer of risk to **Company** (unless provided otherwise in this **Agreement**).

3.3. German Income Tax Act

The parties clarify that the remuneration to be paid under this Agreement is subject to the provisions under section 48 German Income Tax Act (*Freistellungserklärung nach § 48 Einkommenssteuergesetz*), including the deduction provided for therein, to the extent applicable.

3.4. Presupposition for Payments becoming due

No payment whatsoever shall become due prior to **Contractor** submitting to **Company** the performance guarantee provided for in no. 10.2, the refined lump sum price estimate provided for in no. 4 and **Contractor** submitting to **Company** a declaration (*Freistellungserklärung*) meeting the requirements of

section 48 German Income Tax Act (*Einkommenssteuergesetz*) or a declaration – justified—that **Contractor** will not submit such declaration.

Except for the first payment on account of [***]* (plus VAT as applicable from time to time) no payment whatsoever shall become due prior to an equity injection security (*belastbare Durchfinanzierungszusage* being submitted to **Company**).

4. Changes

Company shall be entitled to – in writing – request **Contractor** to execute changes or additional works, services and deliveries (“**Additional Works**”). Such changes or **Additional Works** shall be executed even if at the time of the written request agreement on the impact of the change or the **Additional Works** on the remuneration to be paid to **Contractor** has not been reached. In that case the impact on the remuneration shall be determined within a reasonable time from the **Company**’s request to execute changes or **Additional Works**.

The execution of changes or **Additional Works** prior to an agreement on the impact on the price shall not lead to a detrimental financial impact on **Contractor**. However, **Contractor** shall, prior to the execution notify **Company** in writing of the price impact, otherwise **Contractor** shall not be entitled to an increase of the remuneration.

If an order of **Company** for changes or **Additional Works** leads to the project being held up, interrupted or an extension of time, **Contractor** shall notify **Company** in writing prior to the commencement of the execution of the changes or of the **Additional Works** on the – fifth (5) working day from receipt of the written request. If **Contractor** fails to give such written notification in time, **Contractor** shall not be entitled to an extension of time.

Unless provided otherwise in this **Agreement** all provisions relating to **Works** and the execution of **Works** under this **Agreement** shall also apply to changes or **Additional Works**.

Company is, at any time, entitled to request **Contractor** not to execute certain **Works** or to reduce the scope of work. In this case **Contractor** is obliged to

* Confidential treatment has been requested pursuant to section IV.1.(b) of the Confidential Treatment Request dated March 9, 2004.

immediately stop **Works** which **Contractor** is requested not to execute. The **Parties** clarify that this does not lead to a reduction of the remuneration **Contractor** is entitled to for **Works** already executed (the Parties clarify that works which are in progress are remunerated to the extent already carried out) in accordance with this **Agreement** prior to receipt of the request. Only in case and to the extent **Contractor** is in the course of duly executing the **Works** obliged to remunerate subcontractors or render other payments to third parties, which remuneration or payment can not be avoided (for example can be avoided since the change leads – in total—to an increased remuneration or payment) **Company** shall reimburse **Contractor** for such expenditures (such reimbursement shall be limited to the remuneration if the portion had been executed).

The **Parties** clarify that changes of quantities (*Massen* and *Mengen*) within the scope of work (the scope of work which relates to the lump sum provided for in no. 3.1) shall not lead to an adjustment of the remuneration.

The remuneration provided in no 3.1 of this **Agreement** shall – in case change or **Additional Works** are executed – be adjusted as follows:

4.1. Adjustment can be calculated based on lump sum price calculation

Contractor based the lump sum provided for in no. 3.1 on the lump sum price calculation attached as **Exhibit 11 Lump Sum Price Calculation**.

4.1.1. Works to be executed in addition

If due to a request for changes or **Additional Works** works, services or deliveries which are not part of the **Works** which form part of the wafer fabrication facility to be completed as described under no. 2.1 but which are equal to items, other parts of the **Works** or components etc. covered by the lump sum price calculation or the refined lump sum price calculation are requested to be executed and not part of the **Works** to be executed for the initial lump sum the remuneration is increased by the amount for the respective part of the change or **Additional Works** to be executed contained in the lump sum price calculation or, the refined lump sum price calculation (which based on and in line with the lump sum price calculation further details the lump sum price calculation and in which unit prices are allocated to all components, items etc.) if already delivered at the time of requesting the change or **Additional Works**

underlying the works, services or deliveries to be executed or rendered in addition. The refined lump sum price calculation shall be submitted to **Company** by **Contractor** no later than November 30, 2003 and replace the the lump sum price calculation.

4.1.2. Works not to be executed

If due to a request for changes or **Additional Works**, **Works** covered by the lump sum price calculation are requested not to be executed, the **Works** to be executed for the initial lump sum the remuneration is reduced by the amount for the respective part of the **Works** not to be executed contained in the lump sum price calculation or the refined lump sum price calculation, if already delivered at the time of requesting not to execute **Works** or **Additional Works** underlying the works, services or deliveries to be executed or rendered in addition. The refined lump sum price calculation shall be submitted to **Company** by **Contractor** no later than November 30, 2003.

4.1.3. Changes leading to Reductions and Additions

If changes requested lead to reductions as well as additional works, services or deliveries, the price impact of additional works, services or deliveries the increase is determined under no. 4.1.1 and the price impact of reductions is determined by no. 4.1.2.

4.2. Adjustment can not be based on lump sum price calculation

If certain works, services or deliveries to be executed are not covered by the scope of work to be executed for the lump sum provided for in no. 3.1 and to the extent the adjustment of the price cannot be determined in accordance with no. 4.1 since the works, services or deliveries requested to be executed are not covered by the lump sum price calculation or the refined lump sum price calculation the price adjustment shall be determined in accordance with the following procedure which the **Parties** agree to follow without any detrimental time impact on the completion of **Fab X**:

Contractor shall - based on tender documents approved by **Company** - ask potential subcontractors for competitive bids (generally three) based on a lump sum approach for such works, services or deliveries. **Contractor** shall also be

entitled to submit a bid. **Company** shall have the right to provide additional bids. Based on the bids – of which **Company** is provided with copies - **Contractor** shall submit to **Company** a written proposal which bid **Contractor** considers most favorable for **Company** which proposal shall contain the underlying reasons.

Contractor is entitled to a fee of [***]* of the remuneration to be paid to the respective subcontractor (as general contractor's fee (*Generalübernehmerzuschlag*) and of [***]* of the remuneration to be paid to the respective subcontractor as lump sum for the indirect costs of **Contractor** in addition to the costs to be paid to the respective subcontractor in accordance to the respective subcontract.

The **Parties** clarify that not **Company** but **Contractor** shall be party to the subcontracts and that the provisions of this **Agreement** relating to subcontractors shall apply unless explicitly provided otherwise in this no. 4.2.

4.3. Payments

In case of reductions the respective reduction will be considered in the next invoice regarding a payment on account (*Abschlagsrechnung*) and the amount invoiced is reduced accordingly. In cases of increases of remuneration the respective increase shall be – in verifiable form and explaining the calculation of the increase and the basis thereof in detail – included in the invoice regarding the payment on account which relates to the **Works** the change or **Additional Works** relate(s) to.

In case of a termination of the entire **Agreement** under the termination provisions contained in no. 13.2 of this **Agreement**, **Contractor** shall be only entitled to the remuneration provided for in these termination provisions.

* Confidential treatment has been requested pursuant to section IV.1.(b) of the Confidential Treatment Request dated March 9, 2004.

5. Subcontracting/Personnel

5.1. Subcontracting

Contractor shall be entitled to subcontract parts of the **Works** if and to the extent the following procedure is applied. Prior to entering in contracts with subcontractors **Contractor** shall inform **Company** in writing of **Contractor's** intention to subcontract giving **Company** the complete name and address of the proposed subcontractor and the part of the **Works** to be executed by this subcontractor. The **Contractor** shall not employ a proposed subcontractor if **Company** submits to **Contractor** in writing – and within three working days from being informed of name, address and part of work – an objection to employing the subcontractor and this objection is supported by good cause explained in writing in the objection letter.

In case such objection is supported by good cause, **Contractor** is not entitled to any additional remuneration because of the employment of a subcontractor other than the one initially proposed.

The **Parties** acknowledge that **Company** has not objected to employing the subcontractors contained in the list attached as **Exhibit 12 List of Subcontractors consented to.**

Subcontracting does not impact on **Contractor's** liability and responsibility under this **Agreement**. The **Contractor** remains liable for all acts and omissions of the subcontractors which shall be persons or entities engaged by **Contractor** for the fulfillment of **Contractor's** obligations (*Erfüllungsgehilfen des Contractors*). The **Contractor** shall use its best efforts in choosing subcontractors which are competent, capable and qualified to complete the Works to be executed by the respective subcontractor properly and in-time.

The **Contractor** explicitly affirms that its employees are paid at least minimum wages. The **Contractor** moreover affirms only to employ subcontractors and entities providing workers (*Verleiher i.S. des Arbeitnehmerüberlassungsgesetzes*) which equally compensate their employees by minimum wage. **Contractor** will – on demand – provide **Company** with the necessary documentation that **Contractor** as well as any subcontractor or entities providing workers have paid and will pay such minimum wage.

Contractor shall, simultaneously with signing this **Agreement**, sign the declaration attached to this **Agreement** as **Exhibit 13 Work Force Regulation** and shall impose on subcontractors at least the same obligations.

5.2. Personnel

The **Contractor**'s personnel shall be appropriately qualified, skilled and experienced in their respective trades and occupations, as to ensure professional execution of the works. **Contractor** shall impose on all subcontractors the obligation to employ and use equally qualified, skilled and experienced personnel.

Company may require the **Contractor** to remove (or cause to be removed) any of **Contractor**'s personnel, unless **Company** requires such removal unreasonably. **Contractor** shall impose on all subcontractors and the same obligation to remove (or cause to be removed) any of these subcontractors' personnel if **Company** reasonably so requires. **Company** shall have the right to inspect at any time if the **Contractor** and all subcontractors meet all applicable labor law requirements. Not meeting these requirements shall be considered a reason for termination for good cause.

Contractor shall not remove the key personnel listed below without prior written approval of **Company**.

Name	Title/Position
[***]*	Project Manager on site
[***]*	Deputy Project Manager
[***]*	Commercial Manager on site
[***]*	Executive Sponsor
[***]*	Executive Sponsor
[***]*	Executive Sponsor

* Confidential treatment has been requested pursuant to section IV.3. of the Confidential Treatment Request dated March 9, 2004.

The aforementioned key personnel - except Executive Sponsors - shall - except for times of vacation, holiday or illness—be present on **Site** at all time to ensure proper execution of the personnel's function and may not be used in other projects than the project underlying this **Agreement**.

The responsible person authorized to act on **Company's** behalf shall be [***]* and as substitute responsible person [***]*.

The responsible person authorized to act on **Contractor's** behalf shall be [***]* and as substitute responsible persons [***]*.

Such responsible and substitute responsible persons shall be authorized to enter into binding agreements and to give binding declarations (*Willenserklärungen*) for and against the respective **Party** represented.

6. Formal Acceptance

6.1. Formal Acceptance

After completion of the whole of the **Works** to be executed including, but not limited to, the tests to be performed (being precondition to acceptance) and the submission of all documents related to the execution of this **Agreement**, the **Parties** shall carry out a formal acceptance (*förmliche Abnahme*) to be documented in a protocol signed by authorized representatives of both **Parties**.

6.2. No prior Acceptance

Only finally and formally accepting the whole of the **Works** to be executed, including but not limited to, the tests to be performed and the submission of all documents related to the execution of this **Agreement** shall constitute an acceptance and not if a certain time from the notification of the completion has expired, or if **Company** has begun to use the relevant part of the **Works, Fab X** or parts thereof. No other declaration (than the Acceptance Certificate) by **Company** or by anybody acting on behalf of **Company** or any third party (as a

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lender) than the formal final acceptance shall be considered an acceptance or having any impact of an acceptance.

The acceptance may not be withheld in case of minor defects (*unwesentliche Mängel*).

