
Intel Spring
Analyst Meeting 2006
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Intel Spring
Analyst Meeting 2006
Paul S. Otellini
President & Chief Executive Officer
April 27, 2006
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AGENDA

Intel Spring Analyst Meeting 2006

10:00 am-12:15 pm MORNING SESSION

Paul Otellini
President and Chief Executive Officer

Anand Chandrasekher
Senior Vice President, General Manager, Sales and Marketing Group

Andy Bryant
Executive Vice President, Chief Financial and Enterprise Services Officer

Q&A Session

12:15 pm-1:00 pm LUNCH BREAK

1:15 pm-3:30 pm AFTERNOON SESSION

	Sean Maloney Executive Vice President General Manager Mobility Group	**Don MacDonald** Vice President General Manager Digital Home Group	**Tom Kilroy** Vice President General Manager Digital Enterprise Group
1:15 pm-1:55 pm	GREAT ROOM		STUDIO ONE
2:05 pm-2:45 pm		GREAT ROOM	STUDIO ONE
2:55 pm-3:30 pm	STUDIO ONE	GREAT ROOM	

GREAT ROOM (second floor) STUDIO ONE (third floor)

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Today's presentations contain forward-looking statements. All statements made that are not historical facts are subject to a number of risks and uncertainties, and actual results may differ materially. Please refer to the printed program materials and to our recent Earnings Release and Form 10-K for more information on the risk factors that could cause actual results to differ.

If we use any non-GAAP financial measures during the presentations, you will find in the printed program materials or on our website, intc.com, the required reconciliation to the most directly comparable GAAP financial measure.

Key Messages

Positioning ourselves for our best product rollout in years

Well aware of realities of our current and future business

Taking actions to address those realities

	2003		2004		2005		2006 FORECAST
Net Revenue ($B)	30.1	YoY +13.5%	34.2	YoY +13.5%	38.8	YoY -3%	37.7
GM%	57%		58%		59%		54%
Direct Spending ($B)	8.6		9.4		10.8		11.0
Operating Profit ($B)	7.5		10.1		12.1		9.3

2006 Environment

- Moderating PC industry growth
- Several million units of inventory build over last 6 months
- Much tougher 2006 from a market perspective

ACTIONS

- Launch and ramp new products to increase competitiveness and ignite the market
- Intense focus on costs/structure
  - –Reducing 2006 spending by $1B
  - –$300M reduction in 2006 Capital Expenditures

But this is insufficient

Therefore, we will:

- Re-structure, re-size, re-purpose Intel for the future
- All parts of the company are included
- Adjust to the business realities of today/tomorrow

Result: A leaner, more agile, more efficient company

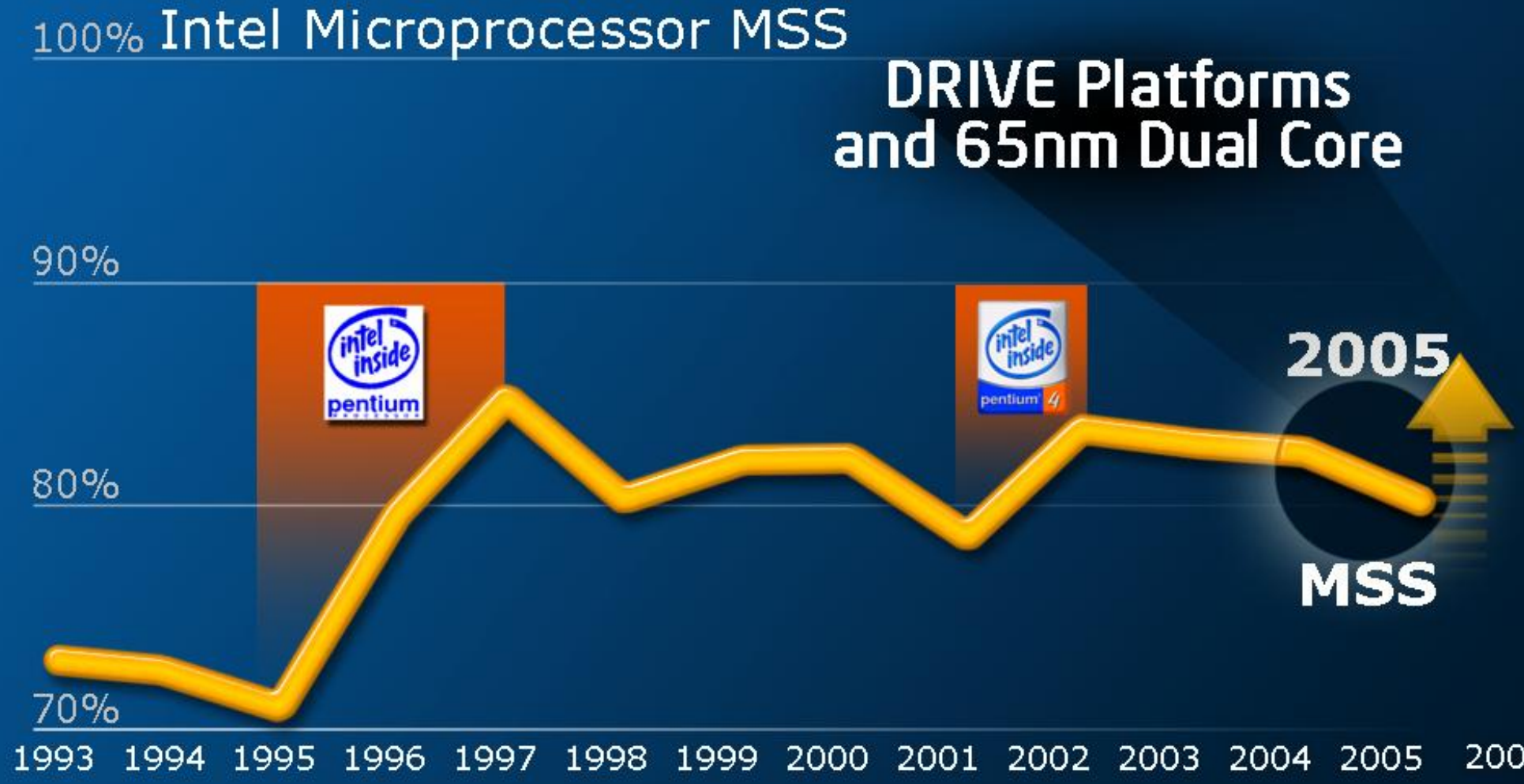
How?

- Initiated a comprehensive project to evaluate company operations
- Goal: drive costs down and efficiency up
  - Deal with non-performing businesses
  - Evaluate capital efficiency, cost/unit, productivity, and more
  - More details in Q3'06

2006 Strategy

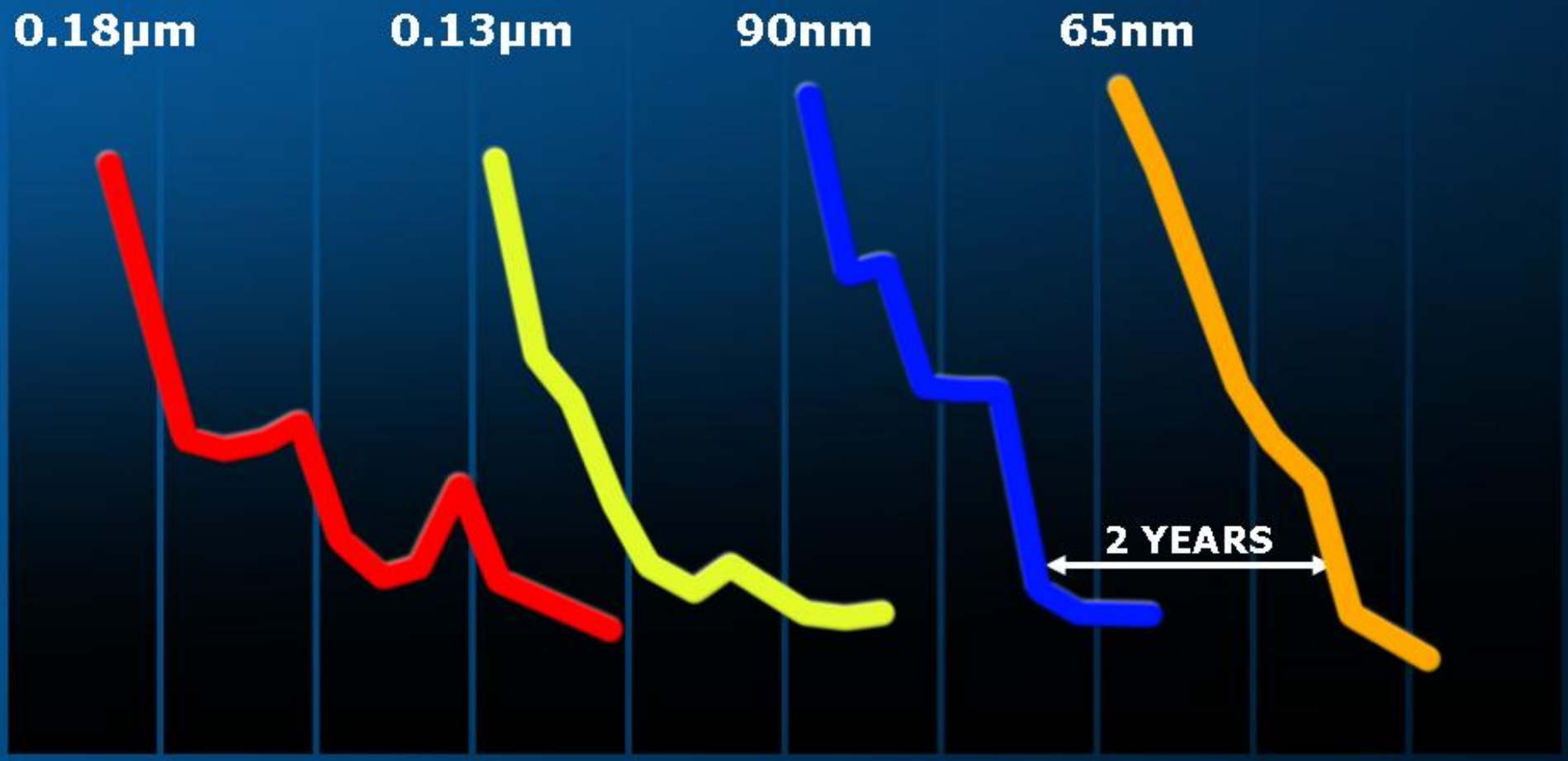
- Drive 65nm ramp as fast as possible
  - 3 factories running 65nm in volume
  - 45nm on track
- Launch and Ramp Intel® Core™ microarchitecture products in all segments
- Shift chipsets to 300mm, 90nm factories
  - Starting now and ramping faster than any previous chipset products
- Ramp platforms for Digital Home, Mobility and Digital Enterprise
  - Viiv™, Centrino® Duo, and vPro™
- Goal: Regain MSS in 2006

We've been here before...



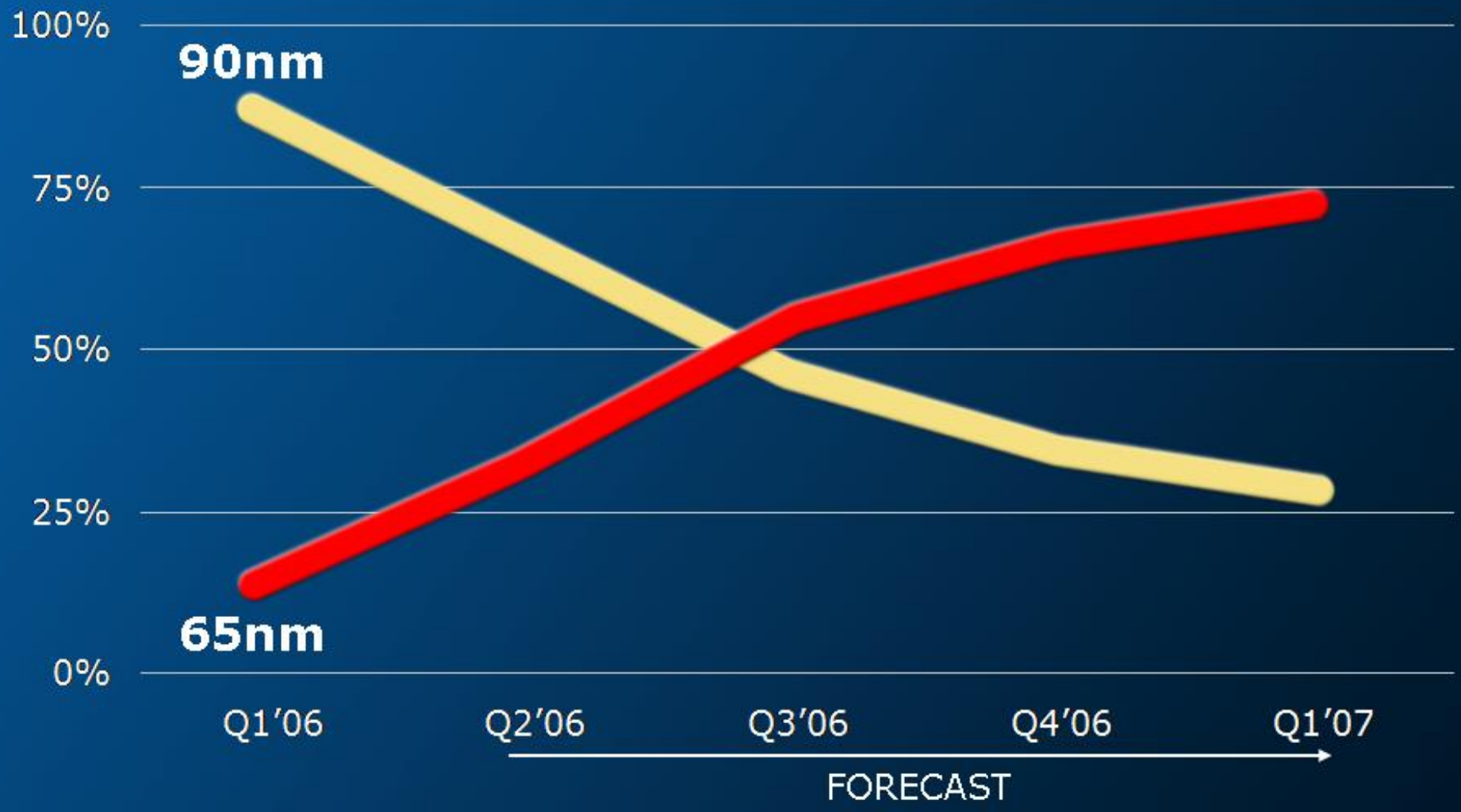
Source: Mercury Research

Wafer Defect Density



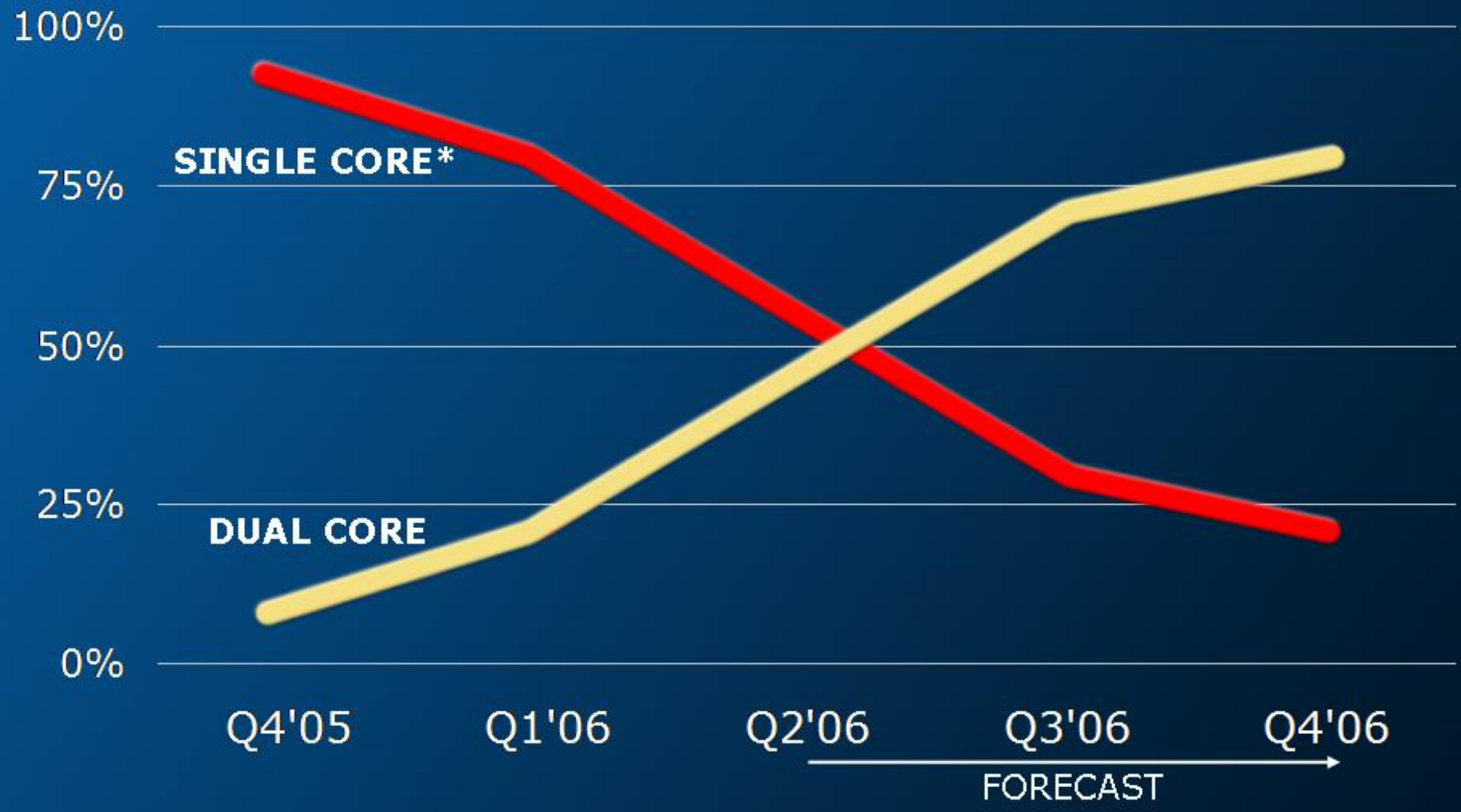
Source: Intel

CPU Shipments (90nm vs. 65nm)



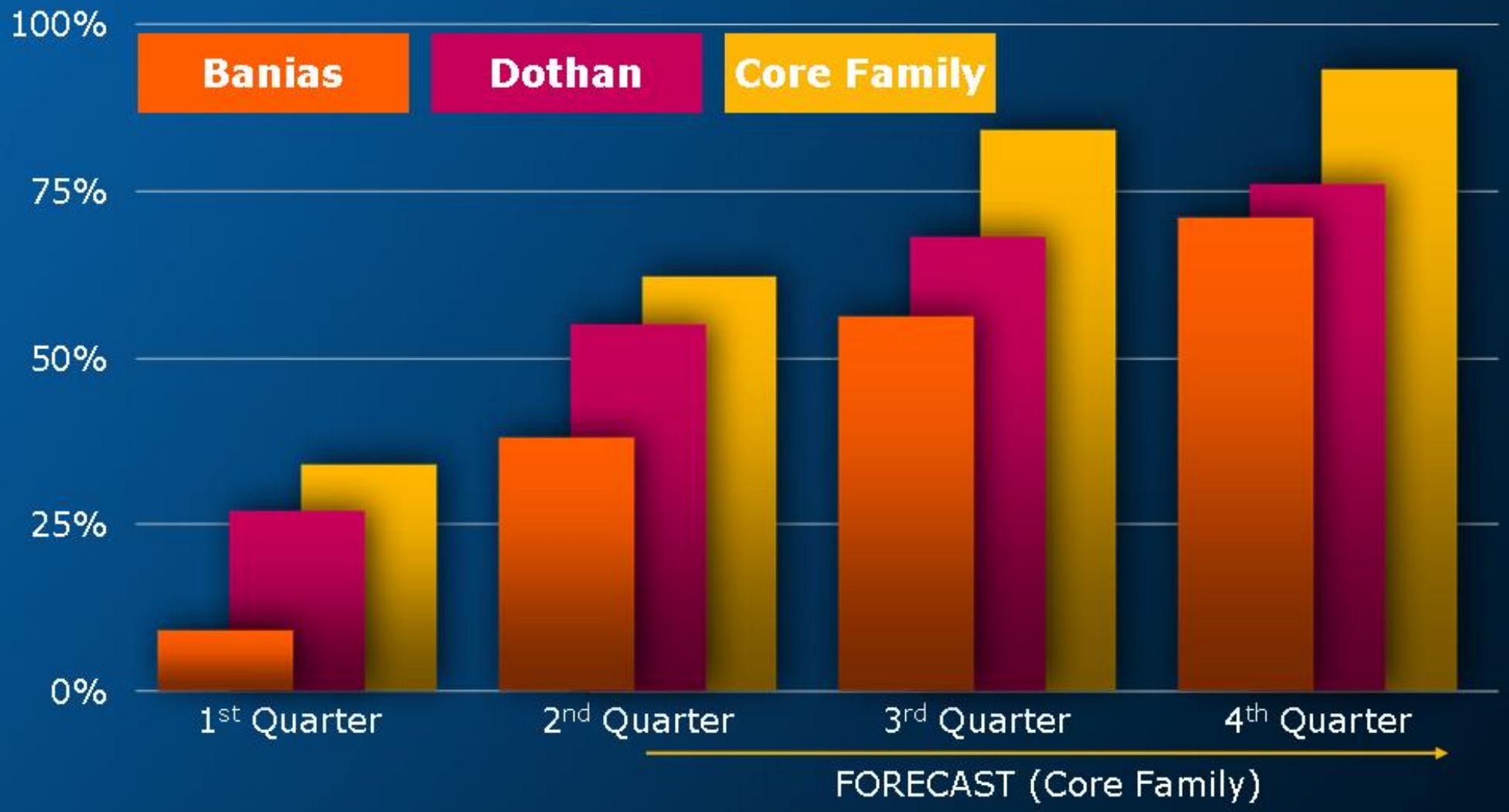
Source: Intel

Rapid Dual Core Ramp



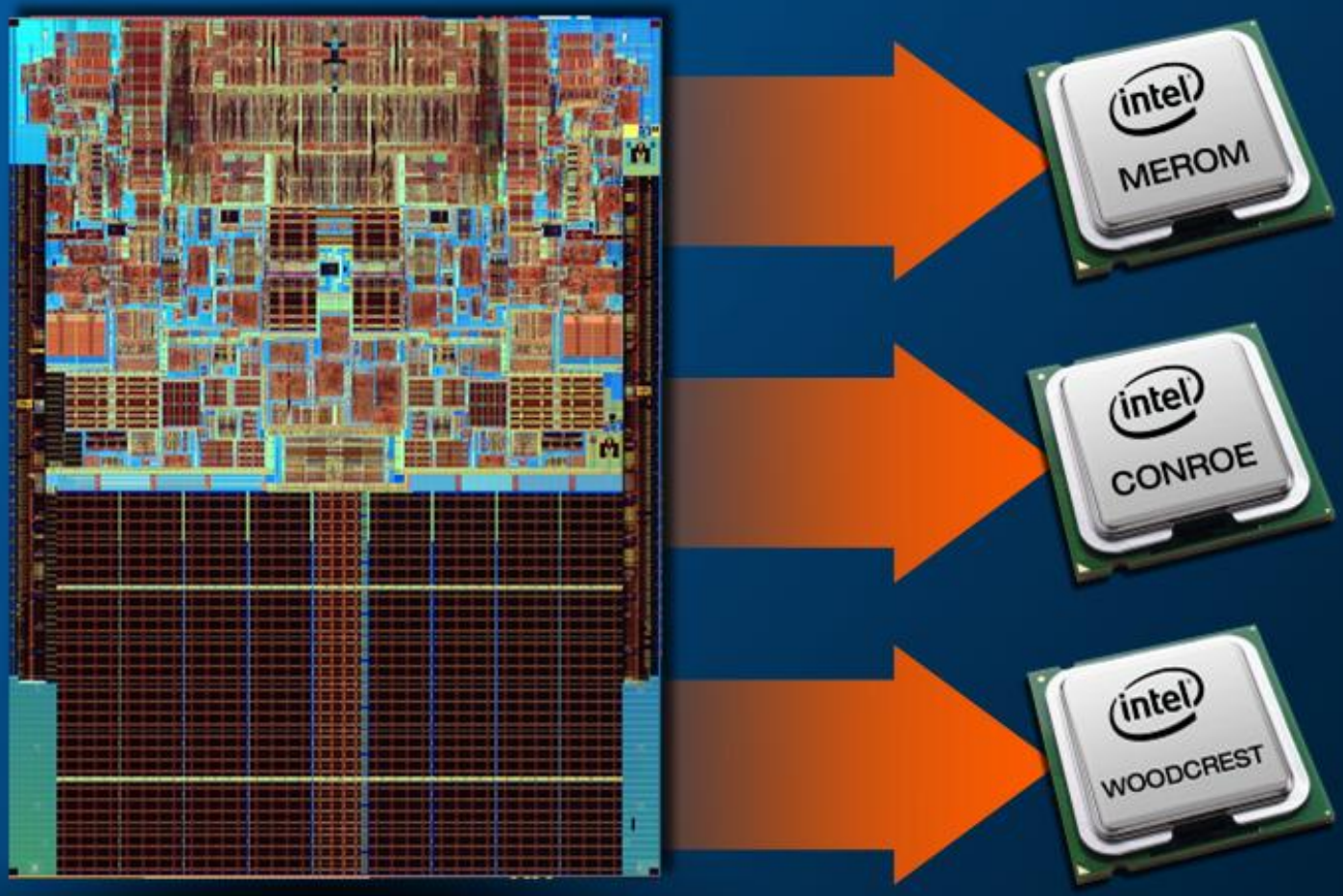
Source: Intel, *Mobile and Desktop Performance Segment

Mobile Core™ Family Ramp



Source: Intel, % of mobile performance segment

Intel® Core™ Microarchitecture



Intel® Wide Dynamic Execution

Intel® Advanced Media Boost

Intel® Advanced Smart Cache

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Performance

Source: Intel based on estimated SPECint_rate_base2000

Desktop Performance Transitions

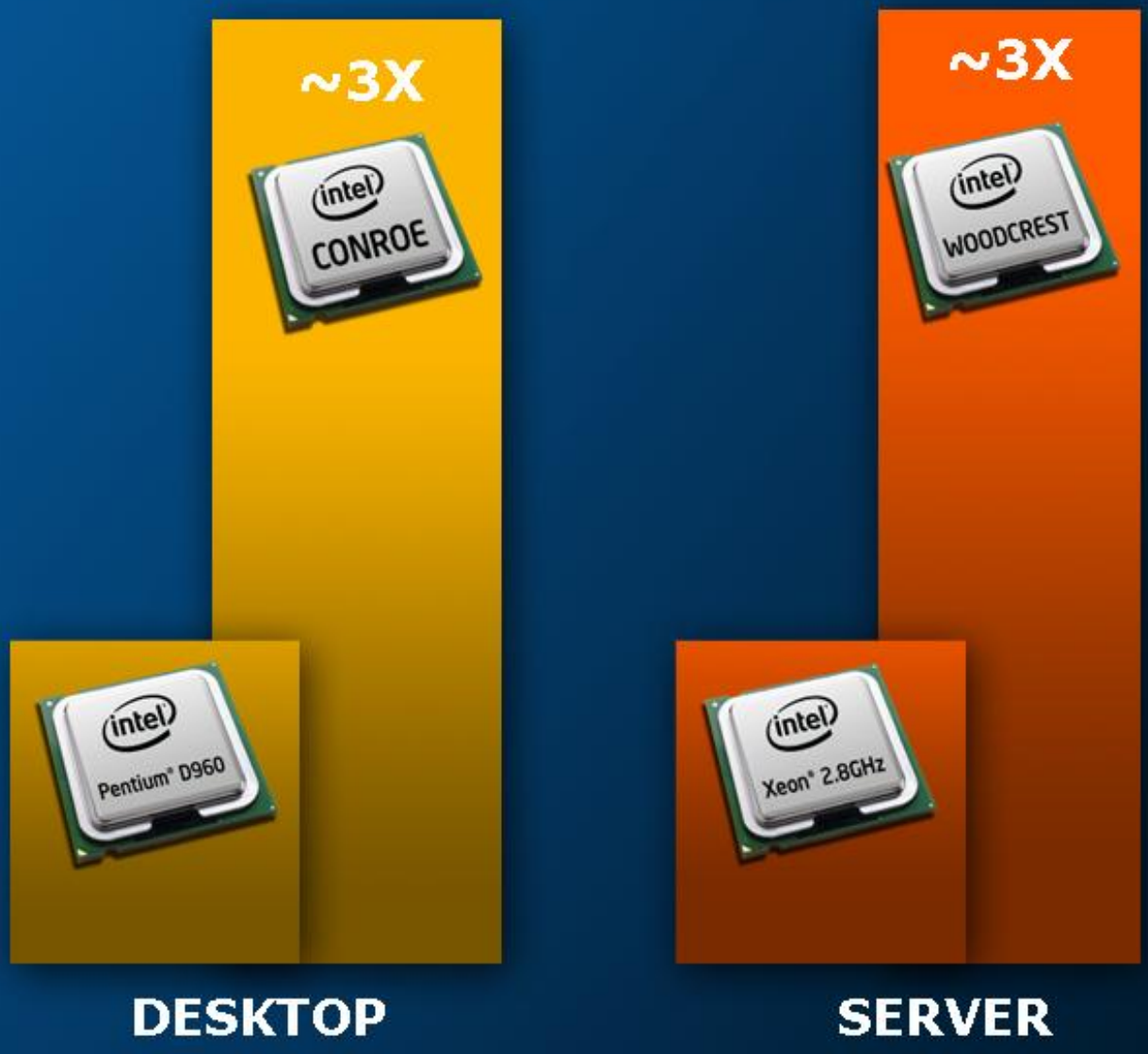
Source: Mercury Research; Intel, Intel based on estimated SPECint_rate_base2000

Performance per Watt

MOBILE

Source: Intel based on estimated SPECint_rate_base2000 and thermal design power

Performance per Watt



Source: Intel based on estimated SPECint_rate_base2000

Shipping Soon (2006)

Woodcrest Ramp

Source: Intel, % of Total Xeon® DP Shipments

Desktop and Mobile Multi Core Ramp

	2006* Previous Forecast	2006* UPDATE
DESKTOP*	>70% Dual Core	75% Dual Core
MOBILE*	>70% Dual Core	90% Dual Core

Architecture Transitions

1989 — i486

1993 — Intel Inside Pentium

1996 — Intel Inside Pentium Pro, Intel Inside Pentium II, Intel Inside Pentium III

2000 — Intel Inside Pentium 4, Intel Inside Xeon

Netburst® Microarchitecture

2006

SHIFT to PERFORMANCE/ WATT

2003 — Intel Inside Pentium M — 90nm

2006 — Intel® Core™ Microarchitecture — 65nm

2008 — Nehalem New microarchitecture — 45nm

2010 — Gesher New microarchitecture — 32nm

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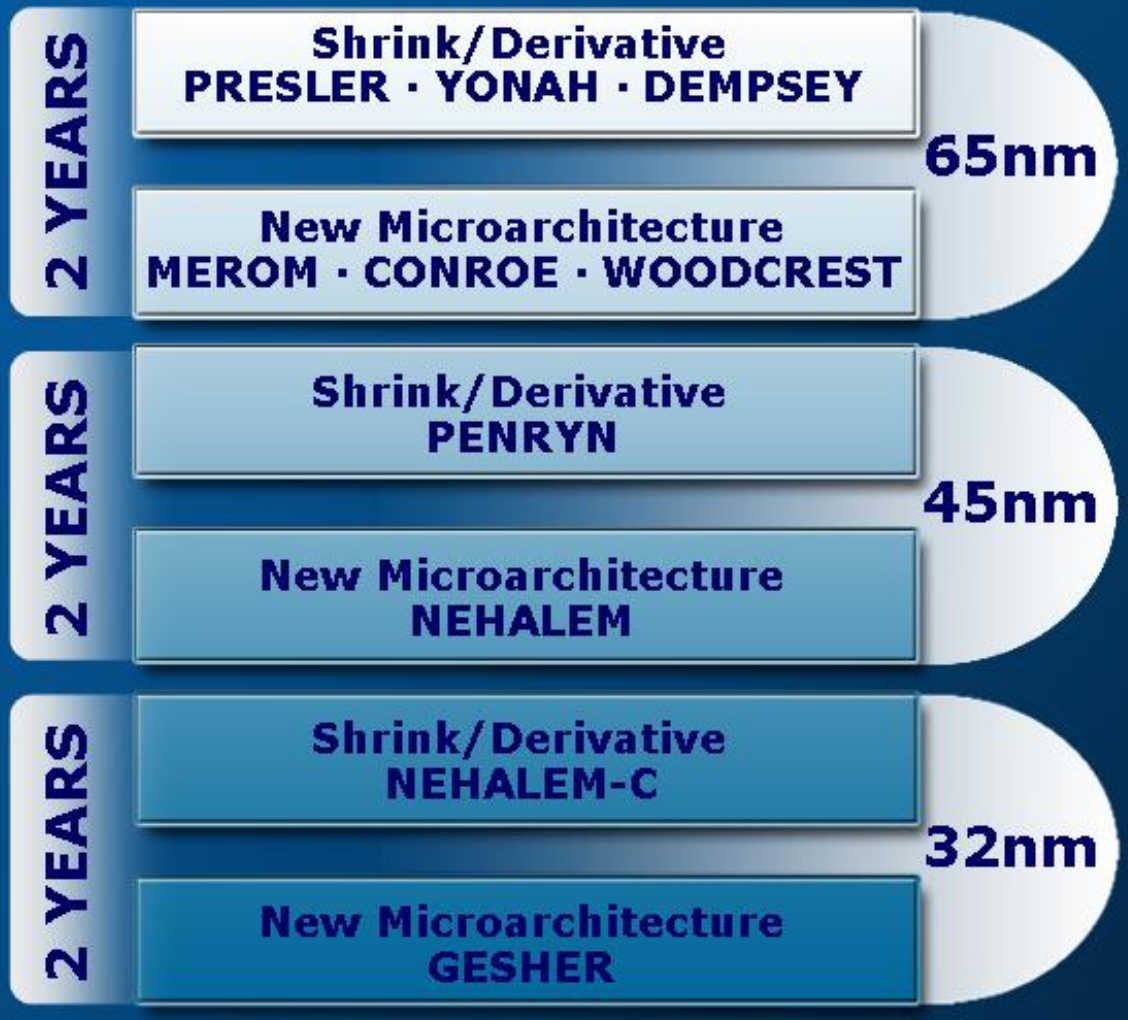
Microprocessor Design Model