However, if **Company** desires to accept or use a certain part of the **Works** or a certain part of **Fab X** prior to this formal final acceptance, **Company** has the right to request **Contractor** to participate in (a) partial acceptance (s) which then has/have to take place within one week from **Company** being requested in writing. If such partial acceptance has been formally carried out the risk regarding those **Works** covered by the partial acceptance is – unless defects were not detected by **Company** or hidden at the time of the partial acceptance – transferred to **Company**. However, the limitation period for defects liability shall – in any case - not commence prior to the day after the day of final acceptance.

In case damages and defects are caused by **Company** due to any kind of activities **Contractor** shall not be liable for any impact resulting thereof.

If in the course of any acceptance defects are ascertained, **Contractor** shall be obliged to remedy these defects within 10 weeks from the date of acceptance, unless this time period is not reasonable (*angemessen*). This does not affect or limit the right of **Company** to refuse the formal final acceptance (or if a partial acceptance has been carried out in accordance with this **Agreement**, the partial acceptance) according to Sec. 12 no. 3 *VOB/B*.

No acceptance - whether partial or final - to be granted in accordance with this agreement shall be unreasonably withheld.

Shortcomings and defects identified in the course of an acceptance shall be noted in a mutually developed punch list

7. Milestones; Contractual Penalty

7.1. Milestones (Vertragsfristen)

The following milestones allocated to the respective independent assets shall constitute contractual terms in the meaning of sec. 5 no. 1 VOB/B:

a) **CUB Weathertight**

All **Works** necessary or expedient for reaching **CUB Weathertight** (*Fertigstellung der äußeren Hülle des Central Utility Building*) as defined in **Exhibit 14 Milestone Definitions** shall be completed on [***]* at the latest.

b) **Fab Weathertight and Airtight**

All **Works** necessary or expedient for reaching **Fab Weather- and Airtight** (*Fertigstellung der äußeren Hülle des Fab Gebäudes*) as defined in **Exhibit 14 Milestone Definitions** shall be completed on [***]* at the latest.

c) **Fab X Ready for Equipment**

All **Works** necessary or expedient for reaching **Fab X Ready for Equipment** condition (which means that all independent assets of **FabX** (Office, Spine, CUB and Fab) are ready for equipment as defined in **Exhibit 14 Milestone Definitions**) shall be executed on [***]* at the latest.

The **Parties** clarify that in case hindrances or other delays which **Contractor** is not liable for (*die Contractor nicht zu vertreten hat*) or in case of **Contractor** being entitled to additional time due to requests of **Company** to execute changes or **Additional Works** (if and to the extent **Contractor** proves that such change or **Additional Works** result in a delay), **Contractor** shall not be in delay for these days and the date at which the part of the **Works** underlying the relevant milestone are to be completed is postponed by the number of working days by which due to such hindrance, delay or additional time the execution is delayed (which is calculated by applying the critical path method), provided, however, that **Contractor** is – under this **Agreement** – entitled to claim such additional time. The **Parties** acknowledge and confirm that there could be substantial hindrances, delays and orders to execute **Additional Works** which could lead to (a) substantial postponement(s) which would not lead to the provisions of this **Agreement** regarding milestones and contractual penalties no longer being applicable (however, the date(s) of the respective milestone(s) shall be postponed in accordance to this no. 7.1).

* Confidential treatment has been requested pursuant to section IV.1.(a) of the Confidential Treatment Request dated March 9, 2004.

7.2. Contractual Penalty (*Vertragsstrafe*)

a) If **Contractor** is, due to **Contractor's** fault, in delay with meeting the milestone **CUB Weathertight** provided for in no. 7.1.a) of this **Agreement** for more than [***]*, **Company** shall be entitled to a contractual penalty of

- [***]*
- [***]*
- [***]*

The total of any contractual penalty to which **Company** is entitled to for being in delay with meeting the milestone **CUB Weathertight** shall not exceed [***]*.

b) If **Contractor** is, due to **Contractor's** fault, in delay with meeting the milestone **Fab Weathertight and Airtight** provided for in no. 7.1.b) of this **Agreement** for more than [***]*, **Company** shall be entitled to a contractual penalty of

- [***]*
- [***]*
- [***]*

The total of any contractual penalty to which **Company** is entitled to for being in delay with meeting the milestone **Fab Weathertight and Airtight** shall not exceed [***]*.

c) If **Contractor** is, due to **Contractor's** fault, in delay with meeting the milestone **Fab X Ready for Equipment** provided for in no. 7.1.c) of this **Agreement** for more than [***]*, **Company** shall be entitled to a contractual penalty of

- [***]*
- [***]*

* Confidential treatment has been requested pursuant to section IV.1.(b) of the Confidential Treatment Request dated March 9, 2004.

- [***]*

The total of the contractual penalty to which **Company** is entitled for being in delay with meeting the milestone **Fab X Ready for Equipment** shall not exceed [***]*.

The Parties acknowledge and confirm that the entitlement to contractual penalty does not impact on **Company's** other or further rights or claims based on the delay, including, but not limited to, **Company's** right to claim compensation for damages because of such delay (*Verzugs- und/oder Verzögerungsschaden*) including, but not limited to, damage due to allowance not being granted (*Investitionszulagen*). These other or further rights or claims shall, however, be reduced by the amount of the contractual penalty to which **Company** is entitled.

The parties acknowledge and confirm, that the contractual penalty **Company** is entitled to shall be reduced to the amount of the actual damage (*Verzugs- und/oder Verzögerungsschaden*) including, but not limited to, damage due to allowance not being granted (*Investitionszulagen*) caused by the delay if the milestone **Fab Ready for Equipment** is met despite one of or both of the other penalized milestones were not met. If the contractual penalty had already been paid by **Contractor** and is to be reduced in accordance with the preceding sentence **Company** has to reimburse **Contractor** accordingly.

The Parties clarify that **Company** may reserve its right to demand a contractual penalty (*Vorbehalt der Vertragsstrafe*) until the due date of the final invoice.

7.3. Further Milestones

In addition, **Contractor** is obliged to complete the following milestones (some of which are defined in **Exhibit 14 Milestone Definitions**) by the following dates:

<u>Milestone</u>	<u>Date</u>
Spine weathertight	[***]*
Office weathertight	[***]*
Office ready for Occupation	[***]*

* Confidential treatment has been requested pursuant to section IV.1.(a) of the Confidential Treatment Request dated March 9, 2004.

Ready for Unrestricted Hook Up [***]*

The fact that these milestones are not subject to contractual penalty does not impact **Contractor**'s responsibility for meeting these milestones or **Contractor**'s liability for damages, losses etc. resulting from **Contractor** culpably being in delay with punctually completing the relevant part of the **Works** necessary for complying with the relevant milestone. In case of hindrances or other delays which do not result from culpable conduct of **Contractor** or in case of **Contractor** being entitled to additional time due to orders of **Company** to execute **Additional Works**, the last two sentences of no. 7.1. shall be applied accordingly.

7.4. Schedule

Contractor shall – within two weeks from signing this **Agreement** – furnish to **Company** a detailed schedule based on the milestones provided for in this **Agreement** and on the critical path method showing all activities and **Works** to be executed and the time frame within which these activities and **Works** shall be executed as well as the implications and consequences of these activities and **Works**, especially the impact of each activity or work on each other. The time schedule to be provided within two weeks from signature of this **Agreement** shall be based on and reflect the preliminary time schedule attached as **Exhibit 15 Time Schedule**. If the project falls behind schedule the **Contractor** shall prepare and submit for **Company**'s approval a recovery plan showing such actions as may be required to restore the schedule. **Contractor** shall only be entitled to compensation for additional costs of these actions, and these costs shall only be considered reimbursable costs, if **Contractor** proves that falling behind the schedule was not due to **Contractor**.

7.5. Force Majeure

Neither **Party** shall be liable for delays which are caused by events of force majeure. Occurrences beyond the control of the party affected shall constitute force majeure of such affected party, including, but not limited to, acts of governmental authority (excluding delays attributable to the party's delays or other fault and excluding proper exercise of the police power response to an

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improper act or omission of the affected party), unusually severe weather conditions (as defined in this section), strikes or other concerted actions of workmen (except to the extent caused by the affected party or persons or entities acting on the affected party's behalf (*Erfüllungsgehilfen*) and except to the extent that a strike had been announced in advance and provision could have been made to alleviate such strike's effects), fires, floods, explosions, riots, sabotage or shipwrecks (except to the extent such fires, floods, explosions, riots, sabotage, or shipwrecks were caused by the affected party or its agents, officers, representatives, subcontractors or vendors), war and rebellion. As used in this no. 7.5 of this **Agreement**, the term "unusually severe weather conditions" shall mean wheather condition that (i) **Contractor** establishes to **Company**'s reasonable satisfaction were not reasonable foreseeable and (ii) were sufficiently severe that thirty percent (30 %) of the work force employed on the **Site** were unable to work, and (iii) resulted in delay that affected the critical path set forth in the schedule provided for in no. 7.4 of this **Agreement**. Notwithstanding anything herein to the contrary, events of "force majeure" shall not include the following: (I) delays caused by general economic conditions or (II) delays caused by open market conditions, such as inability to procure labor or materials in the open market. Insufficiensies in the design of **Fab X**, rejection by **Company** pursuant to this **Agreement** of any proposed subcontractor or material or absense of **Contractor**'s representatives or other personnel shall also not be considered as a just cause of delay. **Contractor** shall be fully responsible for the timely ordering, scheduling, expediting, delivery, and installation of all material, items etc Therefore, delays by vendors in manufacture or delivery of materials, which delays are not caused by force majeure, or shortages of labor or materials resulting from general market conditions shall not be considered as a just cause of delay.

8. Distribution of Risk

Except otherwise provided in no. 6 the distribution of risk shall be exclusively governed by sections 644, 645 German Civil Code (*BGB*).

9. Defects Liability

9.1 Defects Liability

The limitation period for defects liability (*Gewährleistungsfrist = Frist in der Mängelansprüche verjähren*) shall be:

Wear and tear:	½ year
Electrical (electrical generating or transmitting equipment, such as transformers, switch gear, generators,, etc.):	two years
Rotating and fire exposed parts and bulbs:	one year
Piping and static as well as mechanical parts:	five years
Any other portion of the facility:	five years
Roof:	ten years

In case **Contractor** and **Contractor's** subcontractors or any vendors agree on a longer limitation period such longer limitation period shall apply. The reference in sec. 13 no 5 *VOB/B* to the limitation period in sec. 13 no 4 *VOB/B* shall be substituted by a reference to the limitation period provided for in this no. 9 of this **Agreement**. Section 13 no 4 *VOB/B* shall not apply. The limitations on the liability, especially on the liability for consequential damages, provided for in section 13 no. 7 *VOB/B* shall not apply.

9.2. Warranty

Contractor shall warrant that all and any **Works** are executed in accordance with this **Agreement** and that the result to be achieved (*Werkerfolg*) is in accordance with this **Agreement**.

9.3. Warranties

Contractor has carefully examined and is aware of the location of all and any means for supply of **Fab 30** and of **Fab X** and for disposal of substances, including, but not limited to, water, bulk gas, gas, light or electromagnetic

signals or impulses and energy, including, but not limited to, utilities and all and any means for disposal of such or like substances. **Contractor** is aware of all and any conditions which could have an impact, including, but not limited to, detrimental impact by vibrations, on the proper operation of **Fab 30** and/or on the proper production, including, but not limited to, the production of semiconductor processors, within **Fab 30**, including, but not limited to, those which could, will or could arise or which will or could be caused by the execution of the **Works** (or by the execution of changes or Additional Works) to be carried out by **Contractor** or by subcontractor. **Contractor** has carried out all surveys necessary or expedient to examine and review all and any **Site Conditions**, including, but not limited to surveys with respect to subsurface conditions, the vibration risk, the impact of radar (*Radargerätbarkeit*) and all risks which could lead to an interruption or limitation of the production or could have a detrimental impact on a proper operation of **Fab 30** or **Fab X** or the unlimited, unrestricted and proper production, including, but not limited to, the production of semiconductor processors, within the **Fab 30** or **Fab X**.