PRINCIPLES

1. One micro-architecture for all high volume market segments
2. Optimized for performance/watt
3. Parallel design teams
4. No waiting on new process technology
5. Chipset cadence offset for fast ramp

OBJECTIVE: Sustained Technology Leadership

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PREMIUM BRAND: PLATFORMS

MAINSTREAM PROCESSOR

VALUE PROCESSOR

The Platform Strategy Works

	2004	2005 PLAN	2005 ACTUAL
VOLUME	16Mu	21Mu	32Mu

Source: Intel

Platform Projections

		
Value Proposition	Digital Content Consumption in the Living Room	Manageability Security Virtualization
Shipment Date	January 2006	Q3 2006
1st 12 Months of Revenue (FORECAST)	>$1B	>$1B

Source: Intel

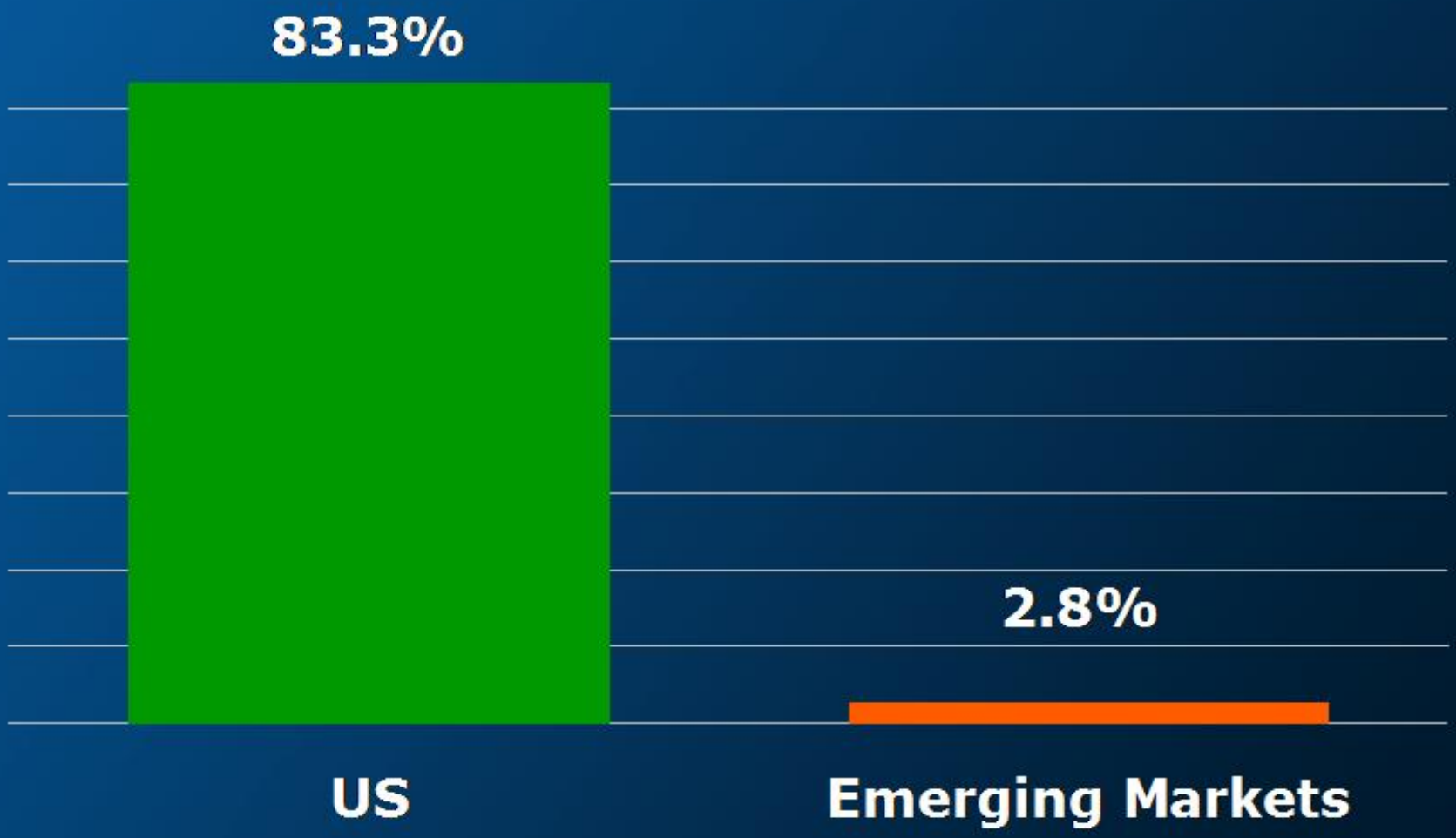
The Next Platforms

What are the next 100Mu/year markets?

EMERGING MARKETS

ULTRA MOBILE PCs

PC Penetration



Source: Gartner, 2005. PCs/1000 Persons

Discover the PC Initiative

DECREASING
Power, System Price

INCREASING
Performance, Power, System Price

Intel® Architecture

PLATFORMS

Ultra Mobile PC

Notebook

Desktop

Server

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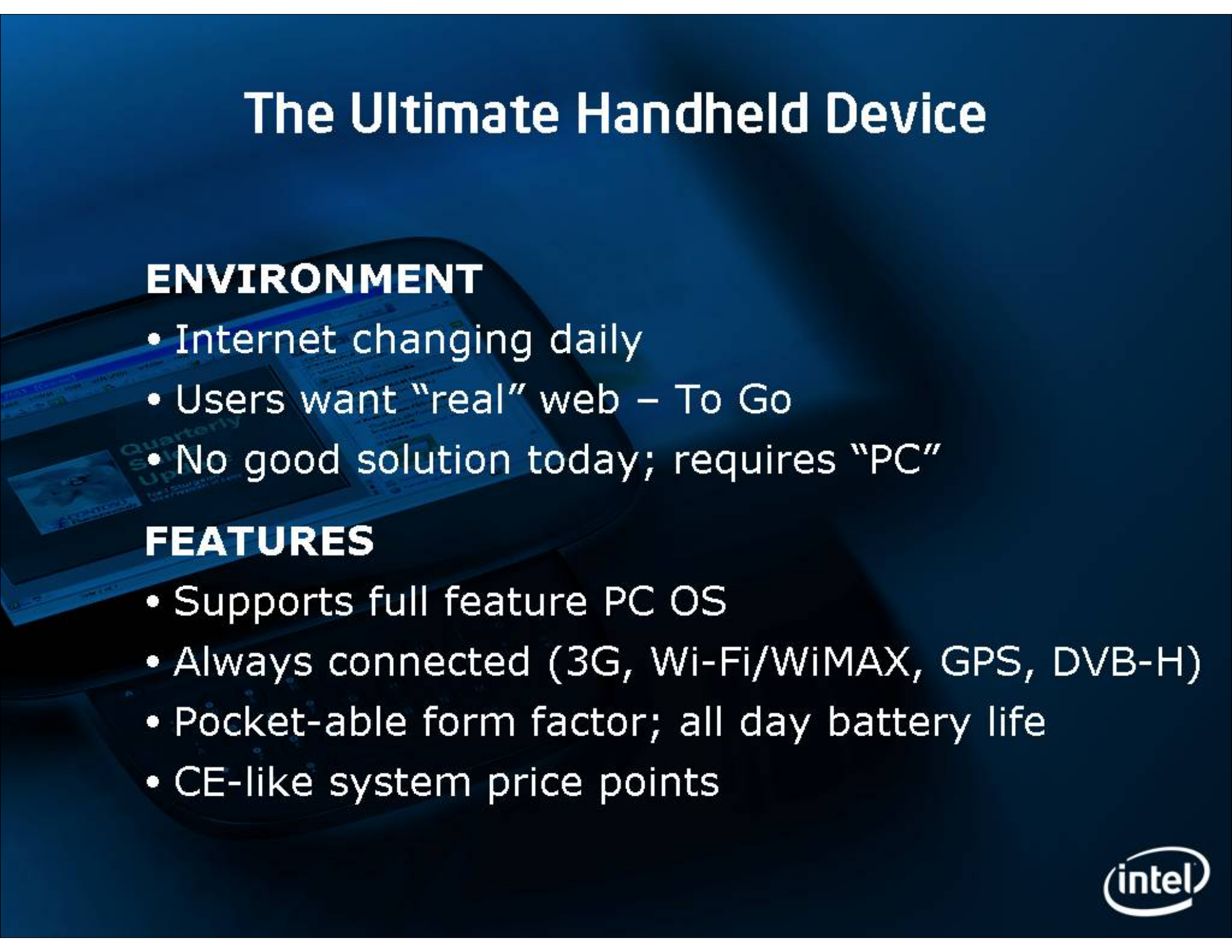
The Ultimate Handheld Device

ENVIRONMENT

- Internet changing daily
- Users want "real" web – To Go
- No good solution today; requires "PC"

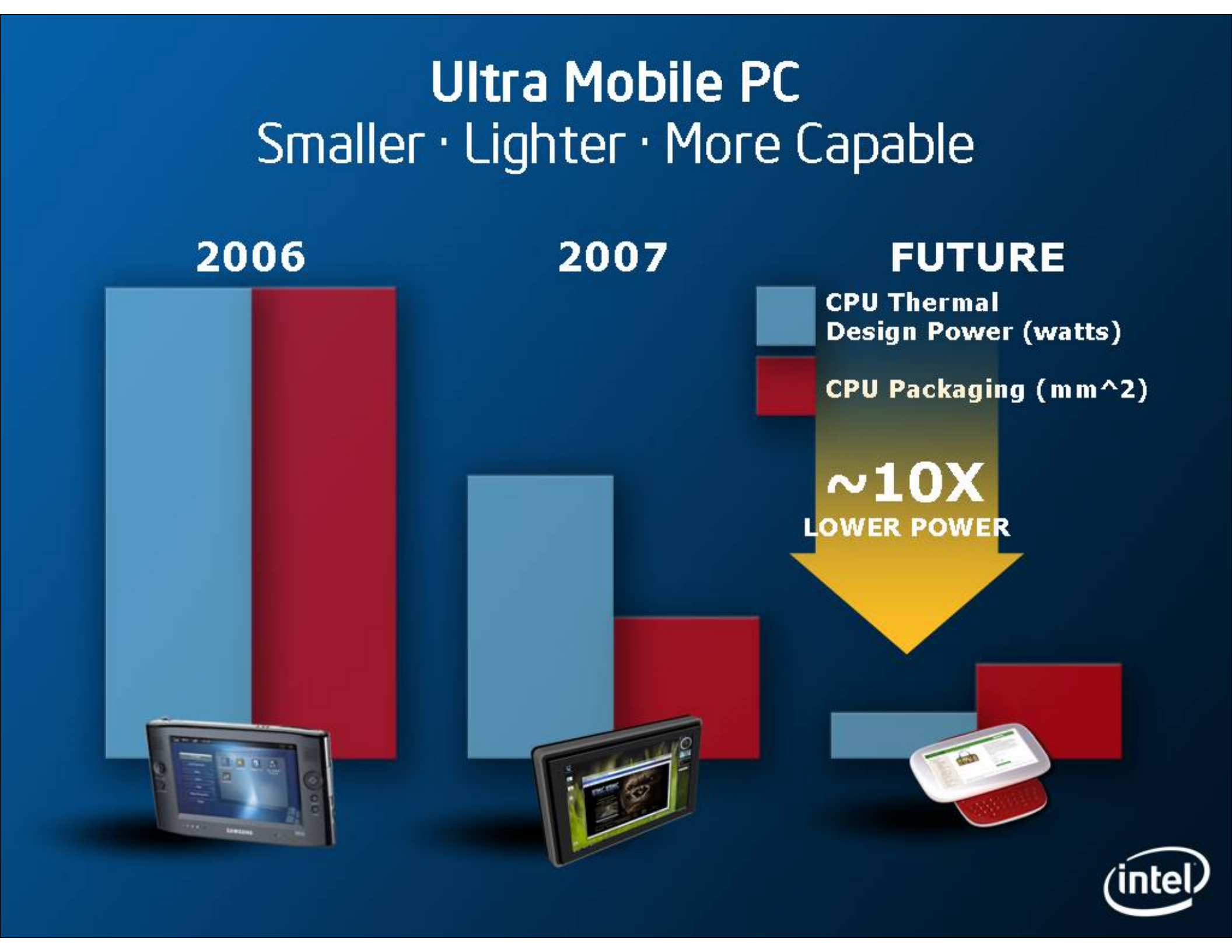
FEATURES

- Supports full feature PC OS
- Always connected (3G, Wi-Fi/WiMAX, GPS, DVB-H)
- Pocket-able form factor; all day battery life
- CE-like system price points



Ultra Mobile PC

Smaller · Lighter · More Capable



Summary of Tactical Actions

1H'06

- Focused on clearing inventory
- Ramp current 65nm microprocessors
- Ramp Centrino® Duo and Viiv™ platforms
- Begin company-wide efficiency project

2H'06

- Intro and ramp new Core™ microarchitecture
- Ramp New Platforms: Centrino® Duo (Merom), Viiv™ (Conroe) and vPro™ (Conroe)
- Win back MSS

Looking Forward

- Intel has always relentlessly pursued technology and products – this will NOT change
- The key markets we have identified are still the key opportunities for growth
  - Mobility, Digital Home, Digital Enterprise, Emerging Markets, Digital Health
  - Platforms centered on microprocessor leadership allow us to capitalize on these market opportunities
- Adding an equivalent focus on driving efficiency into every action we take and every part of Intel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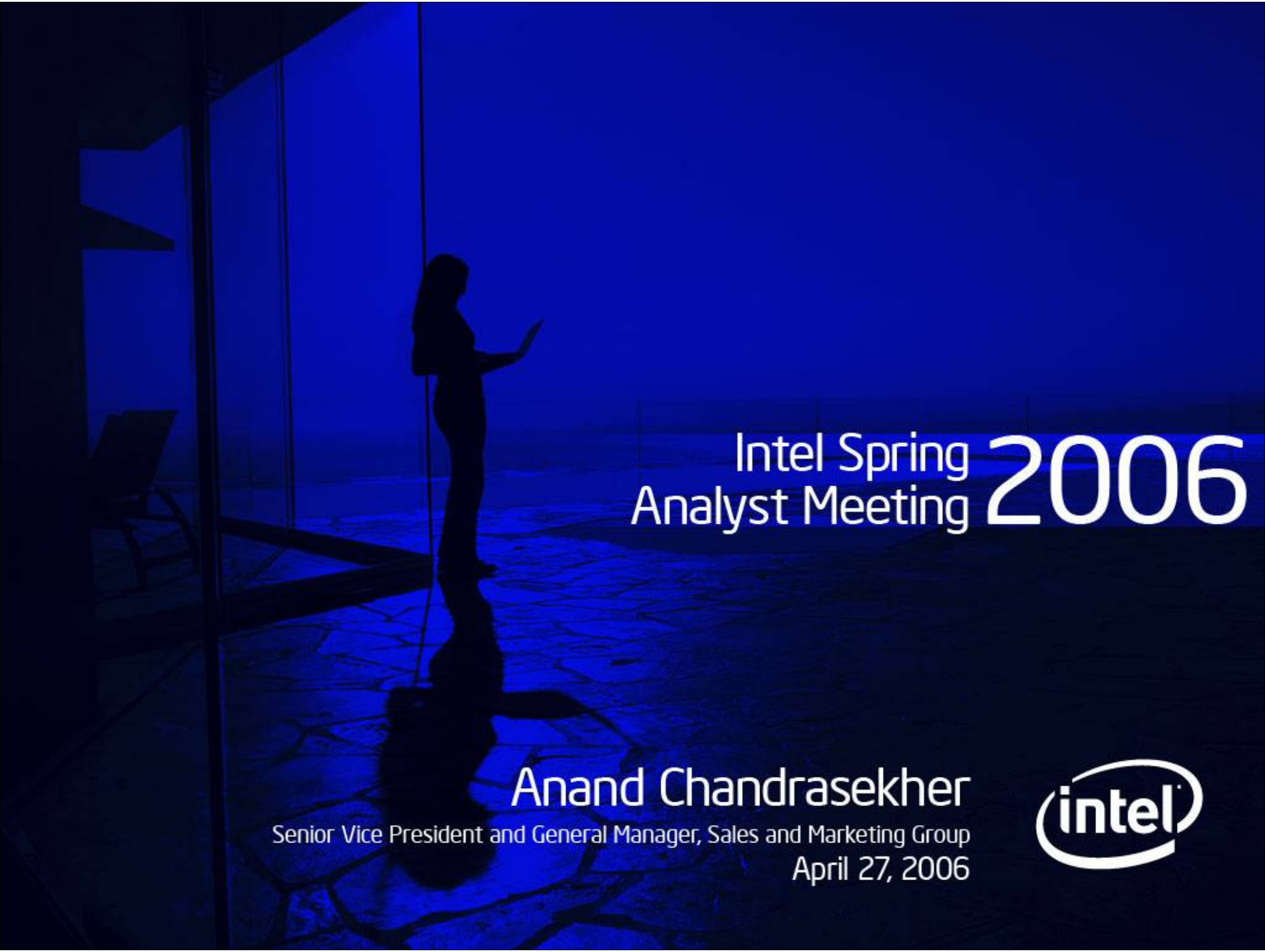
Leap ahead™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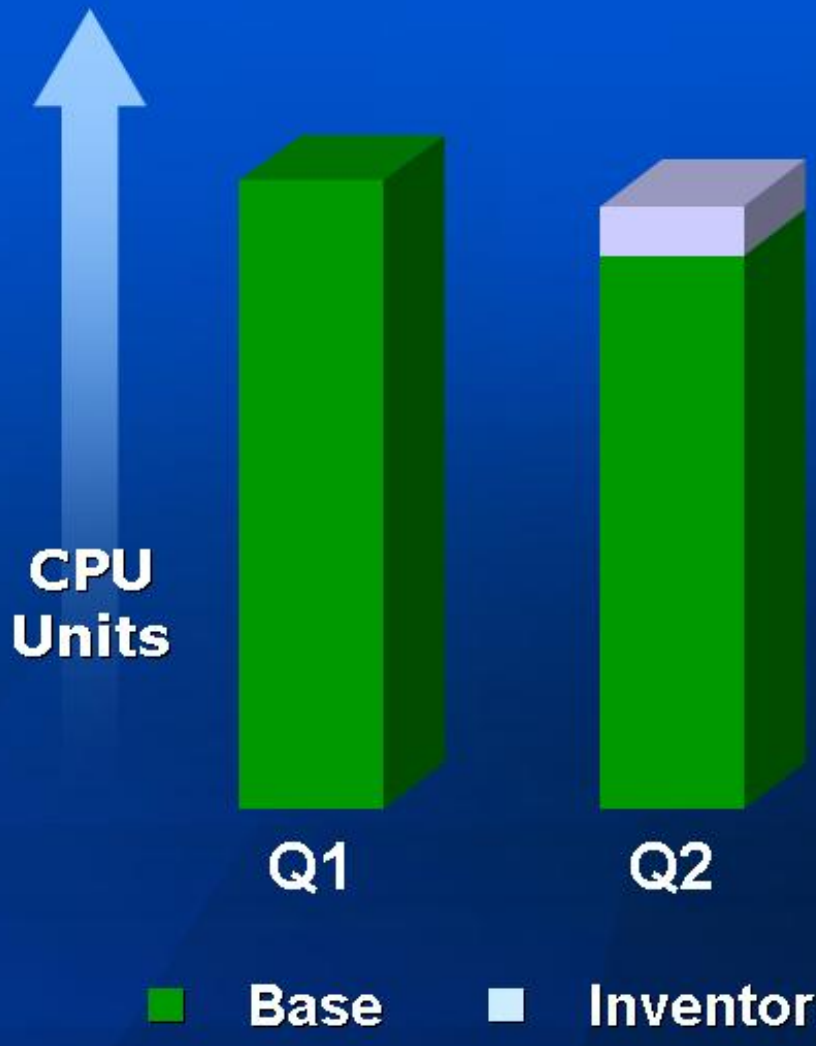
Key Messages

- PC TAM growth for 2006 has moderated
- Inventory build up over the last 6 months expected to be depleted in Q2
- MSS loss stabilized in Q1'06; positioned to regain MSS in 2H'06
- Emerging market and notebook growth drivers intact
- Design win momentum strong

2006 Outlook

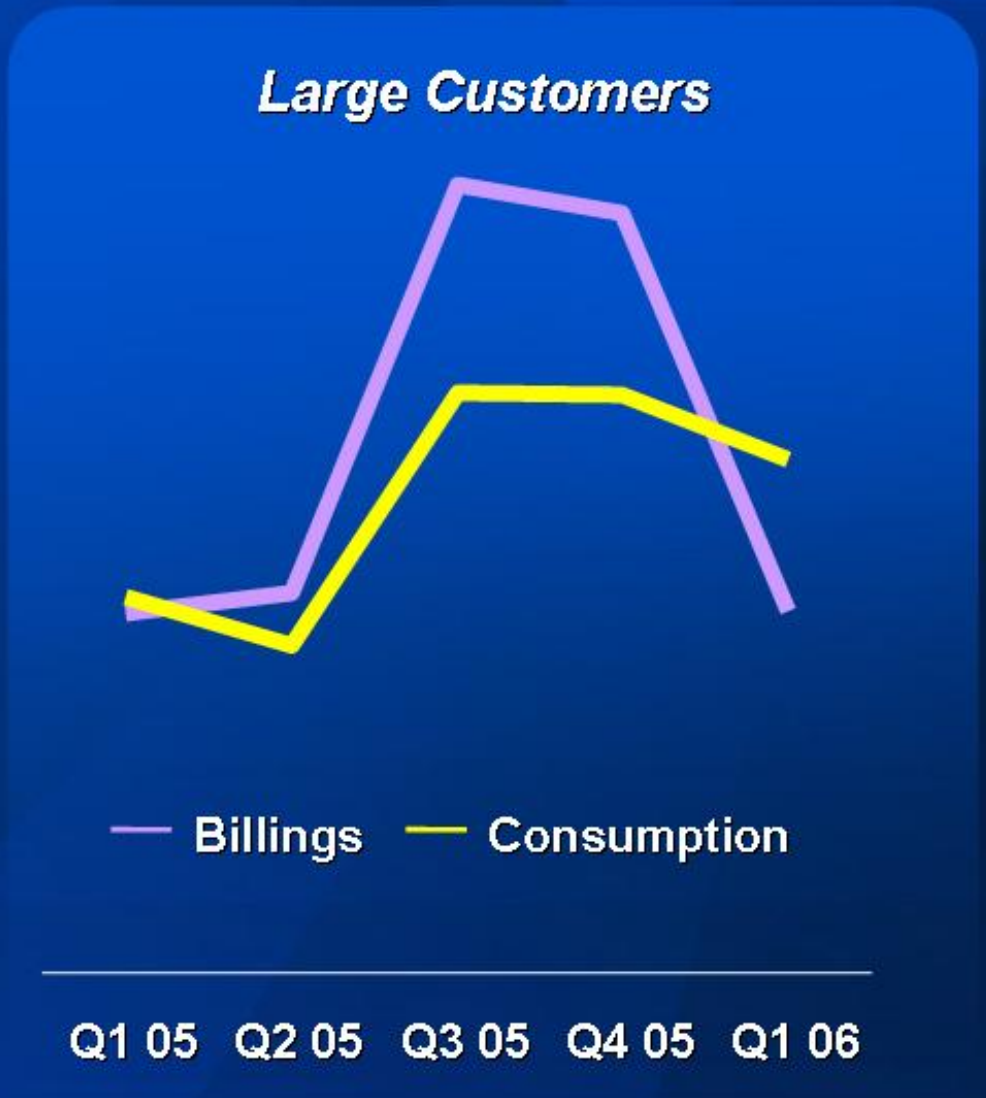
Source: Intel

2006 Outlook



Source: Intel

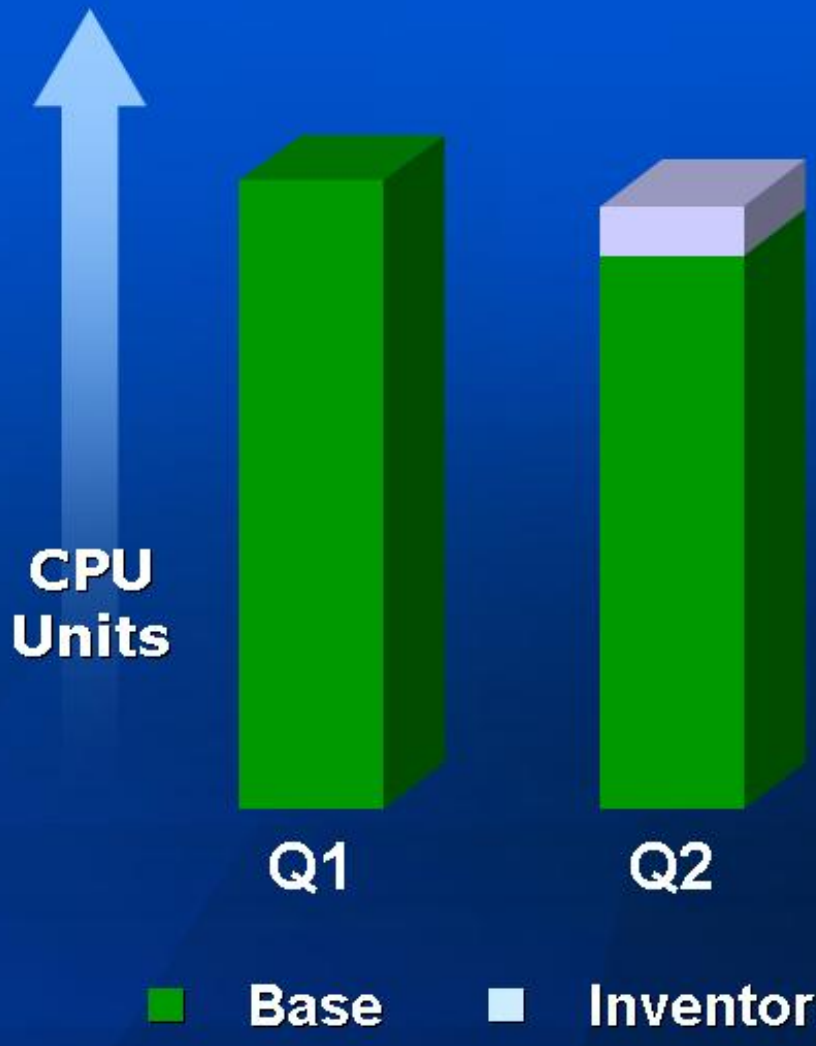
Inventory



- Inventory levels higher than expected
  - Customers demanding more during constraints
  - Market growth moderated
  - Down channel inventory growth
- Q2 plan to clear inventory
  - Get ready for new products

Source : Intel

2006 Outlook

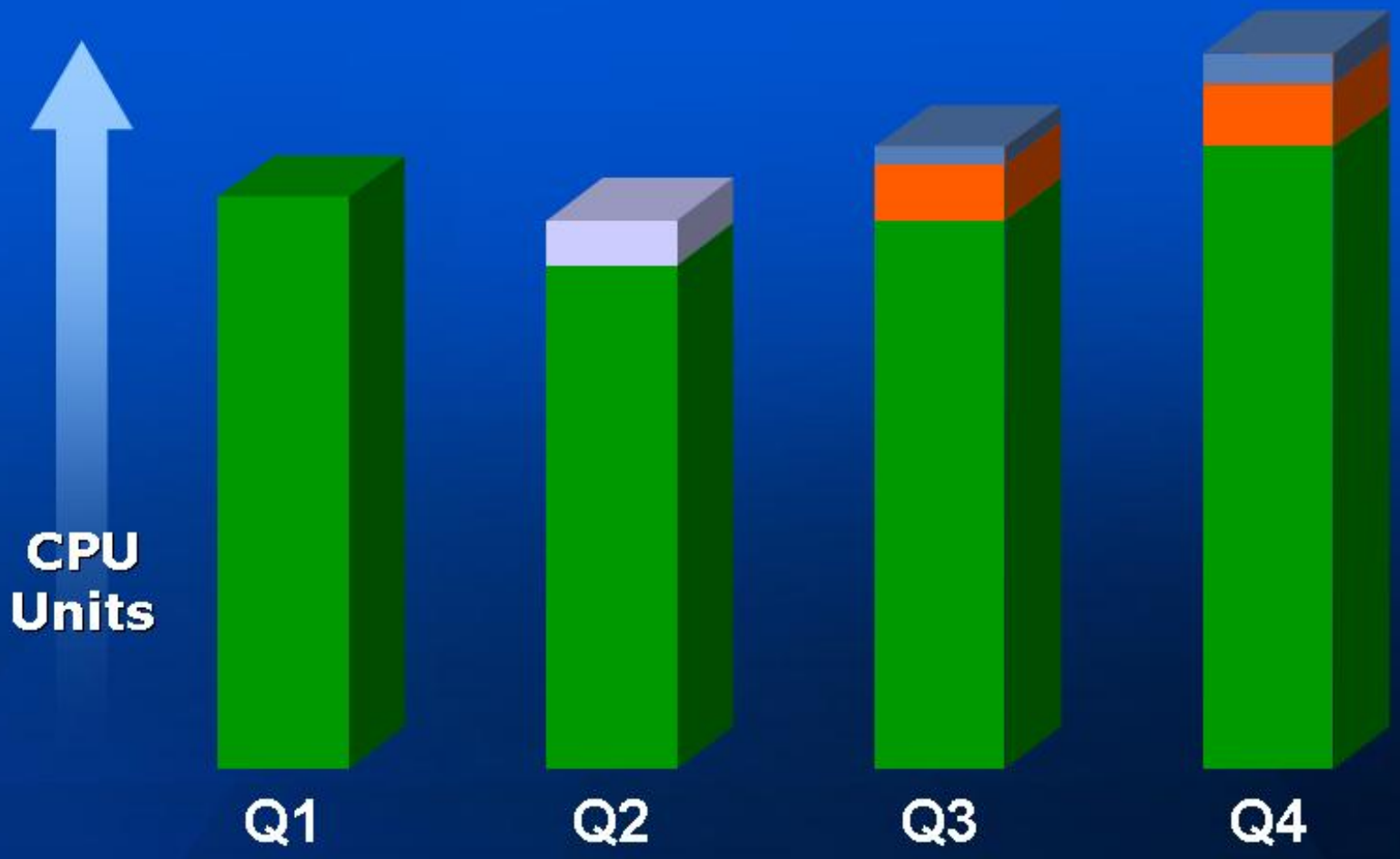


Source: Intel

2006 Outlook

Source: Intel

2006 Outlook



Source: Intel

MSS: Where Did We Lose and Why?

1. **Channel:** Insufficient CPU supply in 1H'05; insufficient chipsets in 2H'05; insufficient motherboard supply
2. **Consumer (retail):** Impacted by chipset supply in 2H'05
3. **Servers:** Inadequate roadmap