Contractor warrants (i) that the work, the **Works**, any changes and **Additional Works** and the design shall satisfy **Company's** requirements for clean room air quality, process equipment (unless unknown by **Contractor**), vibration, particularity, air, water and other quality requirements of **Company**; (ii) that the execution of the **Works** and of any changes and **Additional Works** will not lead to any vibrations which affect, influence, disturb or have any other detrimental impact on the unlimited, unrestricted, and proper operation of **Fab 30** or **Fab X** or on the unlimited, unrestricted and proper production, including, but not limited to, the production of semiconductor processors, within **Fab 30** or **Fab X** and that the **Works** any changes and **Additional Works** or the execution of the **Works** any changes and **Additional Works** will not affect, influence, disturb or have any other detrimental impact on the unlimited, unrestricted and proper operation of **Fab 30** or **Fab X** or on the unlimited, unrestricted and proper production, including, but not limited to, the production of semiconductor processors, within **Fab 30** or **Fab X**; (iii) that **Contractor** has only employed and selected and will only use such means and methods which cannot affect, influence, harm or have any other detrimental impact on the unlimited, unrestricted and proper operation of **Fab 30** or **Fab X** or on the unlimited, unrestricted and proper production, including, but not limited to the production of semiconductor processors, within **Fab 30** or **Fab X**; (iv) that **Contractor** has carefully examined and reviewed any and all means and methods to be employed for the execution of the **Works** any changes and **Additional Works** to be executed under this **Agreement**; (v) that **Contractor**

has examined and knows all and any facts, events and circumstances which might be relevant to, or could affect, influence, harm, or have any other detrimental impact on, the unlimited, unrestricted and proper production, including, but not limited to, the production of semiconductor processors, within **Fab 30** or **Fab X**, (vi) that **Contractor** has performed all and any surveys and tests necessary to examine and know all and any **Site Conditions**; (vii) that there are no **Site Conditions** which could be relevant to, or affect, influence, harm or have any other detrimental impact on the proper execution of, the **Works** any changes and Additional Works to be performed under this **Agreement**, or which might be relevant to, or could affect, influence, harm or have any other detrimental impact on the proper operation of **Fab 30** or **Fab X** and the unrestricted, unlimited and proper production, including, but not limited to, the production of semiconductor processors, within **Fab 30** or **Fab X**, (viii) that **Contractor** has carefully examined the Site and is aware of the location of any means through which **Fab 30** or **Fab X** is or will be supplied, including, but not limited to, the supply with water, bulk gas, other gas, electricity, light or electromagnetic signals or impulses, including, but not limited to, utilities and all any means for the disposal of such or like substances, (ix) that—unless agreed upon otherwise between the **Parties** - the **Works** any changes and **Additional Works** will not lead to any vibrations exceeding 250 microinch/sec for ATPC and 320 microinch/sec Malab for and that **Contractor** is responsible for all **Site Conditions**.

If mutually agreed upon between the parties, **Contractor** shall be granted defined shut down periods, if and to the extent such shut downs are absolutely necessary for proper execution of the **Works**. Such shut downs may only be granted, if and to the extent the operation of and production within **Fab 30** is impacted to the lowest degree possible.

10. Securities

10.1. Retention

Company may retain from any payment to be made under this **Agreement** an amount equal to a total of [***]* of the gross remuneration due at the relevant

* Confidential treatment has been requested pursuant to section IV.1.(b) of the Confidential Treatment Request dated March 9, 2004.

time. Therefore, **Company** is only obliged to pay [***]* of the amounts which are due under invoices submitted in accordance with this **Agreement**. At the time of final formal acceptance **Company** may retain this amount as defects liability security (*Gewährleistungssicherheit*). **Company** will pay **Contractor** said amount retained—to the extent not used in accordance with this **Agreement** to remedy defects – (i) at the expiration date of the defect liability period (*Gewährleistungsfrist = Frist in der Mängelansprüche verjähren*) or (ii) at the date of **Contractor** furnishing a defects liability bank guarantee (*Gewährleistungsbürgschaft*) issued by a German bank or savings bank.

10.2. Performance Guarantee (Vertragserfüllungsbürgschaft)

The **Contractor** shall deliver to **Company** a performance guarantee (*Vertragserfüllungsbürgschaft*) meeting the requirements of sec. 17 VOB/B and conforming to the sample attached as **Exhibit 16 Performance Guarantee**. The guarantee shall be issued by a German bank or savings bank. The amount of this guarantee shall be [***]* of the gross remuneration. The guarantee shall secure the execution of all and any obligations of **Contractor** under this **Agreement** as well as furnishing a defects liability guarantee. If the performance guarantee has not been used, the **Company** shall return the performance guarantee after the date of final acceptance simultaneously (*Zug-um-Zug*) to the defects liability guarantee being furnished by **Contractor**. No payment whatsoever shall be due prior to handing over such guarantee.

10.3. Defects Liability Guarantee (Gewährleistungsbürgschaft)

If **Contractor** – after final acceptance – furnishes a defects liability bank guarantee (*Gewährleistungsbürgschaft*) to release the amount retained under no. 10.1. of this **Agreement**, this guarantee shall conform to the sample attached as **Exhibit 17 Defects Liability Guarantee** and meet the requirements of sec. 17 VOB/B. This defects liability bank guarantee shall – to the extent it has not been made use of in accordance with the provisions of this **Agreement** – be returned upon expiry of the limitation period for defects liability as provided for in no. 9 of this **Agreement**.

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The amount of this guarantee shall be [***]* of the gross remuneration (total of the gross remuneration under no. 3.1 of this **Agreement**). However, **Contractor** has—upon expiry of the limitation period for the **Works** except for the part of the **Works** related to the roof the right to reduce this bank guarantee to [***]* (or the retention of no bank guarantee has been delivered) of the gross remuneration relating to the roof—by providing a bank guarantee of [***]* relating to the gross remuneration with respect to the roof simultaneously (*Zug-um-Zug*) to handing back the guarantee of [***]* of the gross remuneration (or the remainder thereof if of the bank guarantee has (partly) been made use of).

10.4. Assignment for Security Purposes

Contractor assigns for security purposes (*tritt sicherungshalber ab*) to **Company** all and any claims, including, but not limited to, claims related to defects liability (*Gewährleistungsansprüche* which includes *Mängelansprüche*), performance (*Erfüllungsansprüche*), against any or all (*einzelne oder alle*) of its subcontractors and other contractors, as architects engineers and the like, vendors and other persons or entities which **Contractor** employs for and related to fulfilling its duties under this **Agreement**. **Company** accepts this assignment. **Company** may only foreclose on this assignment to the respective subcontractor if the **Contractor** is – despite receipt of a written warning notice explicitly notifying **Contractor** that not remedying the delay despite the notice will lead to such foreclosure to the respective subcontractor—in delay with duties under this **Agreement**. The **Contractor** is obliged, in its name, to raise and enforce these claims assigned for security purposes until the relevant assignment is foreclosed on vis-à-vis the relevant person or entity (*geltendmachen in eigenem Namen und für eigenes Recht*).

10.5. Security to be provided by Subcontractors

Contractor shall oblige its subcontractors to deliver security corresponding to that provided for in no. 10.2 and 10.3 and shall assign the rights and claims for security purposes corresponding to no. 10.4.

* Confidential treatment has been requested pursuant to section IV.1.(b) of the Confidential Treatment Request dated March 9, 2004.

11. Copyrights (Urheberrechte)

11.1. Confirmation

Contractor confirms that it holds all and any rights transferred to or made usable by **Company** under this **Agreement** and holds harmless and indemnifies **Company** from any result or impact of **Contractor** not being, or not being unlimited, holder of these rights.

11.2. Rights to Ideas and other intellectual Property

The **Parties** agree, confirm and acknowledge that, except for the copyright connected to the person developing an idea (the author) (*Urheberpersönlichkeitsrecht*), all copyrights and any other intellectual property rights related to **Fab X** shall be transferred to **Company**.

Therefore, **Contractor** agrees that all writings, software, drawings, designs, copyrightable material, improvements, developments, inventions and discoveries (collectively referred to as the "**Ideas**") made conceived, developed, reproduced, produced or the like by **Contractor** (including **Contractor's** subcontractors unless the respective subcontractor does not consent to such transfer even if **Contractor** uses best efforts to get the respective transfer, in which case **Contractor** shall inform **Company** for giving **Company** the opportunity to take care of such transfer which **Contractor** shall support with all reasonable means) during the course of this **Agreement** and/or related to **Fab X** which relate in any manner to **Company's** business and/or the **Works** to be executed, or which **Contractor** may become associated with while executing the **Works**, shall only be used and utilized by **Company**, and **Contractor** hereby transfers to the **Company** all right, title and interest to use and utilize such **Ideas**.

Contractor agrees to assist **Company** in all and any proper way to enable **Company** to defend and enforce **Company's** aforementioned rights in and to such **Ideas** in any and all countries and jurisdictions, including the disclosure to **Company** of all pertinent information and date with respect thereto, and the execution of all applications, specifications, oaths, assignments and all and any other instruments which are reasonably necessary in order to apply for and obtain copyright protection, mask works registration and/or patents and in order

to assign and convey to **Company**, **Company's** successors, assignees and nominees, sole and exclusive rights, title and interest in and to such copyrights, mask works, inventions, patent applications and patents.

Contractor's obligation to execute (or cause to be executed) instruments or papers such as those described in the above paragraph shall continue after completing all **Works**. If testimony or information related to any of the aforementioned matters or related to any interference and/or litigation, including, but not limited to, any administrative procedures, is required by the **Company** either prior to the completion of the **Works** or later on, **Contractor** agrees to give all information and testimony and do all things requested by **Company** that **Contractor** may lawfully do.

In the event the **Company** should not seek to obtain copyright protection, mask work registration or patent protection or patent protection for any of said **Ideas** but should desire to keep the same secret, **Contractor** agrees to assist the **Company** in this and will not disclose any information as to the same except if, and if so to the extent, required by law or consented to in writing by the **Company**.

Contractor shall obtain the written agreement of all subcontractors that these subcontractors comply with this no 11.2 of this **Agreement** and especially that – to the degree provided for in the second paragraph of this no. 11.2 – any transferable right relating to copyright and **Ideas** regarding **Fab X** is transferred to the **Company**. **Contractor** confirms that **Contractor** is able to transfer all such rights of third parties (including subcontractors) to the **Company** and indemnifies and holds harmless from any impact of these rights not having been properly transferred to **Company** in accordance with this **Agreement**.

Contractor agrees to obtain **Company's** written approval prior to the inclusion of any third party intellectual property or pre-existing **Contractor** intellectual property, including, but not limited to, software and documentation, into any **Works** executed or product of **Works** executed or items furnished by **Contractor** under this **Agreement**. **Company** may decline to give such approval at **Company's** sole discretion. **Contractor** ensures that **Contractor** has the right to include such third party intellectual property or pre-existing **Contractor** intellectual property in any **Works** executed and any products of **Works** executed and any items furnished by **Contractor** and that **Company** shall have the right to use such third party intellectual property or pre-existing **Contractor** intellectual property in any **Works** executed or any products of **Works** executed and any items furnished by **Contractor** under this **Agreement**

to the same extent as **Company** may use such **Works** executed or product of **Works** executed or items furnished by **Contractor** pursuant to this **Agreement**.

Contractor ensures that the execution of **Works** and the transferred exclusive rights to use the **Ideas** does not infringe any third party proprietary rights.

In the event **Company**'s use of the **Ideas** in accordance with the provisions of this **Agreement** becomes subject to infringement proceedings initiated by a third party, **Contractor**, at **Company**'s option and in addition to **Company**'s other rights under the law, shall be obligated, irrespective of its culpable behaviour, to procure at **Contractor**'s expense the right for **Company** to use the **Ideas** in accordance with the provisions of this **Agreement**. **Company** may set a reasonable period of time for **Contractor** to provide such remedy and in case **Contractor** does not procure the right for **Company** to use the **Ideas** within the period set **Company** shall have the right to procure the right for **Company** to use the **Ideas** on **Contractor**'s reasonable costs and to deduct the amount necessary for procuring the right for **Company** to use the **Ideas** from the remuneration **Contractor** is entitled to under this **Agreement**.