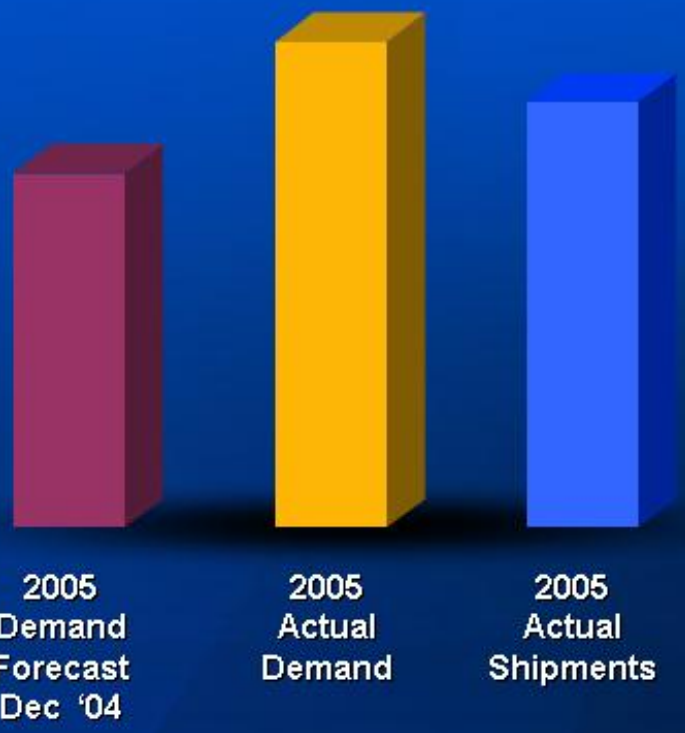
2005 supply impacted customers

Win-backs gradually picking up momentum

Aided by leadership technology in 2H'06

Regaining MSS: Chipset Supply
Benefits Channel Business, Enables Retail Winbacks

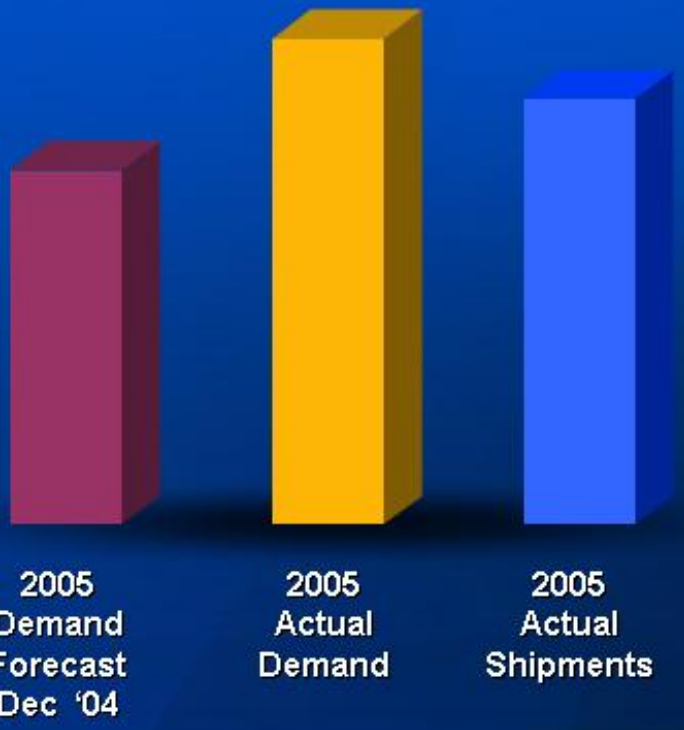
2005 Intel Chipset Profile



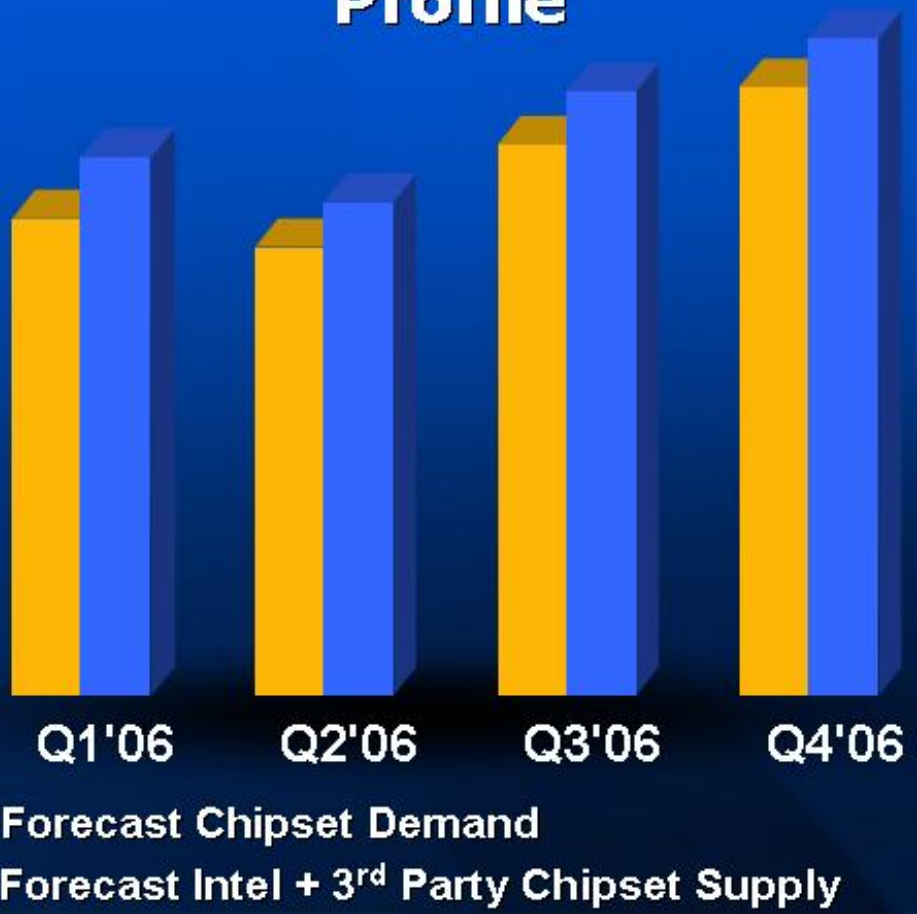
Graph Not Drawn to Scale

Regaining MSS: Chipset Supply
Benefits Channel Business, Enables Retail Winbacks

2005 Intel Chipset Profile



2006 Chipset Supply Profile



Started enabling 3rd party chipsets in 2H'05

Broadwater is our fastest ever chipset ramp

Graph Not Drawn to Scale

Regaining MSS: Intel Motherboard Supply
Benefits Channel Business Directly

1st time in Intel history – launched Intel motherboard utilizing 3rd party c/s

Regaining MSS:
Driving Excitement Using Technology Leadership

- Drive excitement with Viiv™, Centrino® Duo
- Leadership technology
- Build emotional link to customers with our technology
- Expecting some MSS increase in BTS’06 and further improvement for Holiday ’06
- China example: Pentium® D mix approaching 40% of retail shipments with local OEM’s and channel

Regaining MSS: Technology Leadership

"Conroe" in the Press

"…Intel is poised to change the face of the desktop computing landscape."
HotHardware.com
March 9 2006

"…we have to say that Intel have a major performance lead.."
Hexus.net
March 9 2006

"Intel Regains the Performance Crown."
Anandtech.com
March 8 2006

". . . Intel Dishes the Knockout Punch to AMD with Conroe"
GDHardware.com
March 9 2006

Professional Business Platform:
Extending Our Lead

Intel® Active Management Technology

Intel® Virtualization Technology

Intel Platform Software and Ecosystem Solutions

Built-in Management

Proactive Security

Energy Efficient Performance

Vista* ready

*Other names and brands may be claimed as the property of others

Over 20 OEMs at Launch

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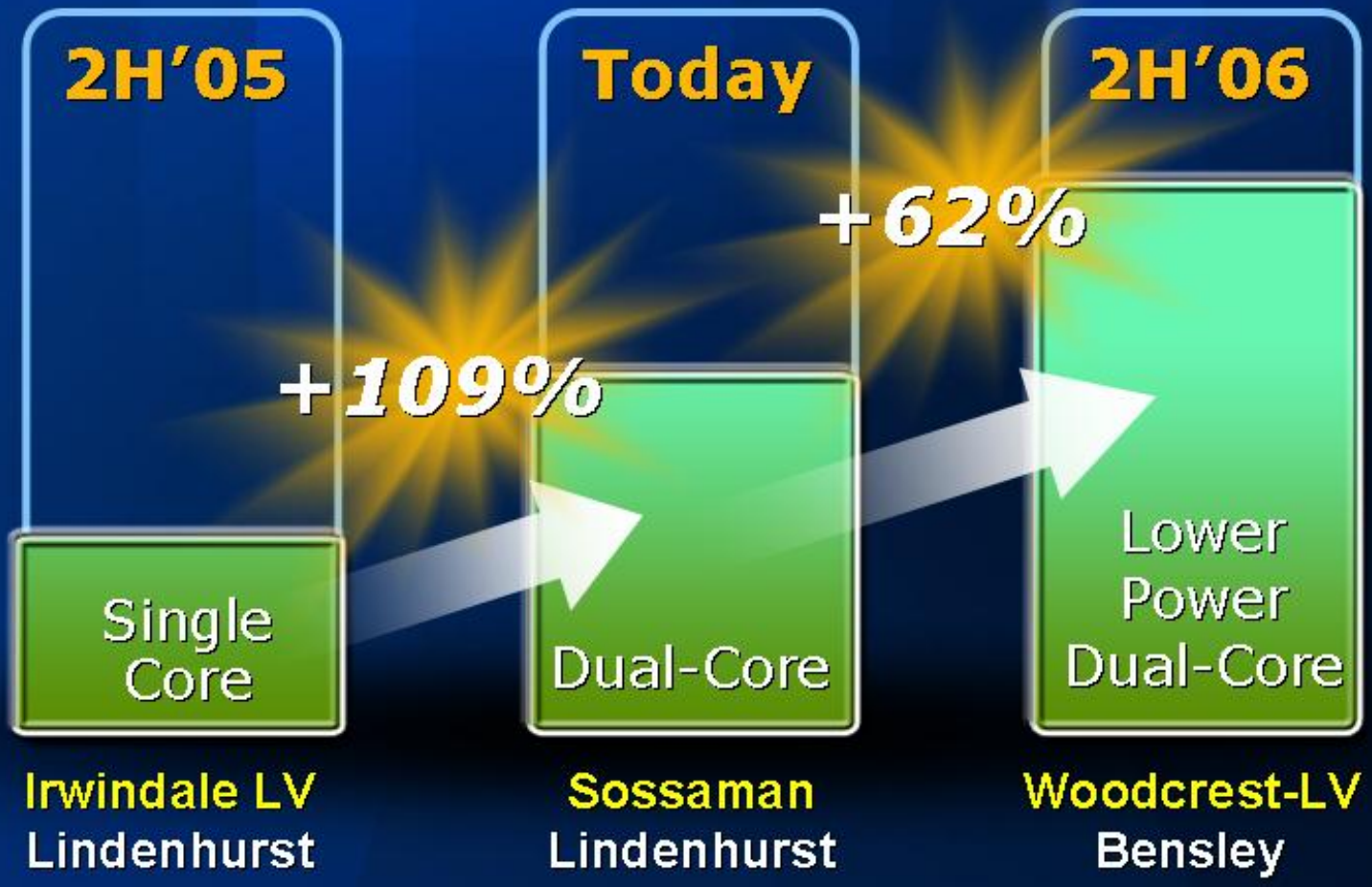
Regaining MSS: Server Initiatives

- Q4'05: Paxville
- Q2'06: Bensley platform / Sossaman
- 2H'06: Woodcrest Roadmap Strength
- ISV / Ecosystem Programs
- Large Account Engagement
- Strong Marketing Programs
- Channel Programs

Server MSS: poised for 2H rebound

Performance / Watt Leadership

SPECINT RATE PERFORMANCE PER RACK



Woodcrest-LV performance based on estimated SPECint*_rate_base2000

Source: Intel Corporation Projections and technical specifications are based on internal analysis and subject to change
All dates and products specified are for planning purposes only and are subject to change.

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Yahoo!

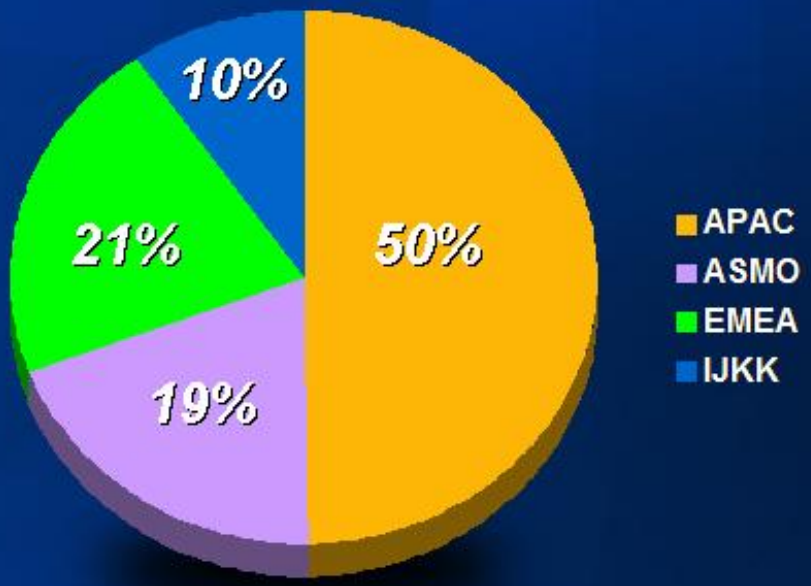
- Large Deployment of Sossaman based platform for Web Site Applications spanning multiple Yahoo! Properties
- Attracted by overall Performance Per Watt of the platform
- Currently evaluating Woodcrest with focus around low-power 64-bit

Regaining MSS

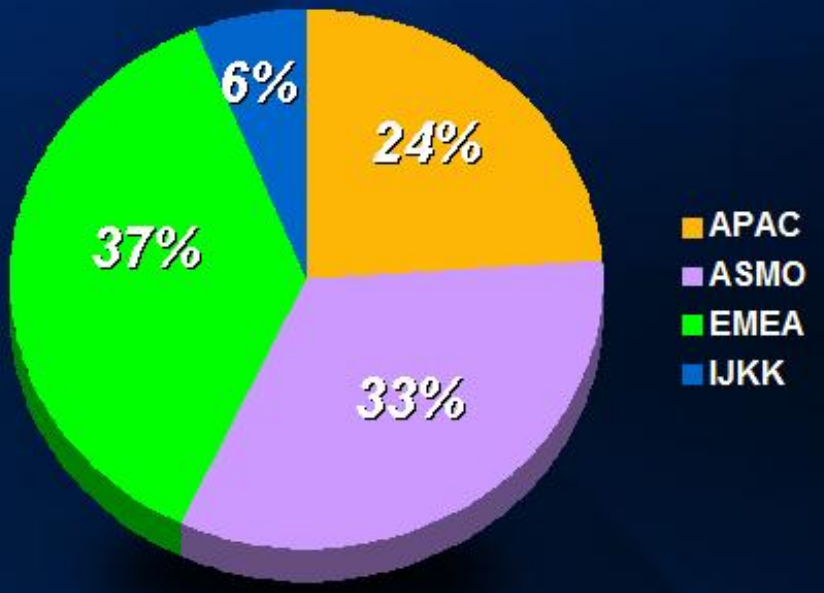
- Leadership in every segment
  - Mobile leadership pull away
  - Desktop leadership across all markets
  - Server roadmap issues addressed
- Supply barriers removed
- Comprehensive integrated marketing campaigns

Global Business 2005
Billings View versus Consumption View

2005 Geography % Billings



2005 Geography % Consumption



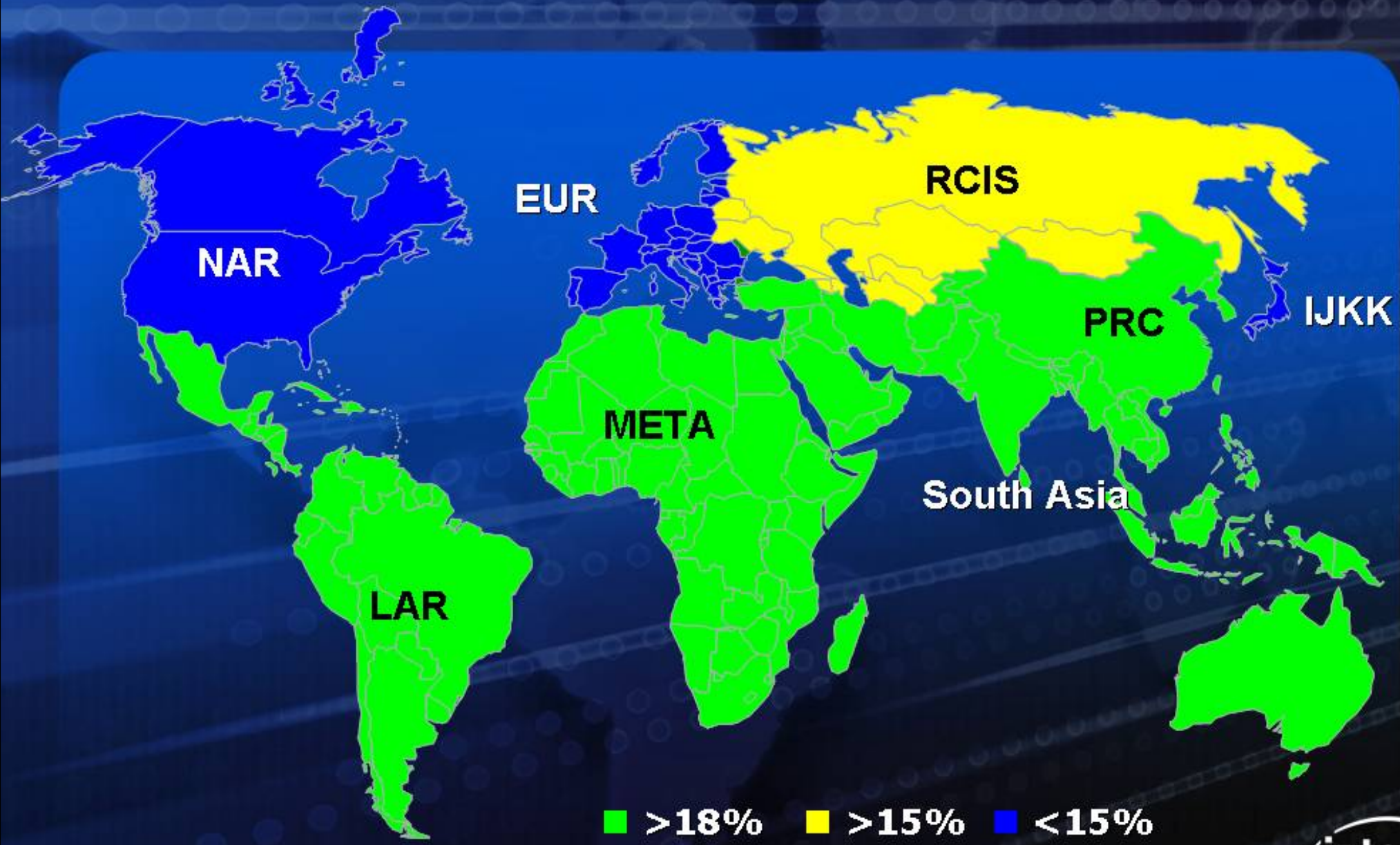
Source: Intel

SAM 2005

Robust Growth Across All Segments — ON TRACK

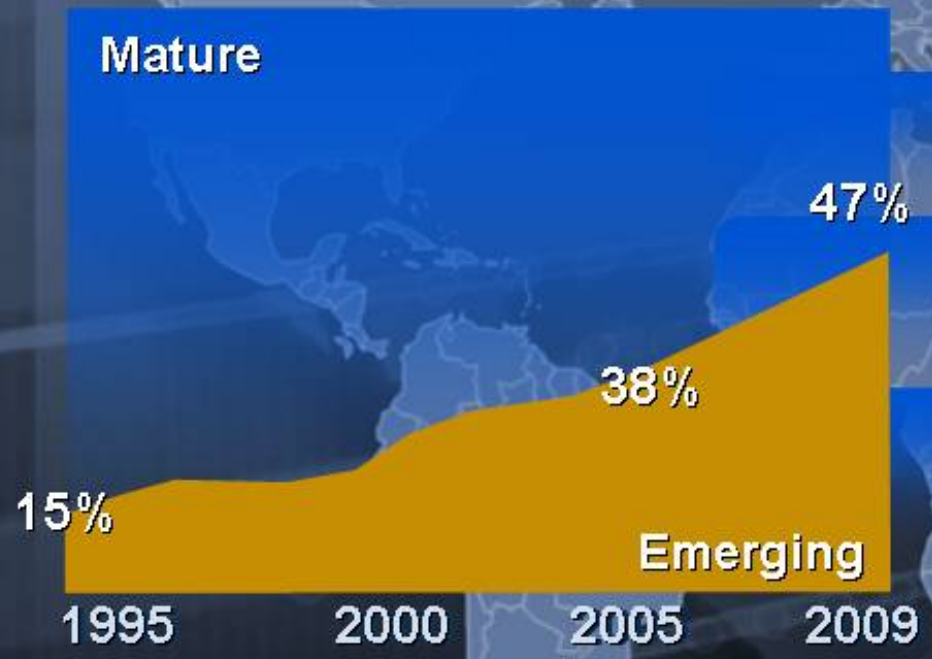
$1 B+ Each Within 2 Years:
Russia/CIS
Latin America
Middle East/Turkey/Africa
South Asia