Upon **Company**'s request, **Contractor** shall, at **Contractor**'s reasonable cost, either itself defend or settle or provide any reasonable support for **Company** to defend or settle any legal dispute which is brought against **Company** on account of the alleged infringement of a third party proprietary right as a consequence of **Company**'s use of the **Ideas** in accordance with the provisions of this **Agreement**. **Contractor** shall reimburse **Company** any reasonable costs and reasonable expenses arising out of or in connection with such a legal dispute and shall indemnify **Company** for any damages awarded against **Company** in such a legal dispute.

11.3. Payment included in Lump Sum

The **Parties** agree, clarify and acknowledge that the remuneration for the transfer and the assignment of these **Ideas** and copyrights and the aforementioned rights of **Company** is included in the lump sum remuneration provided for in no. 3.1. of this **Agreement**.

12. Lender

The **Parties** acknowledge and confirm that **Company** has the right to transfer this **Agreement** or assign claims or rights thereunder.

13. Termination

13.1. Termination Rights provided for in VOB/B

The **Parties** may terminate this **Agreement** in accordance with the provisions of VOB/B.

13.2. Extraordinary Termination Right

In addition, **Company** shall have an extraordinary termination right if the co-operation agreement between the Free State of Saxony, Advanced Micro Devices Inc. and M+W Zander Fünfte Verwaltungsgesellschaft mbH of November 20, 2003 (Kooperationsvertrag vom 20. November 2003) may be terminated under the termination rights provided for in the co-operation agreement or if the co-operation agreement does not become valid until March 31, 2004.

In case of exercising such extraordinary termination right Contractor shall be entitled to the remuneration agreed upon for Works executed (inclusive profit if profit was included in the remuneration due until the termination date), remuneration for commitments vis-à-vis third parties which Contractor made in the due course of performing this Agreement but only if and to the extent Contractor proves that the respective commitment or the resulting remuneration can not be avoided or reduced. Contractor shall not be entitled to any profits relating to the works not executed. Section 649 German Civil Code (*BGB*) shall not apply.

14. Liability

14.1. Contractor generally liable

The **Contractor** shall be liable for the execution of the **Works** and the compliance with all and any provisions of this **Agreement**.

Contractor shall comply with all statutory, legal, regulatory, accident insurance or other rules etc., e.g. dangerous goods regulations (*Gefahrgutverordnung*) and all environmental provisions which apply to this **Agreement**, the execution of the **Works** and the product (*Werkerfolg*) to be completed.

Contractor shall indemnify and hold harmless **Company** (including its representatives and employees) from and against all claims, damages, losses, expenses and the like arising from, or in connection with or related to this **Agreement**, the execution of the **Works** and the product (*Werkerfolg*) to be completed.

Contractor shall be responsible for **Contractor's** subcontractors and all and any conduct of **Contractor's** subcontractors. **Contractor's** subcontractors shall be persons or entities engaged by Contractor for the fulfillment of **Contractor's** obligations (*Erfüllungsgehilfen des Contractors*).

14.2. Liability for Damages

The **Parties** explicitly acknowledge and clarify that this includes the obligation of **Contractor** to indemnify and hold harmless Advanced Micro Devices Inc., AMD Saxony LLC & Co. KG, AMD Saxony LLC, AMD Saxony Holding GmbH and AMD Saxony Admin GmbH and the officers and employees of Advanced Micro Devices Inc., AMD Saxony LLC & Co. KG, AMD Saxony LLC, AMD Saxony Holding GmbH and AMD Saxony Admin GmbH from and against all claims, damages, losses, expenses and the like arising from, or in connection with or related to, this **Agreement** or the execution of the **Works** regardless of whether Advanced Micro Devices Inc., AMD Saxony LLC & Co. KG, AMD Saxony LLC, AMD Saxony Holding GmbH and AMD Saxony Admin GmbH have, because of such claims, damages, losses, expenses and like, claims against **Contractor** or not (and regardless whether these claims, damages, losses, expenses and the like refer to **Fab 30** or **Fab X**). **Contractor**

shall - in accordance with other agreements - put **Company**, Advanced Micro Devices Inc., AMD Saxony LLC & Co. KG, AMD Saxony LLC, AMD Saxony Holding GmbH and AMD Saxony Admin GmbH in the economic position in which they would have been without the detrimental impact of such conduct. Advanced Micro Devices Inc., AMD Saxony LLC & Co. KG, AMD Saxony LLC, AMD Saxony Holding GmbH and AMD Saxony Admin GmbH shall have rights on their own under this no. 14 of this **Agreement** (*echter Vertrag zu Gunsten Dritter*).

The **Parties** clarify that this is not supposed to create a liability which is not dependent on **Contractor's** culpable conduct (*verschuldensunabhängige Haftung*) unless created outside this 14.2.

14.3. Limitations on Liability

The overall liability of **Contractor** shall, as exception to 14.1, be subject to the following:

14.3.1. If and to the extent damage occurs outside the **Site** as defined in Recital A and is not related to the execution of the **Works** under this **Agreement** and such damage does not result from gross negligent or intentional conduct of **Contractor** the liability of **Contractor** for such damages shall be limited to the insurance coverage amounts provided for in no. 14.4 ([***]* per occurrence and of [***]* per calendar). If the insurance company does not compensate the damage, **Contractor** shall in all cases be obliged to compensate **Company** for the damage to the extent that **Company** receives in total up to a maximum of [***]*. If the insurance company had paid more than [***]* but refuses to pay due to **Contractor's** breach of the insurance contract **Contractor** shall pay to **Company** the entire amount **Company** would have received without such breach. **Contractor** shall assist **Company** in all and any proper way to enable **Company** to be reimbursed in accordance to the first sentence of this no. 14.3.1. **Contractor** assigns to **Company** (and **Company** accepts this assignment) all and any claims related to **Company's** damages against third parties exceeding the amounts payable (by **Contractor** and/or insurance company) to **Company** under sentences 1-3 of this no. 14.3.1 and **Contractor** shall assist **Company** in all and any proper way to enable **Company** to enforce such claims.

* Confidential treatment has been requested pursuant to section IV.1.(b) of the Confidential Treatment Request dated March 9, 2004.

There shall be no limitation on **Contractor's** liability for damages resulting from **Contractor's** gross negligent or intentional conduct.

14.3.2. If and to the extent consequential damage, e.g. loss of profit, loss of production, loss of use, loss of interest, plant downtime costs, occurs and does not result from gross negligent or intentional conduct the liability of Contractor shall be limited to [***]*. **Contractor** assigns to **Company** (and **Company** accepts this assignment) all and any claims related to **Company's** damage against third parties exceeding the amounts payable (by **Contractor**) to **Company** under the first sentence of this no. 14.3.2 and **Contractor** shall assist **Company** in all and any proper way to enable **Company** to enforce such claims.

There shall be no limitation on **Contractor's** liability for damages resulting from **Contractor's** gross negligent or intentional conduct.

14.3.3. The **Parties** clarify and confirm that the amount of damages **Company** shall be entitled to in case of delay shall be limited to a maximum of the potential maximum amount of contractual penalties [***]*. The Parties clarify that such damage includes, but is not limited to damage resulting from delays (*Verzögerungs- und Verzugsschäden*) including, but not limited to, all and any losses due to allowances not being granted (*Verluste dadurch, daß Investitionszulagen nicht gewährt wurden*).

Contractor assigns to **Company** (and **Company** accepts this assignment) all and any claims against third parties related to **Company's** damage exceeding any amounts payable (by **Contractor**) to **Company** under sentences 1-2 of this no. 14.3.3 and **Contractor** shall assist **Company** in all and any proper way to enable **Company** to enforce such claims.

[***]*.

14.4. Insurance

Contractor shall conclude, and maintain during the entire term of this Agreement, a liability insurance (*Haftpflichtversicherung einschließlich Betriebshaftpflichtversicherung, Bauwesen- und Montageversicherung sowie Umwelthaftpflichtversicherung*) of a coverage of not less than [***]* per occurrence and of [***]* per calendar year each.

* Confidential treatment has been requested pursuant to section IV.1.(b) of the Confidential Treatment Request dated March 9, 2004.

This insurance shall also cover damages caused by persons or entities engaged by **Contractor** for the fulfillment of **Contractor's** obligations (*Erfüllungsgehilfen des Contractors*, e.g. employees, legal representatives or subcontractors).

Company shall be named as co-insured (*zusätzlicher Versicherter*).

Contractor guarantees and confirms that it will always - and in time – pay the premiums and other amounts to keep the said insurances valid and in force. **Contractor** shall oblige the insurance companies to notify **Company** in case **Contractor** does not meet **Contractor's** obligations under the insurance policies and in case of changes with respect to the insurance policy. In this case **Company** shall have the right to pay the amounts due and to deduct these amounts from any payments to be rendered to **Contractor** under, or connected to, this **Agreement**.

The **Parties** shall – on request of either **Party** – in good faith enter into negotiations with respect to mutually agreed reasonable amendments to the insurance contract.

14.5. Nature of Company's Approval

Notwithstanding any review, revision, comment or approval by **Company** of, or failure to review, revise, comment or approve, any of the **Works** or any **Design Document**, other documents, specifications, drawings, data, information, sheets, letters, materials etc. of **Fab X**, **Contractor** shall remain solely responsible for all **Works**, the execution thereof and all obligations under this **Agreement**.

14.6. Contractor's Responsibility for Construction Means

Contractor shall be solely and completely responsible for all construction means, methods, techniques, and procedures for providing adequate safety precautions and coordinating all portions of the **Works** under the **Agreement**, including without limitation implementing an effective safety program as required by **Exhibit 9 EHS Program**. In no event shall the lack of objection by **Company** to any action or inaction upon the part of **Contractor**, be construed to make **Company** in any manner whatsoever responsible, e.g. for **Contractor's** construction means, methods, techniques, or procedures.

15. Identification

Contractor shall meet the identification standards set by **Company** and all of **Contractor**'s officers or employees shall display proper identification at all times while entering the **Site** or while on the **Site**. Moreover, **Contractor** shall impose the same obligations on **Contractor**'s subcontractors and on anybody involved in relation to the execution of this **Agreement**.

16. Liens (Rechte Dritter)

No item, material, component etc. used by **Contractor** in the course of executing the Works shall be subject to rights of third parties (e.g. *Eigentumsvorbehalt* or *Pfandrecht*).

17. Confidentiality

The **Parties** shall treat this **Agreement** and any details of the **Agreement** and the **Works** under the Agreement as well as all details of **Fab X** and the operation of, and production within, **Fab X** and all information gathered in the course of executing this **Agreement** in confidence except to the extent necessary to carry out obligations under it or to comply with applicable law. Moreover, **Contractor** shall impose the same obligations on **Contractor**'s subcontractors and on anybody involved in relation to the execution of this **Agreement**.

In addition, **Contractor** shall meet, and shall impose on all persons acting on **Contractor**'s behalf the obligation to meet, the confidentiality requirements provided for in this **Agreement**.

The **Parties** clarify that the confidentiality standards relating to C 4 process or building related to C 4, of which **Contractor** is aware shall be obeyed at any time. **Contractor** shall make all subcontractors to also meet these confidentiality standards. The **Parties** shall cooperate in good faith to comply with confidentiality standards of third parties related to C 4.

The confidentiality obligations of **Contractor** shall include, but not be limited to, the following:

- a) All communications and information obtained by **Contractor** from **Company** relating to this **Agreement**, and all information developed by **Contractor** under this **Agreement**, are confidential (“Confidential Information”). Without the prior written consent of **Company**, **Contractor** shall neither divulge to, nor discuss with, any third party either **Works** executed hereunder, or any **Confidential Information** in connection with such **Works**, except as required by law or, upon consultation with **Company**, necessary for the execution of this **Agreement** unless **Company** objects for good cause. Prior to any disclosure of such matters, whether as required by law or otherwise, **Contractor** shall inform **Company**, in writing, of the nature and reasons for such disclosure. **Contractor** shall not use any **Confidential Information** obtained from **Company** for any purpose other than the performance of this **Agreement**, without **Company**’s written prior consent.
- b) The foregoing obligations shall not apply to the extent that the **Party** which has received the **Confidential Information** can show that such **Confidential Information** of the disclosing **Party** (i) was in the possession of the receiving party or known to it before receipt from the receiving **Party**, or (ii) has become generally known through no fault of the receiving **Party**, or (iii) was legally disclosed to the receiving **Party** by another person without restriction, or (iv) was independently developed by the receiving **Party**, or (v) had to be revealed in accordance with statutory or administrative provisions, or (vi) was revealed by the receiving **Party** after prior written consent of the disclosing **Party** which is deemed to be given to the extent reasonably necessary for financing.
- c) In the case of **Contractor** subcontracting in accordance with no. 5.1 , **Contractor** may disclose to any subcontractor, or **Company** approved third parties, any information otherwise subject to above (a) that is reasonably required for the performance of the subcontractor’s work. Prior to any such disclosure, **Contractor** shall obtain the respective subcontractor’s written agreement to the requirements of above (a) and shall provide a copy of such agreement to **Company**. Disclosing information reasonably required for the performance of the subcontractors work to nominated subcontractors as listed in no. 5.1 shall be deemed to be consented to by **Company**.

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- d) **Contractor** agrees that it shall not publish or cause to be disseminated through any press release, public statement or marketing or selling effort any information which relates to this **Agreement** without the prior written approval of **Company**.
 - e) At the completion of the execution of the **Works**, **Contractor** shall return to **Company** all written materials constituting or incorporating any **Confidential Information** obtained from **Company**. Upon **Company**'s specific approval, **Contractor** may retain copies of such materials, subject to the requirements of above Subsection a).

18. Section 648 BGB not applicable

Section 648 German Civil Code (*BGB*) shall not be applicable.

19. Law and Jurisdiction Miscellaneous

This **Agreement** shall be governed by and construed in accordance with the laws of the Federal Republic of Germany except for the provisions regarding conflict of laws (*Internationales Privatrecht*) and the CISG.

Any change or amendment of this **Agreement** shall be in writing. This also applies to an change or amendment of the clause that changes or amendments shall be in writing.

All notices to be given under or related to this **Agreement** shall be in writing.

Contractor explicitly warrants that it has not directly or indirectly offered or given, and will not offer or give, to any employee, agent, or representative of **Company** any cash or non-cash gratuity or payment with a view toward securing any business from **Company** or influencing such person with respect to the conditions or the performance under any contracts (including this **Agreement**) with or order from **Company**, including without limitation this **Agreement**.

The **Parties** submit, with respect to any disputes arising in connection with this **Agreement**, to the exclusive jurisdiction of the courts of *Dresden*, as far as legally permissible.

If a clause of this **Agreement** is or becomes void, the other clauses of this **Agreement** shall not be affected by such invalidity. The **Parties** shall agree on a clause having the same or a similar economic effect as the void clause to achieve the economic purpose of the void clause.

The **Parties** clarify that (unless agreed otherwise in this **Agreement**) if and to the extent Exhibits are not prepared at the time of signing this **Agreement** or not finalized at the time of signing this **Agreement** the **Parties** shall in good faith and in good time agree on the contents of such Exhibit not prepared or if an Exhibit is not finalized the **Parties** shall in good faith and in good time finalize the Exhibit. The validity of this **Agreement** shall not be impacted by such missing or not finalized Exhibits.

If any deviation between the English terms in this **Agreement** and the German terms or explanations to such English terms occur, the German terms or explanations shall prevail for the interpretation of this **Agreement**.

20. Condition Subsequent

This **Agreement** is subject to the condition subsequent (*auflösende Bedingung*) that to the Co-operation Agreement between the Free State of Saxony, Advanced Micro Devices Inc. and M+W Zander Fünfte Verwaltungsgesellschaft mbH of November 20, 2003 (Kooperationsvertrag vom 20. November 2003) is consented to by the supervisory board of Jenoptik AG and consented to by the supervisory board of M+W Zander Holding AG by December 15, 2003. If such condition subsequent occurs (*Eintritt der auflösenden Bedingung*) the provisions under no. 9, 11, and 17 shall survive this **Agreement** and any claims by Contractor (except for claims under the letter of intent of May 16, 2003 as amended under the letters of August 13, 2003 and November 3, 2003) of shall be governed by section 812 sq. (*fortfolgende*) German Civil Code (*BGB*).

Company

Contractor

Dresden, _____ /s/ HANS-RAIMUND DEPPE

Dresden, _____ /s/ HELMUT LAUB

Cooperation Agreement
(hereinafter referred to as the “**Agreement**”)

between

1. **The Free State of Saxony**, represented by the Saxon State Ministry of Finance and the Saxon State Ministry for Economic Affairs and Labor, represented by the Minister Dr. Horst Metz and Undersecretary Mrs. Andrea Fischer

- hereinafter referred to as “**Saxony**” -

and

2. **Advanced Micro Devices, Inc.**, One AMD Place, Sunnyvale, CA 94088, USA

- hereinafter referred to as “**AMD**” -

and

3. **M+W Zander Fünfte Verwaltungsgesellschaft mbH**, Lotterbergstr. 30, 70499 Stuttgart, entered under HRB 23351 in the Commercial Register of the Stuttgart Local Court (Amtsgericht)

- hereinafter referred to “**M+W**” -

Saxony, AMD and M+W will each be hereinafter referred to as a “**Party**” and together as the “**Parties**”.

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PREAMBLE

The maintenance and development of Saxony as a center for microelectronics, in particular, of Dresden as a high-technology location, is a top priority political and structural goal of Saxony, in order to maintain existing and secure new qualified jobs. AMD intends to build a new facility in Dresden for the production of 300mm silicon wafers on which integrated circuits, particularly for microprocessors, will be manufactured (the “**Wafers**”). In addition to production, own research and development on a considerable scale to develop up to suitability for industrial production semiconductor manufacturing technology will be carried out at the new facility.

In December 2002, AMD entered into an extensive agreement with IBM for joint development (the Joint Development Agreement, hereinafter referred to as the “**JDA**”) of a technological basis for the production of chips for high-performance products of the future. The JDA encompasses cooperation on the 65- and 45 nm technology generations with the possibility of even smaller sized structures. This groundwork will be carried out on the basis of the 300 mm Wafers. AMD intends to use the results of this groundwork under the JDA in a new wafer production facility in particular for micro processors to be built in Dresden (hereinafter referred to as “**Fab X**”) with the support and participation of Saxony, to develop them to the industrial production stage and to manufacture them. The manufacturing technology is intended to be adjusted, by continuous and rapid improvement, to the requirements of mass production and further developed in accordance with market requirements. The management consultancy Arthur D. Little GmbH has on the instructions of Saxony examined and confirmed the technical and economic feasibility of Fab X in a report (hereinafter referred to as the “**ADL Report**”).

Fab X is intended to be built beside the existing Fab 30. The commencement of industrial production is planned for 2006. The full capacity for the exclusive requirements of AMD is intended to be [***]* Wafer outs per month. Buildings and clean room are designed for a capacity of [***]* Wafer outs per month, [***]*. Up to approx. 1,035, and [***]* up to 1,400 -qualified new jobs are intended to be created in Fab X. Additional jobs at suppliers will also result. Saxony attaches particular importance on the fact that the technological and financial basis of Fab X is secured as much as pos-

* Confidential treatment has been requested pursuant to section IV.2. of the Confidential Treatment Request dated March 9, 2004.

sible and will be further developed in Fab X and furthermore that its capital bears reasonable interest (“stand alone”). A declaration of intent was entered into between Saxony and AMD on [***]*, concerning the cooperation. The said declaration of intent is attached as **Appendix A** to this Agreement, the purpose of which is to implement the declaration of intent.

Fab X is intended to be built and operated by a special purpose entity in the form of a German limited partnership. The Parties intend to hold capital interests in such entity, and it is up to them whether they hold such interests directly or through separate holding companies, however, the contribution of Saxony and of M+W will partly be made in the form of a limited partner participation, and partly in the form of a typical silent partner participation. In addition, M+W simultaneously enters into a general contractor’s agreement for the construction of the necessary building modules and infrastructure. The general contractor’s agreement is attached as **Appendix B** hereto.

§ 1 Objectives

- 1.1 The Parties intend to cooperate as direct or indirect partners for the purpose of the construction and operation of Fab X as further set out in the draft limited partnership agreement attached hereto as **Appendix 1.1(a)** (the “**Limited Partnership Agreement**”), and to create the financial bases for this. Besides, in accordance with the draft agreement attached hereto as **Appendix 1.1(b)** on the formation of a silent partnership (the “**Silent Partnership Agreement**”), Saxony and M+W will participate as typical silent partners in the joint undertaking (both agreements hereinafter together referred to as the “**Partnership Agreements**”). With respect to the limited partner participations and the silent partner participations of Saxony and M+W, the purchase agreements which are attached in their draft versions as **Appendix 1.1(c)** and **Appendix 1.1(d)** will be executed.
- 1.2 The joint undertaking is to be provided within the framework of this Agreement with the tangible and intangible resources and personnel so that a stand-alone operation of Fab X is ensured to the extent possible and financially reasonable. This also includes the License Agreement attached as **Appendix 1.2**.

* Confidential treatment has been requested pursuant to section IV.2. of the Confidential Treatment Request dated March 9, 2004.

1.3 The details of the project including the expected investment costs shall be in accordance with the project description attached hereto as Appendix 1.3.

§ 2 Formation of a Joint Undertaking

2.1 AMD has formed a limited liability partnership Limited Liability Company & Co. KG for the realization of the project.

2.2 The joint undertaking will be conducted in the name of AMD Fab X Limited Liability Company & Co. KG (hereinafter referred to as “**AMD Fab X**”).

2.3 Immediately upon taking effect of this Cooperation Agreement (see § 18), Saxony and M+W shall, in accordance with the Limited Partnership Agreement attached hereto as Appendix 1.1(a), join AMD Fab X as limited partners with legal and economic effect as of the day on which they are both entered in the Commercial Register. The Parties agree to execute the Limited Partnership Agreement of Fab X and to effect the registration in the Commercial Register immediately upon taking effect of this Cooperation Agreement. The Parties agree to sign the Silent Partnership Agreement attached hereto as Appendix 1.1(b) immediately upon taking effect of this Cooperation Agreement.

2.4 [***]*

2.5 AMD Fab X LLC will conduct the business of AMD Fab X as the general partner with sole power of management and representation. In addition to those mentioned in Section 2.3 above, AMD Fab X Holding GmbH and AMD Fab X Admin GmbH shall be limited partners of AMD Fab X. The conduct of the operative business shall be the sole responsibility of the general partner AMD Fab X LLC, subject to the Limited Partnership Agreement. The other general partner will be a German limited liability company [GmbH] whose shares will be held by Saxony or the Saxony Holding Company (“**Second General Partner**”); the Second General Partner shall have no power of management and no power of representation and will participate neither in the assets nor in the results of AMD Fab X.

* Confidential treatment has been requested pursuant to section IV.1.(c) of the Confidential Treatment Request dated March 9, 2004.

§ 3 ADL Report

On the instructions of Saxony and on the basis of information and intended plans provided by AMD and AMD's subsidiaries – in particular the business plan provided, ADL has prepared the ADL Report on the economic and technological feasibility. For reasons of strict confidentiality, the ADL Report is not attached to this Agreement, but one copy each will be provided to Saxony as principal, AMD and M+W. Saxony will grant to AMD Fab X a right of co-use in the ADL Report. The ADL Report is to be treated with the strictest confidentiality within the recipients' organizations. AMD warrants that the information provided to ADL by AMD and AMD subsidiaries for the purpose of ADL preparing the expert opinion was given to the best of their knowledge and belief and that the business plan was drawn up according to recognized commercial principles. If the forecasts do not come to pass and/or the plans are not achieved, even though the information provided to ADL for the purpose of their preparing the report was correct and complete to AMD's best knowledge and belief and even though the business plan was drawn up according to recognized commercial principles, this shall not affect the reciprocal rights of the Parties.

§ 4 Capital Contributions, Holding Company

4.1.1 The parties undertake within the framework of their limited partner participation, to make the following capital contributions to AMD Fab X:

4.1.2 Limited Partners' Capital Contributions I

AMD subsidiaries	Capital Contribution	[***]*
Saxony or Holding Company	Capital Contribution	[***]*
M+W	Capital Contribution	[***]*
Total	Limited Partners' Capital Contributions I	[***]*

* Confidential treatment has been requested pursuant to section IV.1.(c) of the Confidential Treatment Request dated March 9, 2004.