Emerging Markets Growth



Source: Intel MS&F

Emerging Markets: Going Deeper



	1995	2005
Emerging Market City Coverage	4	1,300
Intel Channel Partners	6,000	180,000

Source: Intel MS&F

GAPP Program
Government Assisted PC Purchase

	2005 Actual	2006 Plan
Units	8.5Mu	12Mu
$Rev.	$1B	$1.5B
Countries	50	>60
Programs	170	200

Source: Intel

Design Win Momentum Continuing

Healthy Design Win Pipeline

- 200+ Napa Designs Complete
  - >100+ already "Merom" validated
- 200+ Viiv™ Designs in 2006
- Intel® Core™ Microarchitecture Designs on track
  - 100+ Conroe Motherboards
  - 200+ Broadwater C/S Designs
- Outside the PC Designs

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Summary

- Technology leadership in every segment
- Supply barriers removed
- Emerging market growth drivers intact
- Design win momentum strong


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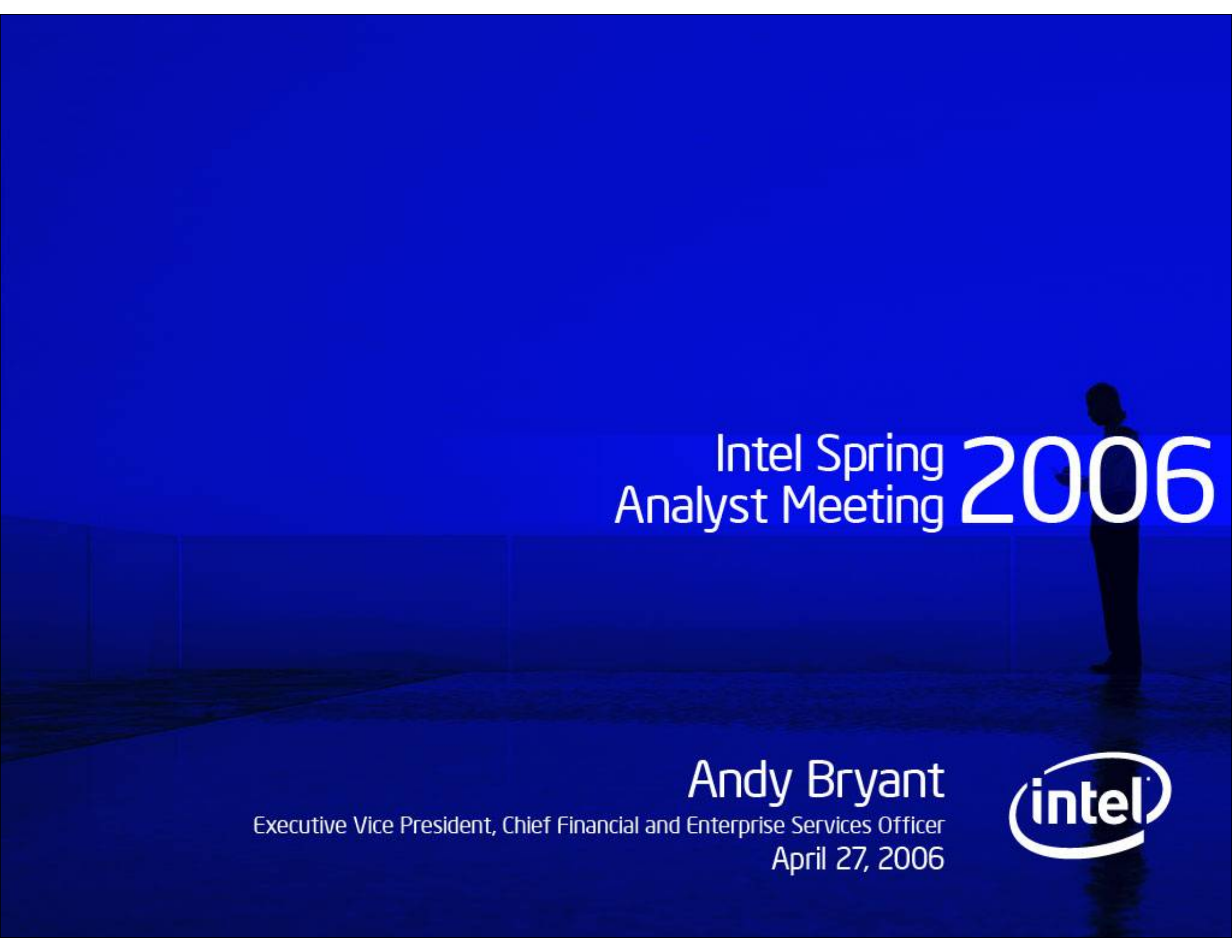
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Andy Bryant
Executive Vice President, Chief Financial and Enterprise Services Officer
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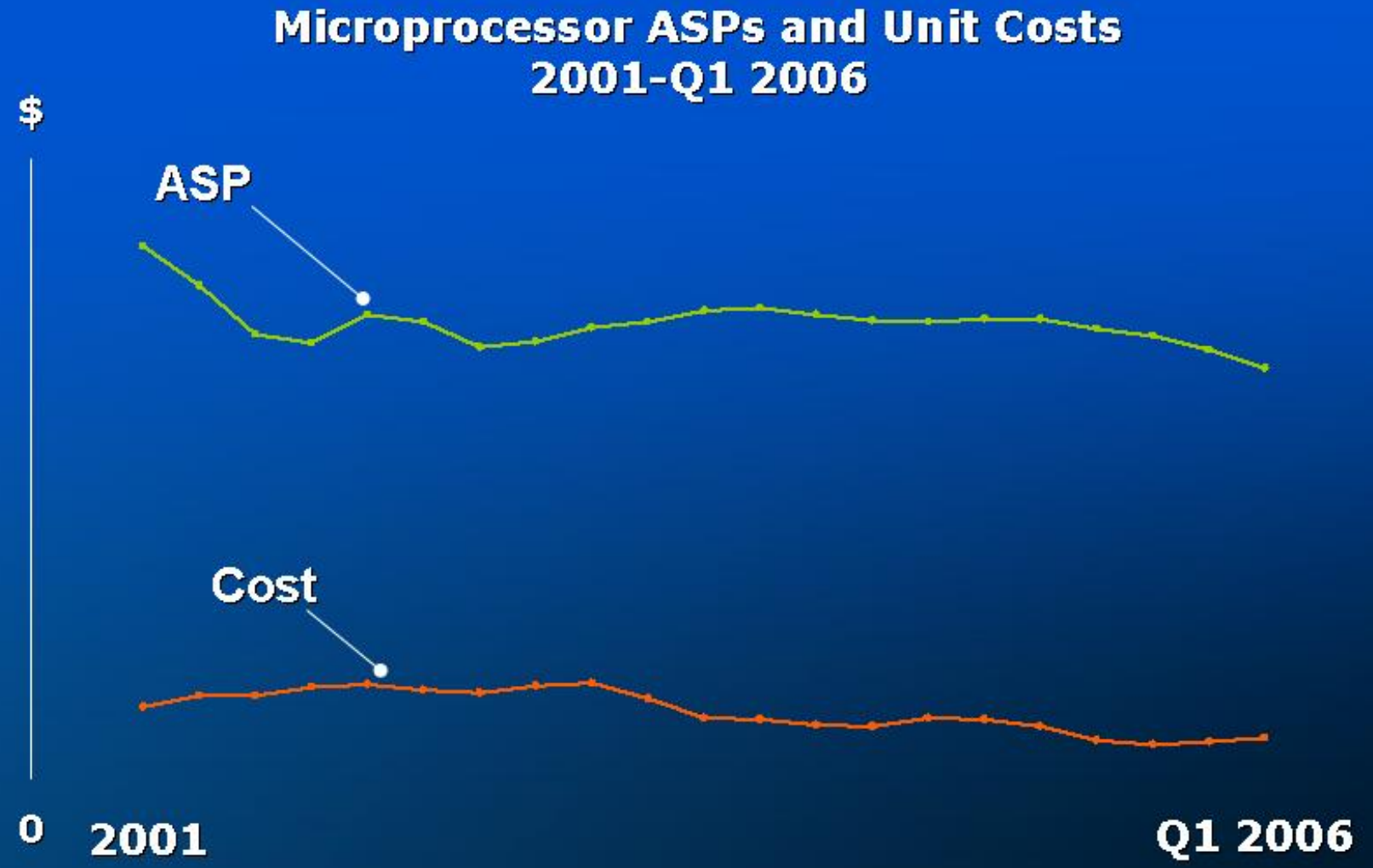
"Profits are the lifeblood of enterprise. Don't let anyone tell you different."

Andy Grove

Corrective Action

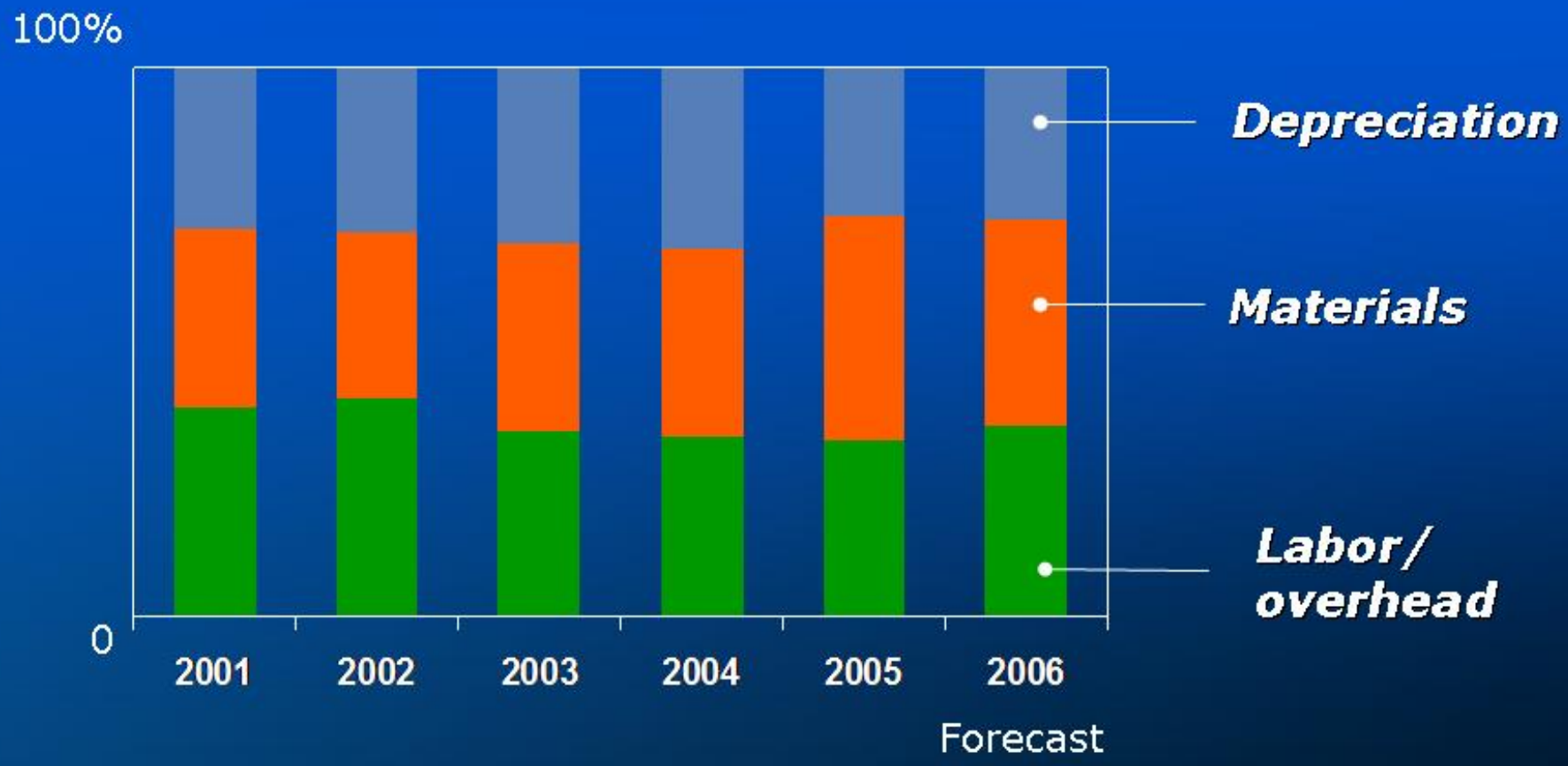
- Focus on costs
  - Reducing 2006 spending by $1B
  - $300M reduction in ’06 capex
  - Headcount
- Deal with non-performing businesses
- Initiated comprehensive project to evaluate company operations
  - Driving costs down and efficiency up
  - Capital efficiency, cost/unit, productivity
  - More details in Q3’06