Of the Limited Partners' Capital Contribution I initially a total of [***]*, i.e. [***]* for the AMD subsidiaries and [***]* for Saxony, and [***]* for M+W, will be entered in the Commercial Register as the liability capital sums of those partners after taking effect of this Cooperation Agreement. The entry of the liability capital, which has been increased by [***]* up to [***]*, will be caused simultaneously for all partners upon achievement of Saxony's first milestone (LM I) according to the milestone regulation attached as **Appendix 4.1.1**. The AMD subsidiaries have the right to increase prematurely the liability contribution to be made by them. The Limited Partners' Capital Contribution I will become due at the dates set out in **Appendix 4.1.1**. The second sentence of Section 4.1.3 shall also apply to the Limited Partners' Capital Contributions I.

4.1.3 Limited Partners' Capital Contributions II

AMD subsidiaries	Capital Contribution	[***]*
Saxony or Holding Company	Capital Contribution	[***]*
M+W	Capital Contribution	[***]*
Total	Limited Partners' Capital Contributions II	[***]*

The Capital Contributions II shall become due at the dates set out in **Appendix 4.1.1** and will be paid in the installments as specified therein in more detail. However, the Capital Contribution I and the first installment of Capital Contri-

* Confidential treatment has been requested pursuant to section IV.1.(c) of the Confidential Treatment Request dated March 9, 2004.

tribution II by Saxony and by M+W will become due no earlier than at such date when transfer of title to the real estate as described in Appendix 4.2.2 of AMD Saxony Limited Liability Company & Co. KG (“**AMD Saxony**”) to AMD Fab X has been effected or instead the title re-registration has been applied for and the entry of such re-registration merely only requires issuance of the official record of changes by the municipal surveying authority and conveyance on the basis of such official record of changes.

4.2 Saxony and M+W agree to make the following typical silent partner capital contributions.

Saxony or Holding Company	Capital Contribution	[***]*
M+W	Capital Contribution	[***]*
Total	Typical silent partner capital contributions	[***]*

The silent partner capital contributions shall become due at the dates set out in Appendix 4.1.1 and will be paid in the installments as specified therein in more detail. However, the first installment of each silent partner capital contribution will become due no earlier than at such date when transfer of title to the real estate as described in Appendix 4.2.2 of AMD Saxony Limited Liability Company & Co. KG (“**AMD Saxony**”) to AMD Fab X has been effected or instead the title re-registration has been applied for and the entry of such re-registration merely only requires issuance of the official record of changes by the municipal surveying authority and conveyance on the basis of such official record of changes.

All limited partners and silent partners shall have the right to waive the requirement that one or all of the specified requirements are satisfied before the

* Confidential treatment has been requested pursuant to section IV.1.(c) of the Confidential Treatment Request dated March 9, 2004.

Limited Partners' Capital Contributions I or II or, insofar as applicable, their silent partner capital contributions become due by written notice to the respective other Parties / AMD Fab X.

- 4.3 The Parties may hold their limited partner and silent participations in AMD Fab X directly or indirectly through one or more companies (“**Holding Companies**”). Other than the respective Party and M+W Zander Facility Engineering GmbH, no entities may hold an interest in the Holding Companies whose objects cover the development, manufacture, marketing or sale of semiconductor products (“**Competing Entities**”). Entities of the AMD Group are not considered Competing Entities. Other than M+W Zander Facility Engineering GmbH no Competing Entities may hold a direct or indirect interest in M+W. In deviation from the preceding sentences 2 and 4, finance investors who are not themselves engaged in the design, development, manufacture, marketing or sale of semiconductors may hold direct or indirect interests in AMD Fab X (above all, through Holding Companies and M+W). In case of an indirect participation, the respective Party must warrant that the Holding Company holding the limited partner share in AMD Fab X fulfils the obligations of the respective Party and/or Holding Company under this Agreement and under the attached Partnership Agreements. Conversely, the other Parties hereto will grant to such Holding Company such rights which would be due to the concerned Party in case of a direct participation. In addition, concurrently with the execution of this Cooperation Agreement, AMD will issue the guarantees according to **Appendix 4.3**.
- 4.4 Insofar as any Party holds a direct or indirect share in a Competing Entity, such Party agrees to impose the same duties of confidentiality on the persons assigned by it to the organs of the Competing Entity as provided in section 20. In case of an indirect participation, the above provision shall be applied correspondingly insofar as a Holding Company holds a direct or indirect share in a Competing Entity. Insofar as any Party or Holding Company holds a direct or indirect majority share in a Competing Entity, the other Parties shall have the right to require from such Party or Holding Company the transfer of its shareholding in AMD Fab X, including any silent partner participation, to them or to a third party (Call Option) in accordance with Article 10.8 of the Limited Partnership Agreement. In addition, Parties and Holding Companies with a direct or indirect interests in a Competing Entity are strictly prohibited from disclosing to the Competing Entity technical information, including information regarding the technology to manufacture Wafers. M+W Zander Facility Engineering GmbH

will assume an obligation which corresponds to the above provisions, in accordance with **Appendix 4.4.**

- 4.5 The other Parties are aware that Saxony holds an indirect non-majority interest in Infineon Technologies SC 300 GmbH & Co. KG and that Saxony holds a non-majority interest in the semi-conductor manufacturer ZMD AG.
- 4.6 The participation rights of the Holding Company used by Saxony for AMD Fab X will in each case be exercised in accordance with the decisions of Saxony.
- 4.7 Saxony guarantees to AMD that the Second General Partner exercises and has exercised no activity other than the assumption of the general partner position in AMD Fab X according to the Limited Partnership Agreement. Saxony further guarantees to AMD that the Second General Partner will at all times be financially funded such that it is able to perform its liabilities; this does not include any liabilities incurred by the Second General Partner by virtue of his position as personally liable partner of AMD Fab X. The aforesaid shall apply until any replacement of the Second General Partner as provided in Article 10a of the Limited Partnership Agreement.

If the Second General Partner is replaced in accordance with Article 10 a of the Limited Partnership Agreement, AMD guarantees to Saxony that the Second General Partner exercises and will exercise no activity other than the assumption of the general partner position in AMD Fab X according to the Limited Partnership Agreement as long as Saxony and M+W hold a - direct or indirect - interest in the Partnership. AMD further guarantees to Saxony – from replacement of the Second General Partner according to Article 10a of the Limited Partnership Agreement onward and as long as Saxony and M+W hold a direct or indirect interest in the Partnership – that the Second General Partner will at all times be financially funded such that it is able to perform its liabilities; this does not include any liabilities incurred by the Second General Partner by virtue of his position as personally liable partner of AMD Fab X

§ 5 Financing

§ 5.1 The investment volume is EUR 2,407 million. The total financing for the years 2003 to 2007 is [***]* million and shall consist of:

5.1.1 the Capital Contributions mentioned at Sections 4.1.1 and 4.2

Capital Contribution AMD Subsidiaries	[***]*
Saxony Capital Contribution	[***]*
M+W Capital Contribution	[***]*
Total Capital Contribution	[***]*

5.1.2 own resources and working capital

Revolving credit facility of AMD	[***]*
Grants and allowances according to Section 6	EUR 497 million ¹
Working capital	[***]*
Total own resources and working capital	[***]*

Since the investment allowances were calculated on the basis of the currently applicable legal situation and since it is unclear in what amount investment allowances can be paid under the future regulation, AMD agrees that in the event this sum turns out to be lower than calculated they will fill the financing gap arising. The working capital will be supplemented in accordance with the AMD Fab X Cost Plus Reimbursement Agreement mentioned in Section 10.2.

5.1.3 third party finance

Bank loans less redemption (EUR 42 million)	EUR 658 million
Total third party finance	EUR 658 million

¹ Another investment allowance of EUR 46 million is expected to be paid in 2008.

* Confidential treatment has been requested pursuant to sections IV.1.(b) and IV.1.(c) of the Confidential Treatment Request dated March 9, 2004.

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- 5.2 The Parties are aware that the requirements of EU law may not be satisfied in time to cover the financing requirements of AMD Fab X. Because of this, it is possible that delays in obtaining third party financing for the Fab X could arise. In this event, AMD undertakes to bridge any financial shortfalls occurring until March 31, 2004. If the decision of the EU should not be available by April 1, 2004, the Parties will consult with each other regarding the continuation of the project. AMD shall then have the right to end the project. In such case, AMD agrees to pay back the capital contributions made by Saxony and M+W, if any.
- 5.3 Apart from payment of their capital contributions and without affecting the provisions of Section 6, Saxony and M+W are not obliged to provide additional finance, even if the capital of AMD Fab X is not sufficient for its requirements.
- 5.4 If the project is terminated by AMD prior to full payment of all contributions, AMD warrants to M+W that M+W's liability shall be limited to [***]* of its paid-in contribution. Any difference amount shall be reimbursed by AMD to M+W.

§ 6 Grants and Allowances

Saxony supports investment grants in the maximum amount legally permissible out of the funds of the joint tasks project "Improvement of the Regional Economic Structure" (GA) – "GA Means". If the total amount of the investment grants from GA Means which have been promised in a legally binding way and the investment allowances granted in a legally binding way exceeds the total grant admissible pursuant to the EU ruling, the investment allowances granted in a legally binding way are to be used first.

* Confidential treatment has been requested pursuant to section IV.1.(b) of the Confidential Treatment Request dated March 9, 2004.

§ 7 Counter-Guarantees

In the event that AMD is not already liable to the lenders for the loans guaranteed by the federal government and Saxony, AMD will grant Saxony free of charge directly enforceable counter-guarantees on first demand for all guaranteed bank credits provided by Saxony together with the federal government for AMD Fab X (with an aggregate credit amount of € 700 million).

§ 8 Accession of an Additional Industrial Partner

- 8.1 The Parties aim to admit an additional [***]* partner who will [***] * of AMD Fab X, if possible will enter into obligations to [***] * and further, who is intended to become a partner in AMD Fab X and to contribute capital, perhaps by way of a capital increase. Saxony and M+W will agree to the acceptance of an [***] * partner proposed by AMD on the basis of the Limited Partnership Agreement of AMD Fab X, their respective approval not to be withheld or delayed without good cause.
- 8.2 Such partner shall be accepted on appropriate conditions. If amendments or adjustments to this Agreement or the Partnership Agreements of AMD Fab X or other contractual agreement become necessary, the Parties will endeavor to agree on a mutually acceptable provision. Saxony and M+W will refuse their agreement thereto only if their interests are materially adversely affected.

§ 9 Research and Development

- 9.1 AMD aims to develop in the Fab X the 65 nm technology generation up to industrial production stage. The milestones for Saxony stated in Appendix 4.1.1 set forth the aimed-at time schedule up to production stage.
- 9.2 AMD Fab X also is to further develop the 65 nm technology generation and to prepare for implementation of the following technology generations also through its own development.

* Confidential treatment has been requested pursuant to section IV.2. of the Confidential Treatment Request dated March 9, 2004.

9.3 Research in Fab X is to take place in the areas indicated in Appendix 9.3.

§ 10 Agreement on Acceptance/AMD Fab X Cost Plus Reimbursement Agreement

10.1 AMD undertakes to take the entire production of AMD Fab X (in warmed-up operation up to [***]* Wafer outs per month).

10.2 The details of the acceptance obligation and the terms thereof arise from the AMD Fab X Cost Plus Reimbursement Agreement attached in the draft version as Appendix 10.2.

§ 11 Service Agreements

11.1 AMD shall ensure that AMD Saxony shall make available to AMD Fab X general administrative services (for example IT, personnel administration, administrative services of a commercial nature) if required at competitive terms (at arms' length). In other respects AMD Fab X shall set up the required resources itself or obtain them from third parties.

11.2 In relation to the services required by AMD Fab X from today's perspective, AMD Fab X, AMD, AMD Fab X Holding GmbH and AMD Saxony will enter into the Fab X Management Services Agreement which is attached hereto as Appendix 11.2. AMD will be jointly and severally liable for the obligations of AMD Saxony under the agreement.

§ 12 Arbitrator

If and insofar as the Parties are unable to agree on the achievement of the milestones (see Appendix 4.1.1) and on the requirements stated in Section 14.1, the Parties will make efforts to immediately agree on an arbitrator and will instruct such arbitrator in the name of all the Parties for him to determine the disputed

* Confidential treatment has been requested pursuant to section IV.2. of the Confidential Treatment Request dated March 9, 2004.

issues with final and binding effect on the Parties within the framework of the positions taken by the Parties. The Parties shall be given reasonable opportunity to expound their positions in writing and at one or more hearings before the arbitrator. The arbitrator shall state grounds for his decision. In his decision the arbitrator shall also decide on the division of the costs of the arbitration procedure based on who won and who lost the dispute (§§ 91 et seqq. ZPO – German Code of Civil Procedure), provided that each Party shall itself be responsible for the costs of its own advisors. The facts determined by the arbitrator shall have final and binding effect on the Parties. If the Parties are unable to agree on an arbitrator within 10 bank working days, then at the request of any Party the President of the Higher Regional Court of Dresden will appoint an expert or a consulting firm as arbitrator, such appointment having binding effect on the Parties. Such person or consulting firm shall not have, and within the past five (5) years shall not have had, business relations with any of the Parties.

§ 13 Non-Discrimination

- 13.1 AMD undertakes not to discriminate unreasonably against Fab X in favour of comparable factories.
- 13.2 Strategic decisions in relation to Fab X, and which concern the Dresden location, will not be taken against the wishes of Saxony, in accordance with the provisions concerning voting rights in the Limited Partnership Agreement of AMD Fab X.

§ 14 Warranty by AMD

- 14.1 AMD warrants irrespective of fault, by way of an independent guarantee, in accordance with § 311 ss. 1 Civil Code, that the provision for Fab X, in the event that this is technologically feasible, will be supplemented up to the point at which suitability for industrial production (= “Technical Completion” as defined in the Summary of Terms and Conditions regarding the grant of the bank loan to Fab X in the amount of € 700 million) has been achieved.
- 14.2 In the event of the breach of warranty, the other Parties are initially each entitled and obliged to demand that AMD provide proper performance within a

reasonable period. These rights cannot be enforced if the other Party has committed a material breach of contract.

- 14.3 The availability of the results of the JDA to Fab X for the production of AMD products will be regulated by way of conclusion of the license agreement according to **Appendix 1.2**.

§ 15 Liability

- 15.1 Unless otherwise provided in this Agreement, the Parties are liable only in the case of intent and gross negligence.
- 15.2 There shall be no liability on the part of Saxony on the basis of the draft agreements submitted according to Section 20.5 or under § 839 Civil Code and Art. 34 of the Constitution, due to a breach of the confidentiality in connection with the political decision-making. Damage claims of any kind whatsoever, including, but not limited to, claims under § 839 Civil Code and Art. 34 of the Constitution, shall not exist in this respect. The waiver of claims for damages, in particular in relation to § 839 Civil Code, shall be deemed to be a contractual obligation for the benefit of third parties. Technical data and technical details shall be protected comprehensively. In this respect, there shall be no restriction on liability according to sentence 1 above.

§ 16 Interest

All interest under this Agreement and the attached Partnership Agreements, shall be calculated pursuant to the 365/360 method.

§ 17 EU Reservation

The grant of the allowances envisioned in this Agreement (investment grants, investment allowances and guarantee) require the approval of the Commission of the European Union.

§ 18 Conditions Precedent

- 18.1 With the exception of the provisions of Sections 5.2, 18, 20, 21, 22, 23, and 24 which become effective upon the signature of this Agreement, this Agreement is subject to the following conditions precedent:
- 18.1.1 announcement of exemption or clearance by the Federal Cartel Office, or expiry of the relevant waiting periods,
 - 18.1.2 evidence of the granting of the EU approval of the subsidies according to Section 5;
 - 18.1.3 consent of the competent bodies of the federal government to the federal/state guarantee securing the bank loans for Fab X;
 - 18.1.4 consent and/or noting with approval, by the Budget and Finance Committee of Saxony,
 - 18.1.5 provision of the overall financing, in which connection the Syndicated Loan Agreement with Dresdner Bank/Dresdner Kleinwort Wasserstein or another replacement arranger/underwriter may include customary conditions to disbursement including, but not limited to the grant of the federal/state guarantee and evidence of the granting of the EU approval of the subsidies according to Section 5;
 - 18.1.6 legal opinion of the law office O'Melveny & Myers LLP confirming [***]*;
 - 18.1.7 signing of the General Contractor Contract with M+W Zander Facility Engineering GmbH; and
 - 18.1.8 the approval of the supervisory boards of Jenoptik AG and of M+W Zander Holding AG by December 15, 2003.
- 18.2 If the conditions set out in Sections 18.1.2 and 18.1.5 are not satisfied in whole or in part, AMD is entitled, but not obligated, to take over such portion of the financing which is missing as a result thereof. In this event, the relevant condition shall be deemed to be satisfied. If the conditions stated in Section 18.1 have not been satisfied by December 31, 2004, even in consideration of Section 18.2, any later occurrence of the conditions shall be excluded.

* Confidential treatment has been requested pursuant to section IV.1.(c) of the Confidential Treatment Request dated March 9, 2004.

§ 19 Duration and Termination

- 19.1 This Agreement is effected for an indefinite period of time, but at least until December 31, 2015.
- 19.2 If the project is ended in accordance with Section 5.2, AMD shall have the right to terminate this Cooperation Agreement.
- 19.3 If any Party is behind schedule with the performance of a material obligation under this Agreement, performance of the relevant obligation may be demanded by one of the other Parties in writing provided such Party has substantially performed its respective obligations and undertakings under this Agreement and the Appendices. If the obligation is not performed within 30 calendar days thereafter, the said other Party may terminate this Agreement by notice in writing. If the principal obligation in respect of which the contracting party is in default is also an obligation pursuant to the Limited Partnership Agreement, only the provisions of the Limited Partnership Agreement shall apply.
- 19.4 The right of termination of this Agreement for good cause shall remain unaffected.
- 19.5 A termination notice is effective only if, with effect as of the same time, the Limited Partnership Agreement and the Silent Partnership Agreement of AMD Fab X is effectively terminated.
- 19.6 The rights and duties of any Party under this Agreement, except for Sections 20 and 23, shall end once such Party or its holding entity has validly withdrawn as partner (i.e. both as limited and as silent partner) of AMD Fab X.
- 19.7 This Agreement shall terminate, except for Sections 20 and 23, without a notice of termination being required, upon the full withdrawal of Saxony and of M+W as direct or indirect partners (i.e. both as limited and as silent partners) of AMD Fab X.

§ 20 Confidentiality

20.1 Each Party is obliged, in relation to all confidential information, of which it becomes aware in the preliminary stages of the negotiations and presentations involved in the execution of this Agreement and/or in its capacity as a Party to this Agreement and/or to the agreements which are attached hereto as appendices, to maintain confidentiality vis-à-vis third parties. Each Party is obliged to use such information only for the purpose for which it has received same. The Parties undertake to subject their employees, representatives, shareholders and lenders to confidentiality to the usual extent. Each Party shall permit access to such information by its employees, agents, lenders and advisors only if and to the extent that they require such information for the performance of this Agreement and are subject to corresponding confidentiality obligations. Each Party may communicate confidential information to members of the legal, accountancy or taxation professions which are subject to professional confidentiality obligations, if and to the extent this is necessary in their own legitimate interests. The communication of confidential information to the Banks financing AMD Fab X/the capital contributions of the AMD Fab X partners, to the guarantors guarantying for the bank loans or to the European Union is permissible and must be subject to the corresponding confidentiality obligations (in the case of the EU: insofar as legally required). Further exceptions to the confidentiality obligation may be permitted in individual cases by separate agreements.

Notwithstanding any of the above or below provisions in this Agreement or in any other written or oral agreement made between the Parties or by which the Parties are bound, each Party shall be entitled to disclose the U.S. income tax treatment and the U.S. income tax structure of this Agreement and of the agreements related herewith. This right to disclose includes the right of each Party to involve without any limitation tax consultants regarding the U.S. income tax treatment and the U.S. income tax structure of this transaction and of the agreements related therewith. This right does not include the disclosure of any other information, including but not limited to, (i) any part of documents not relating to the U.S. income tax treatment and the U.S. income tax structure of the transactions as set out in this Agreement or the agreements related herewith; (ii) the identity of participants or potential participants in the transaction, except to the extent that such information relates to the U.S. income tax treatment and the U.S. income tax structure of the transaction as set out in this Agreement or in the agreements related herewith; (iii) the existence or status of

negotiations; (iv) any financial information other than the financial information relating to the U.S. income tax treatment and the U.S. income tax structure of the transactions as set out in this Agreement or in the agreements related herewith; or (v) any other condition or detail which is of no importance with respect to the U.S. income tax treatment or the U.S. income tax structure of the transactions as set out in this Agreement or in the agreements related herewith. The partners acknowledge that this confirmed right shall not be deemed to be a waiver by any Party of any of their particular rights under the attorney-client privilege or the non-disclosure privilege under Section 7525(a) of the United States Internal Revenue Code 1986, as amended.

- 20.2 This obligation shall extend beyond the ending of this Agreement, provided that the obligations of confidentiality as agreed in any Appendix remain unaffected.
- 20.3 This obligation does not apply to information which is generally known, or information demonstrably independently worked out by the receiving Party, or information demonstrably obtained legally from third parties without any breach of the confidentiality obligation.
- 20.4 This obligation shall also not apply insofar as the Parties are obliged to disclose the received information under statutory provisions or official orders. In such event the affected Party is obligated immediately to inform the other Parties of the official order or the application of a statutory provision, as applicable, if possible in advance.
- 20.5 The Parties note that Saxony must present the draft agreements in Saxon ministries, the cabinet of Saxony and the parliament of Saxony, in the course of the political decision-making process. Technical data and technical details are to be comprehensively protected.

§ 21 Responsibility for costs and expenses

AMD shall bear its costs and the reasonable cost of the involvement of external advisors of Saxony and the Saxony Holding Company. These include, in particular, the costs and expenses associated with the report of ADL and the legal advice of Saxony and the Saxony Holding Company by Rechtsanwälte Clifford Chance Pünder, in connection with this Cooperation Agreement for the period from June 4, 2003 until signing of this Cooperation Agreement. In addition, from the date of signing of this Cooperation Agreement until December 31,

2003 the amount of [***]* will be borne for expenses and costs of Saxony and/or the Saxony Holding Company.

§ 22 Press Release

The Parties will publish a joint press release, which is reached in mutual agreement between them, concerning this project at a date also to be agreed upon between them. In addition, the parties undertake not to publish any further notice concerning the project unless required by law or by applicable stock exchange regulations, such as, for example, ad-hoc publication or the notice is agreed between the parties.

§ 23 Arbitration Agreement

- 23.1 All disputes arising out of or in connection with this Agreement or regarding its validity shall be conclusively decided in accordance with the Rules of Arbitration of the Deutsche Institution für Schiedsgerichtsbarkeit e.V. (DIS) ousting the jurisdiction of the courts of law.
- 23.2 The place of the arbitration proceeding shall be Dresden.
- 23.3 The number of arbitrators shall be three.
- 23.4 German substantive law shall apply.
- 23.5 The arbitration proceeding shall be conducted in German.

§ 24 Final Provisions

- 24.1 This Agreement (including its appendices) contains all agreements between the Parties and replaces all agreements previously reached between the Parties concerning its subject matter. There are no oral side agreements. In the event of any conflict or inconsistency between this Cooperation Agreement and an agreement which is attached hereto, the provision in such latter agreement shall fully supersede the corresponding previous provisions of this Cooperation Agreement.

* Confidential treatment has been requested pursuant to section IV.1.(b) of the Confidential Treatment Request dated March 9, 2004.