Price and Unit Cost



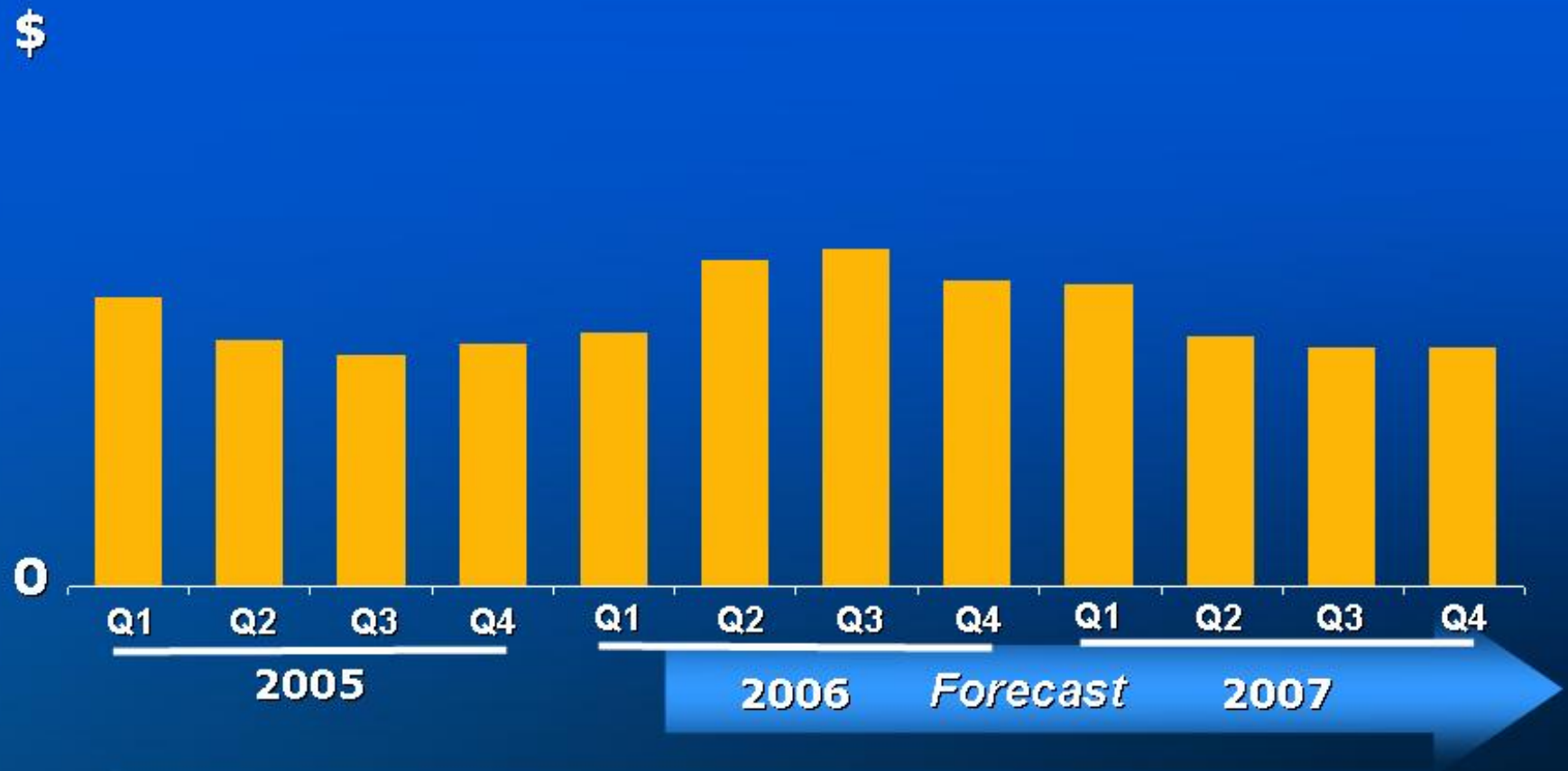
Source: Intel

Elements of Microprocessor Unit Costs



Source: Intel

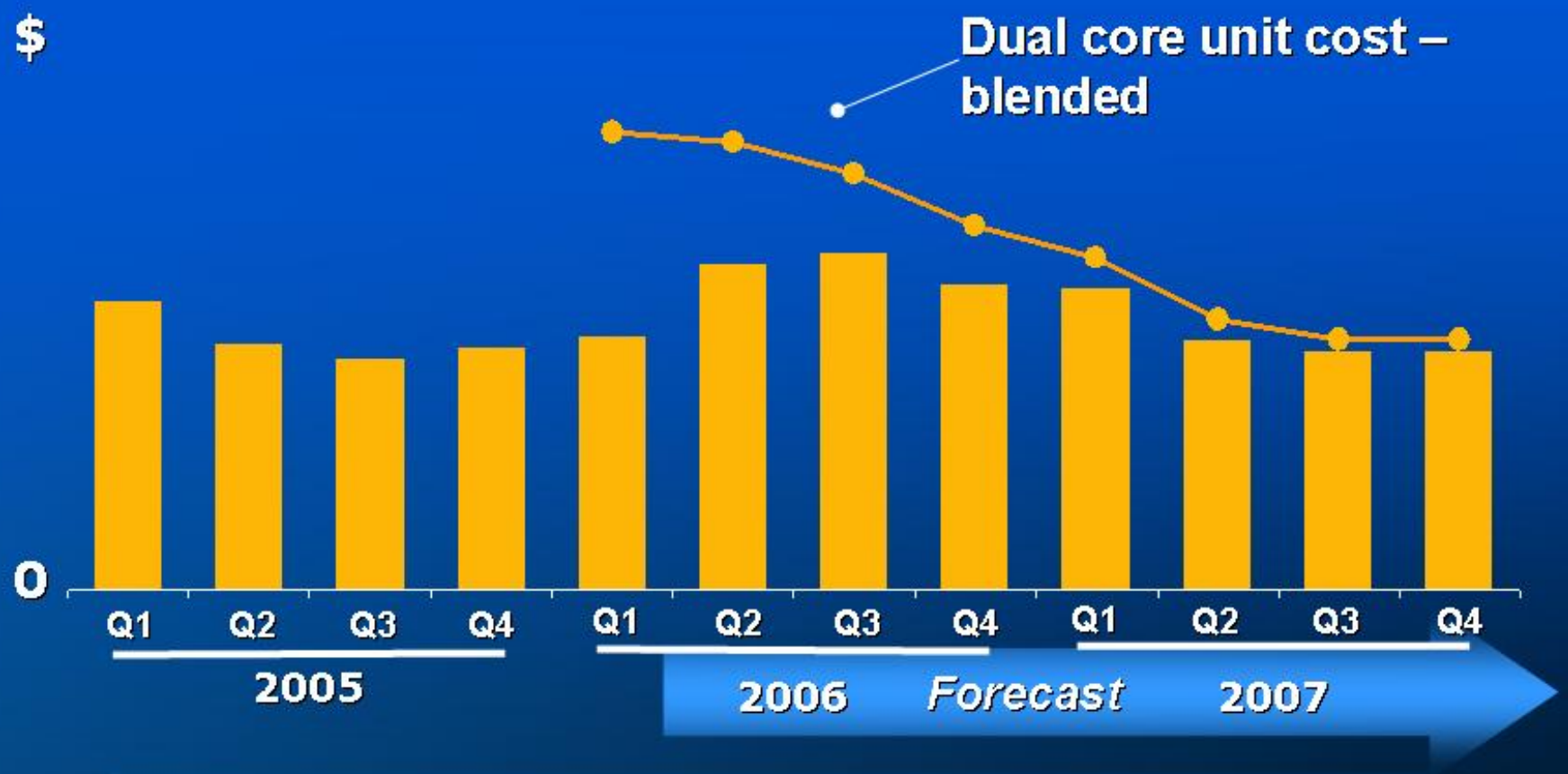
Microprocessor Unit Costs
Quarterly



>25% reduction in 2005 exceeded forecast
Higher unit costs in 2006
Return to recent lows in 2007

Source: Intel

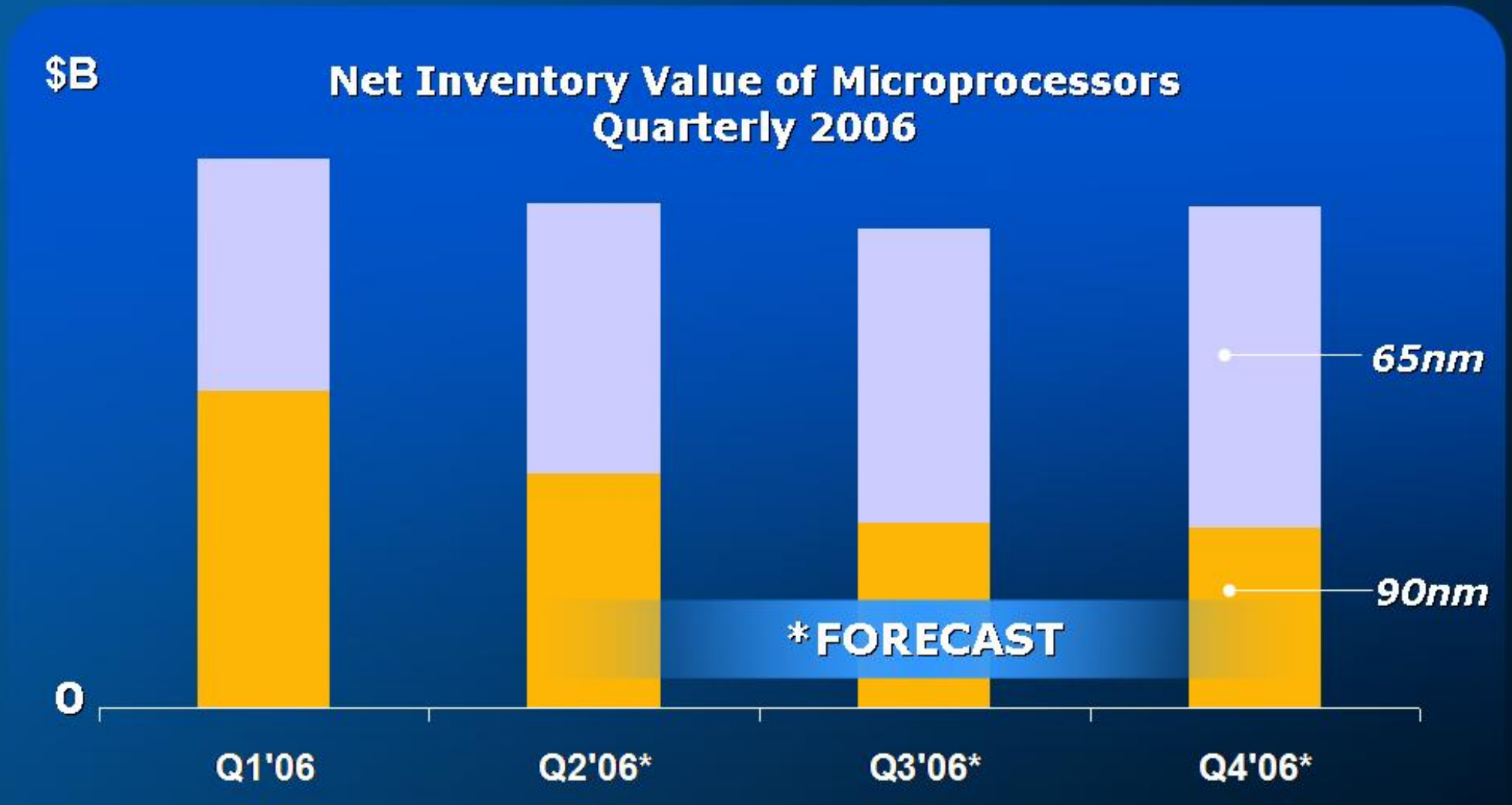
Microprocessor Unit Costs
Quarterly



>25% reduction in 2005 exceeded forecast
Higher unit costs in 2006
Return to recent lows in 2007