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- 24.2 Unless notarized form is prescribed, all amendments, additions and rescission of this Agreement require written form in order to be effective. This applies also to waiver of written form.
- 24.3 No Party may transfer rights under this Agreement to a third party without the prior written consent of the other Parties. This does not apply to cases expressly provided for in this Agreement.
- 24.4 If any provision of this Agreement is or becomes partially or wholly invalid or unenforceable or if this Agreement does not contain a per se necessary provision, the validity of the remaining provisions of this Agreement shall not thereby be affected. The same applies if an omission in this Agreement is ascertained. In the place of the invalid or unenforceable provision or for filling in the omission of a provision, such a legally admissible provision shall be deemed to have been agreed as corresponds to what the Parties would have intended or which would have been agreed by the Parties according to the meaning and purpose of this Agreement, if they had been aware of the invalidity or unenforceability of the relevant provision or of the omission.

Place, Date: Dresden, November 20, 2003

/s/ ROBERT J. RIVET

(Advanced Micro Devices, Inc.)

/s/ JUERGEN GIESSMANN /s/ HELMUT LAUB

(M+W Zander Fünfte Verwaltungsgesellschaft mbH)

/s/ HORST METZ /s/ ANDREA FISCHER

(Saxony)

**ADVANCED MICRO DEVICES, INC.
LIST OF SUBSIDIARIES**

Name of Subsidiary	State or Jurisdiction in Which Incorporated or Organized
<u>Domestic Subsidiaries</u>	
Advanced Micro Ltd.	California
AMD Corporation	California
AMD (EMEA) LTD.	Delaware
AMD Far East Ltd.	Delaware
AMD International Sales & Service, Ltd.	Delaware
AMD Texas Properties, LLC	Delaware
AMD Latin America Ltd.	Delaware
AMD Saxony LLC	Delaware
Coatue Corporation	Delaware
AMD Reinsurance Co. Inc.	Hawaii
FASL LLC ⁽¹⁾	Delaware
FASL International, Inc. ⁽²⁾	Delaware
AMD (US) Holdings, Inc.	Delaware
AMD Investments, Inc. ⁽³⁾	Delaware
AMD FAB 36 LLC	Delaware
<u>Foreign Subsidiaries</u>	
Advanced Micro Devices Belgium N.V. ⁽⁴⁾	Belgium
AMD South America LTDA ⁽⁴⁾	Brazil
Advanced Micro Devices (Canada) Limited	Canada
FASL (Suzhou) Limited ⁽⁵⁾	China
AMD International Trading (Shanghai) Co. Ltd.	China
Advanced Micro Devices S.A.	France
Advanced Micro Devices GmbH	Germany
AMD FAB 36 Limited Liability Company & Co. KG ⁽⁶⁾	Germany
AMD FAB 36 Admin GmbH ⁽⁷⁾	Germany
AMD FAB 36 Holding GmbH	Germany
AMD Saxony Limited Liability Company & Co. KG ⁽⁸⁾	Germany
AMD Saxony Admin GmbH ⁽⁹⁾	Germany
AMD Saxony Holding GmbH	Germany
Advanced Micro Devices S.p.A.	Italy
AMD Japan Ltd.	Japan
FASL Japan Limited ⁽²⁾	Japan
Advanced Micro Devices Sdn. Bhd.	Malaysia
Advanced Micro Devices Export Sdn. Bhd. ⁽¹⁰⁾	Malaysia
FASL (Penang) Sdn.Bhd. ⁽²⁾	Malaysia
FASL (Kuala Lumpur) Sdn. Bhd. ⁽²⁾	Malaysia
AMD (Netherlands) B.V. ⁽¹¹⁾	Netherlands
Advanced Micro Devices (Singapore) Pte. Ltd.	Singapore
FASL Holdings (Singapore) Pte. Ltd. ⁽²⁾	Singapore
Advanced Micro Devices, AB	Sweden
Advanced Micro Devices S.A. ⁽⁴⁾	Switzerland
FASL (Thailand) Limited ⁽²⁾	Thailand
Advanced Micro Devices (U.K.) Limited	United Kingdom

- (1) Subsidiary of AMD Investments, Inc.
(2) Subsidiary of FASL LLC
(3) Subsidiary of AMD (US) Holdings, Inc.
(4) Subsidiary of AMD International Sales & Service, Ltd.
(5) Subsidiary of FASL Holdings (Singapore) Pte. Ltd.
(6) Partnership in which AMD Fab 36 LLC is the general partner and AMD Fab 36 Holding GmbH and AMD Fab 36 Admin GmbH are the limited partners.
(7) Subsidiary of AMD Fab 36 Holding GmbH.
(8) Partnership in which AMD Saxony LLC is the general partner and AMD Saxony Holding GmbH and AMD Saxony Admin GmbH are the limited partners.
(9) Subsidiary of AMD Saxony Holding GmbH
(10) Subsidiary of Advanced Micro Devices Sdn. Bhd.
(11) Subsidiary of Advanced Micro Devices Export Sdn. Bhd.

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the following Registration Statements of Advanced Micro Devices, Inc. of our report dated January 16, 2004, with respect to the consolidated financial statements and schedule of Advanced Micro Devices, Inc., included in this Annual Report (Form 10-K) for the year ended December 28, 2003:

- Registration Statements on Forms S-8 (Nos. 33-10319, 33-26266, 33-36596 and 33-46578) pertaining to the Advanced Micro Devices, Inc. 1982 and 1986 Stock Option Plans and the 1980 and 1986 Stock Appreciation Rights Plans;
- Registration Statements on Forms S-8 (Nos. 33-46577 and 33-55107) pertaining to the Advanced Micro Devices, Inc. 1992 Stock Incentive Plan;
- Registration Statement on Form S-8 (No. 333-00969) pertaining to the Advanced Micro Devices, Inc. 1991 Employee Stock Purchase Plan and to the 1995 Stock Plan of NexGen, Inc.;
- Registration Statements on Forms S-8 (Nos. 333-04797 and 333-57525) pertaining to the Advanced Micro Devices, Inc. 1996 Stock Incentive Plan;
- Registration Statement on Form S-8 (No. 333-60550) pertaining to the Advanced Micro Devices, Inc. 1996 Stock Incentive Plan and the Advanced Micro Devices, Inc. 2000 Employee Stock Purchase Plan;
- Registration Statement on Form S-8 (No. 333-68005) pertaining to the Advanced Micro Devices, Inc. 1998 Stock Incentive Plan;
- Registration Statement on Form S-8 (No. 333-40030) pertaining to the Advanced Micro Devices, Inc. 1996 Stock Incentive Plan and the Advanced Micro Devices, Inc. 2000 Employee Stock Purchase Plan;
- Registration Statements on Form S-8 (Nos. 333-55052 and 333-74896) pertaining to the Advanced Micro Devices, Inc. 2000 Stock Incentive Plan;
- Registration Statement on Form S-8 (No. 333-108217) pertaining to the Advanced Micro Devices, Inc. 2000 Employee Stock Purchase Plan;
- Registration Statement on Form S-3 (No. 333-47243), as amended, pertaining to debt securities, preferred stock, common stock, equity warrants and debt warrants issued or issuable by Advanced Micro Devices, Inc.;
- Registration Statement on Form S-3 (No. 333-45346) pertaining to debt securities, preferred stock, common stock, equity warrants and debt warrants issued or issuable by Advanced Micro Devices, Inc.;
- Post-Effective Amendment No. 1 to the Registration Statement on Form S-8 (No. 33-95888-99) pertaining to the 1995 Stock Plan of NexGen, Inc. and the NexGen, Inc. 1987 Employee Stock Plan;
- Post-Effective Amendment No. 1 on Form S-8 to the Registration Statement on Form S-4 (No. 33-64911) pertaining to the 1995 Employee Stock Purchase Plan of NexGen, Inc., the 1995 Stock Plan of NexGen, Inc. and the NexGen, Inc. 1987 Employee Stock Plan;
- Registration Statement on Form S-3 (No. 333-84028) pertaining to the 4.75% convertible debentures;
- Amendment No. 1 to the Registration Statement on Form S-3 (No. 333-84028) pertaining to the 4.75% convertible debentures;
- Amendment No. 2 to the Registration Statement on Form S-3 (No. 333-84028) pertaining to the 4.75% convertible debentures;
- Amendment No. 3 to the Registration Statement on Form S-3 (No. 333-84028) pertaining to the 4.75% convertible debentures;
- Amendment No. 4 to the Registration Statement on Form S-3 (No. 333-84028) pertaining to the 4.75% convertible debentures;

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- Post-Effective Amendment No. 1 to the Registration Statement on Form S-3 (No. 333-84028) pertaining to the 4.75% convertible debentures;
 - Post-Effective Amendment No. 2 to the Registration Statement on Form S-3 (No. 333-84028) pertaining to the 4.75% convertible debentures;
 - Post-Effective Amendment No. 3 to the Registration Statement on Form S-3 (No. 333-84028) pertaining to the 4.75% convertible debentures;
 - Post-Effective Amendment No. 4 to the Registration Statement on Form S-3 (No. 333-84028) pertaining to the 4.75% convertible debentures;
 - Post-Effective Amendment No. 5 to the Registration Statement on Form S-3 (No. 333-84028) pertaining to the 4.75% convertible debentures;
 - Post-Effective Amendment No. 6 to the Registration Statement on Form S-3 (No. 333-84028) pertaining to the 4.75% convertible debentures;
 - Post-Effective Amendment No. 7 to the Registration Statement on Form S-3 (No. 333-84028) pertaining to the 4.75% convertible debentures;
 - Post-Effective Amendment No. 8 to the Registration Statement on Form S-3 (No. 333-84028) pertaining to the 4.75% convertible debentures;
 - Post-Effective Amendment No. 9 to the Registration Statement on Form S-3 (No. 333-84028) pertaining to the 4.75% convertible debentures;
 - Post-Effective Amendment No. 10 to the Registration Statement on Form S-3 (No. 333-84028) pertaining to the 4.75% convertible debentures; and
 - Post-Effective Amendment No. 11 to the Registration Statement on Form S-3 (No. 333-84028) pertaining to the 4.75% convertible debentures.

/s/ ERNST & YOUNG LLP

San Jose, California
March 4, 2004

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Hector de J. Ruiz and Robert J. Rivet, and each of them, his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign Advanced Micro Devices, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 28, 2003, and any and all amendments thereto, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ W. J. Sanders III</u> W. J. Sanders III	Chairman of the Board	3/2/04
<u>/s/ Hector de J. Ruiz</u> Hector de J. Ruiz	Director, President and Chief Executive Officer (Principal Executive Officer)	3/5/04
<u>/s/ Robert J. Rivet</u> Robert J. Rivet	Senior Vice President, Chief Financial Officer (Principal Financial Officer)	2/28/04
<u>/s/ W. Michael Barnes</u> W. Michael Barnes	Director	3/1/04
<u>/s/ Friedrich Baur</u> Friedrich Baur	Director	3/3/04
<u>/s/ Charles M. Blalack</u> Charles M. Blalack	Director	3/1/04
<u>/s/ R. Gene Brown</u> R. Gene Brown	Director	3/1/04
<u>/s/ Bruce Claffin</u> Bruce Claffin	Director	3/2/04
<u>/s/ Robert B. Palmer</u> Robert B. Palmer	Director	3/2/04
<u>/s/ Leonard Silverman</u> Leonard Silverman	Director	3/1/04

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Hector de J. Ruiz, certify that:

1. I have reviewed this annual report on Form 10-K of Advanced Micro Devices, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

/s/ HECTOR DE J. RUIZ

Hector de J. Ruiz
President and Chief Executive Officer

Date: March 8, 2004

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Robert J. Rivet, certify that:

1. I have reviewed this annual report on Form 10-K of Advanced Micro Devices, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

/s/ ROBERT J. RIVET

Robert J. Rivet
Senior Vice President and Chief Financial Officer

Date: March 8, 2004

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Advanced Micro Devices, Inc. (the "Company") hereby certifies, to such officer's knowledge, that:

(i) the Annual Report on Form 10-K of the Company for the annual period ended December 28, 2003 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities and Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ HECTOR DE J. RUIZ

Hector de J. Ruiz
President and Chief Executive Officer

Date: March 8, 2004

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Advanced Micro Devices, Inc. (the "Company") hereby certifies, to such officer's knowledge, that:

(i) the Annual Report on Form 10-K of the Company for the annual period ended December 28, 2003 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities and Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ ROBERT J. RIVET

Robert J. Rivet
Senior Vice President and Chief Financial Officer

Date: March 8, 2004

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