Source: Intel

Inventories By Process Node



Source: Intel

Chipset Unit Costs

*Including Broadwater

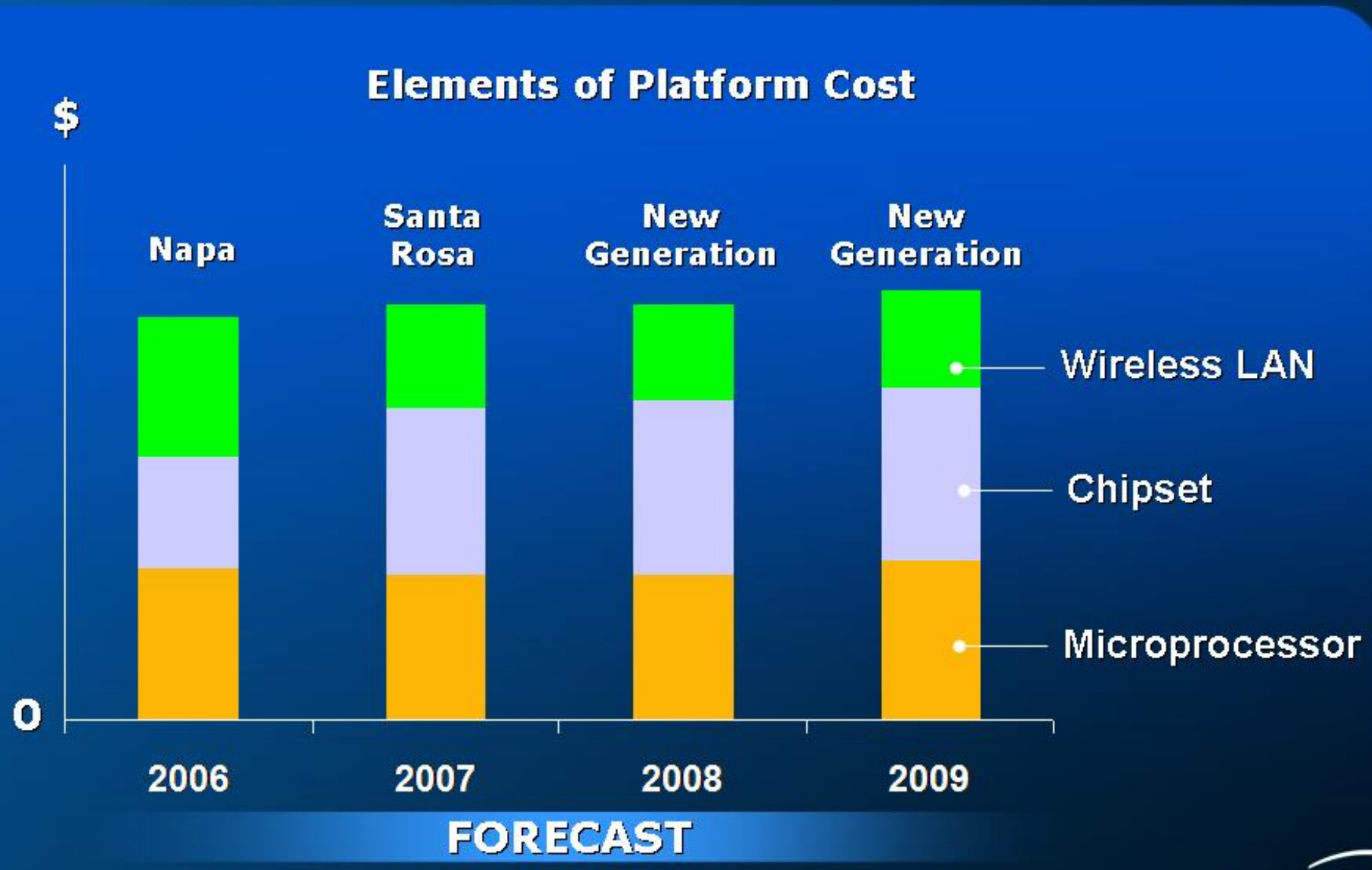
Source: Intel

Chipset Unit Costs

*Including Broadwater

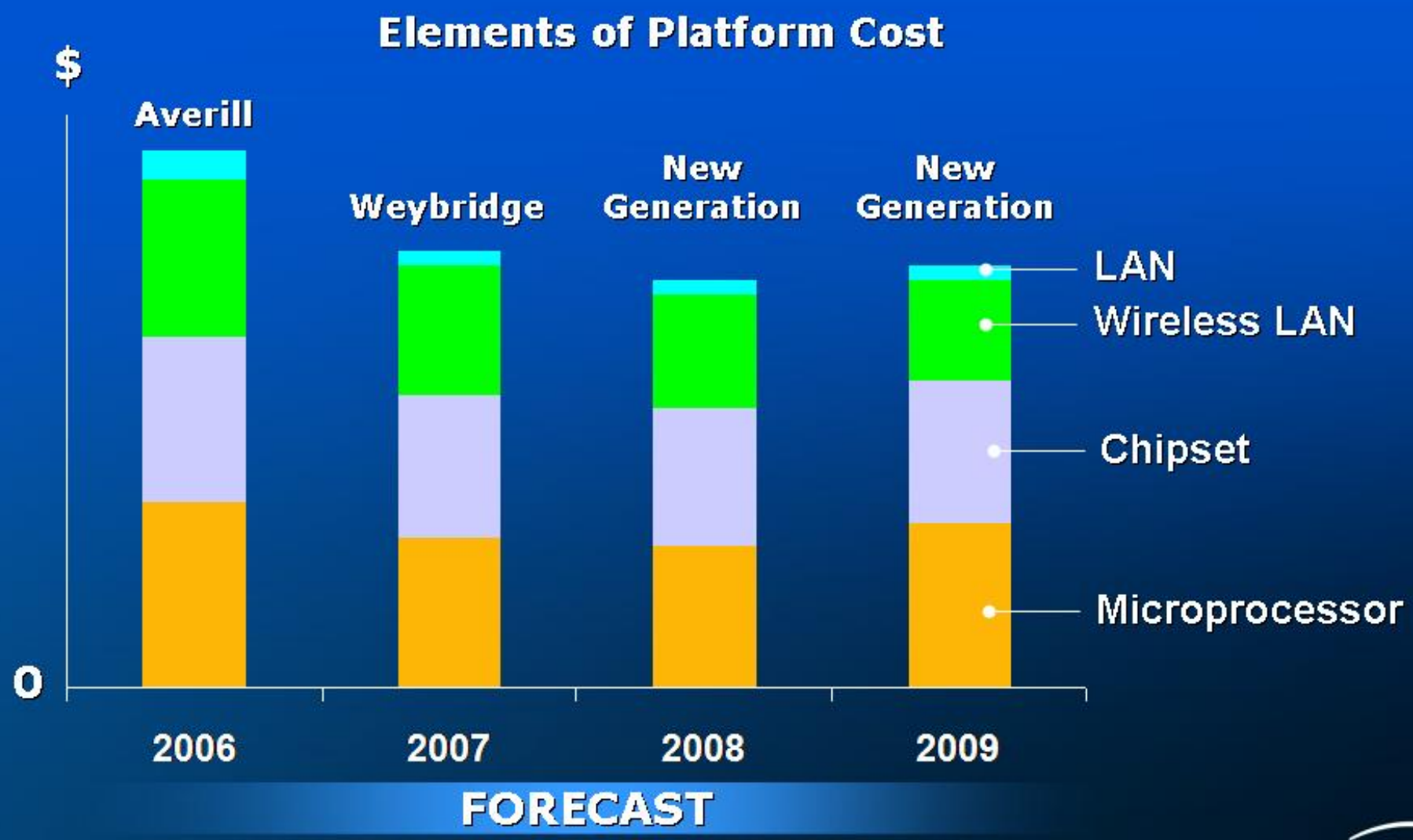
Source: Intel

Mobile Platform Costs



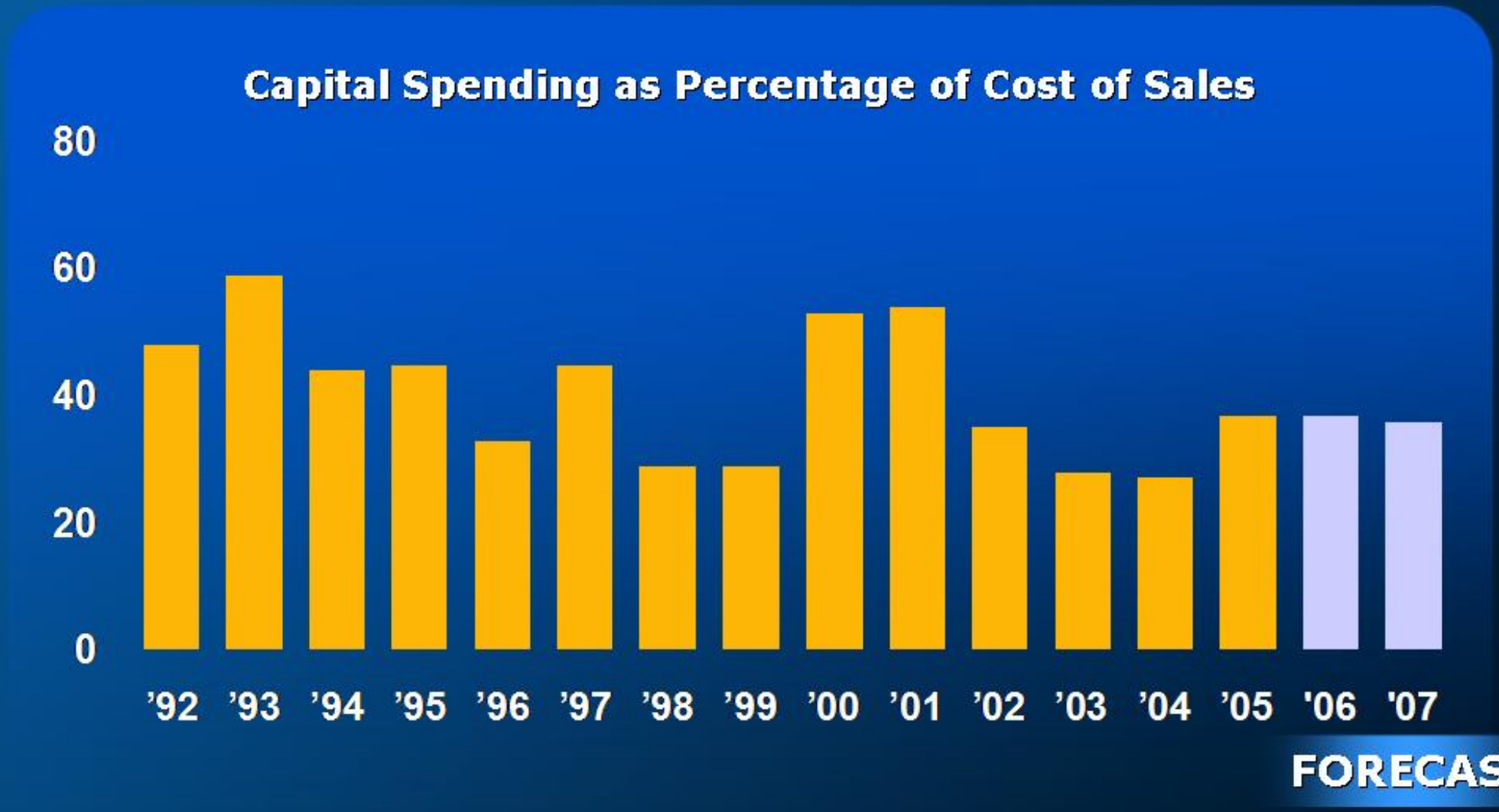
Source: Intel

Office Desktop Platform Costs



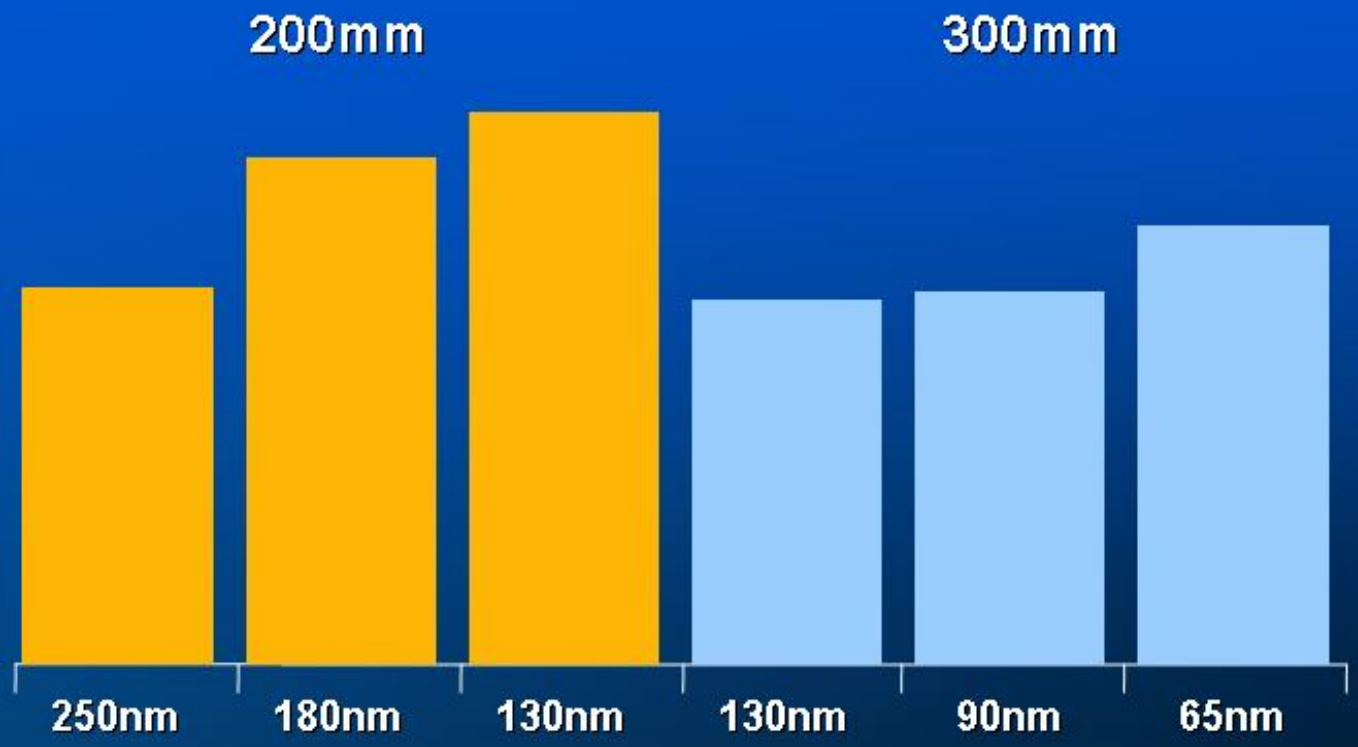
Source: Intel

Capital Intensity



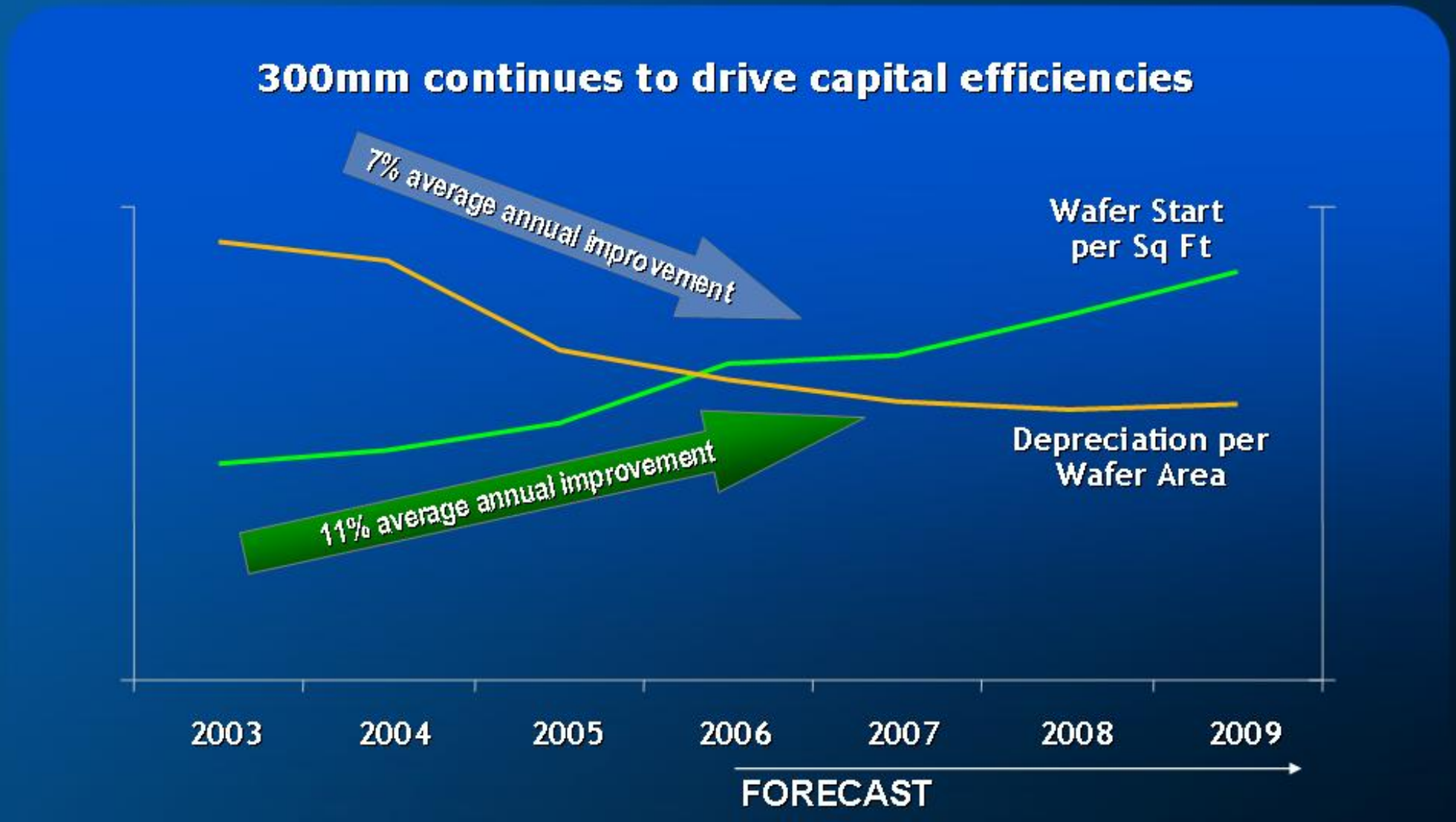
Source: Intel, 2006 and 2007 includes stock based compensation.

Capital Cost Per Square Inch



Source: Intel

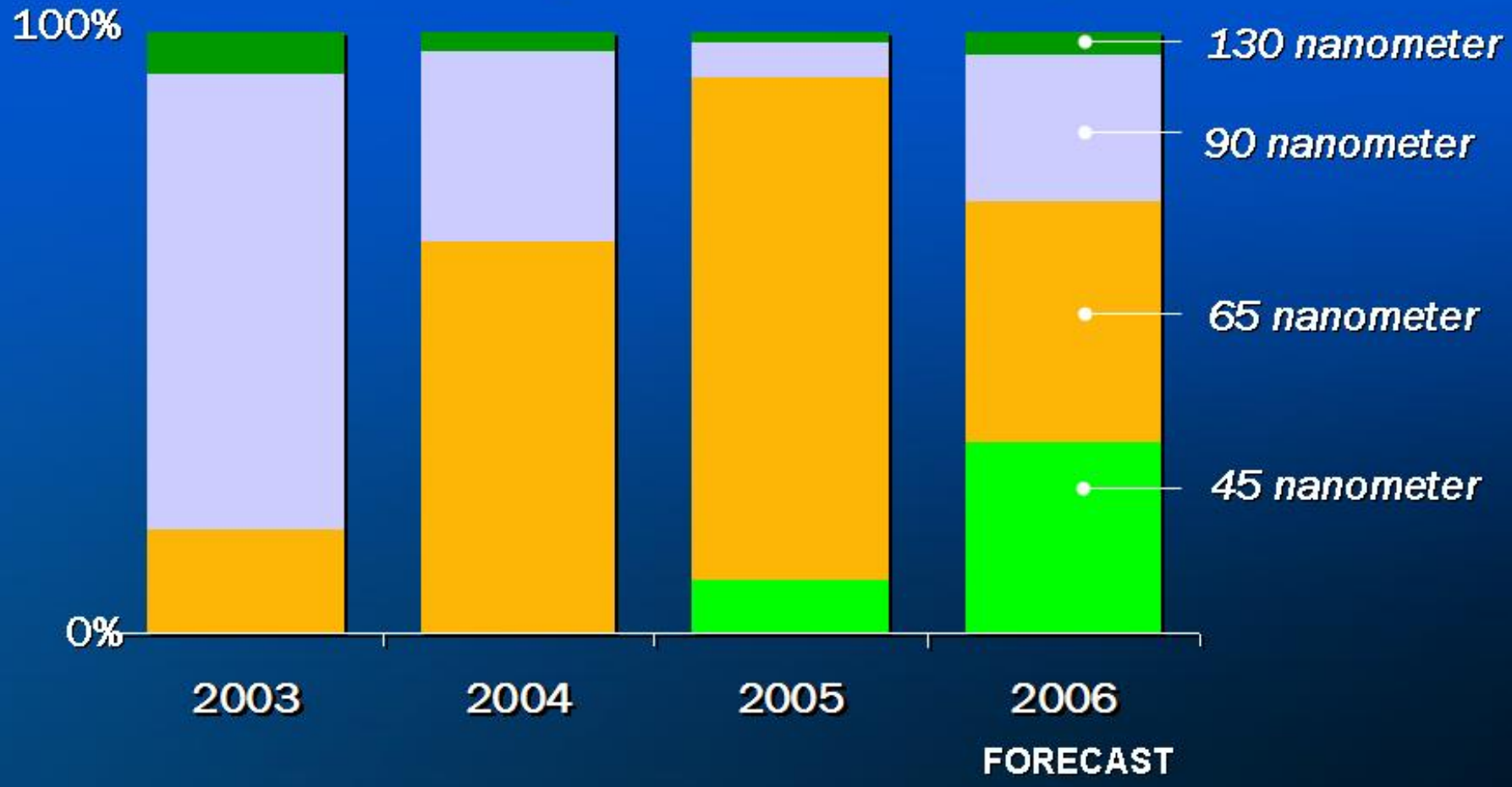
Capital Efficiencies



Source: Intel

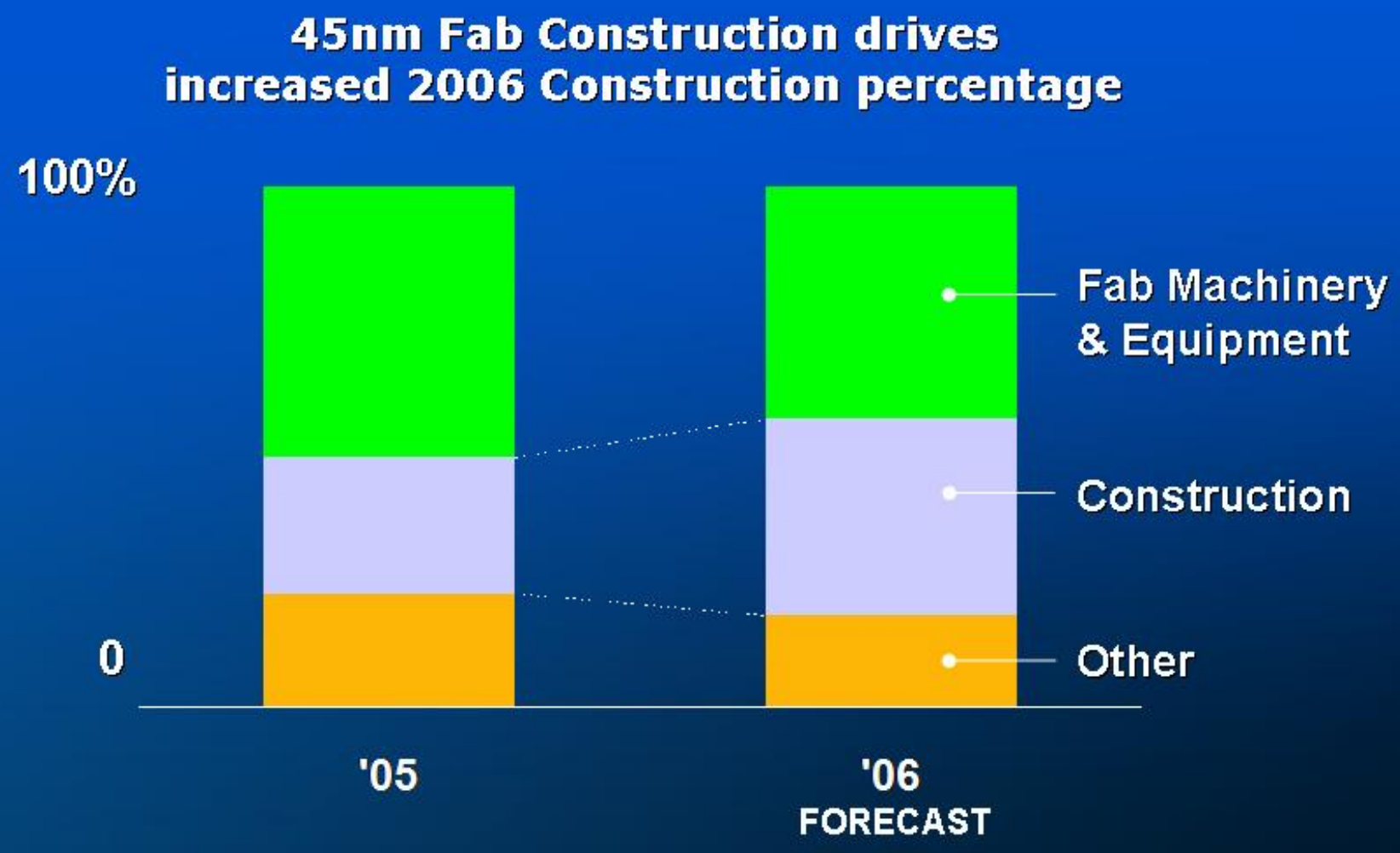
Fab Capital Equipment By Node

Continuing leading edge CPU investment;
Chipset volume driving additional 90nm capital investment



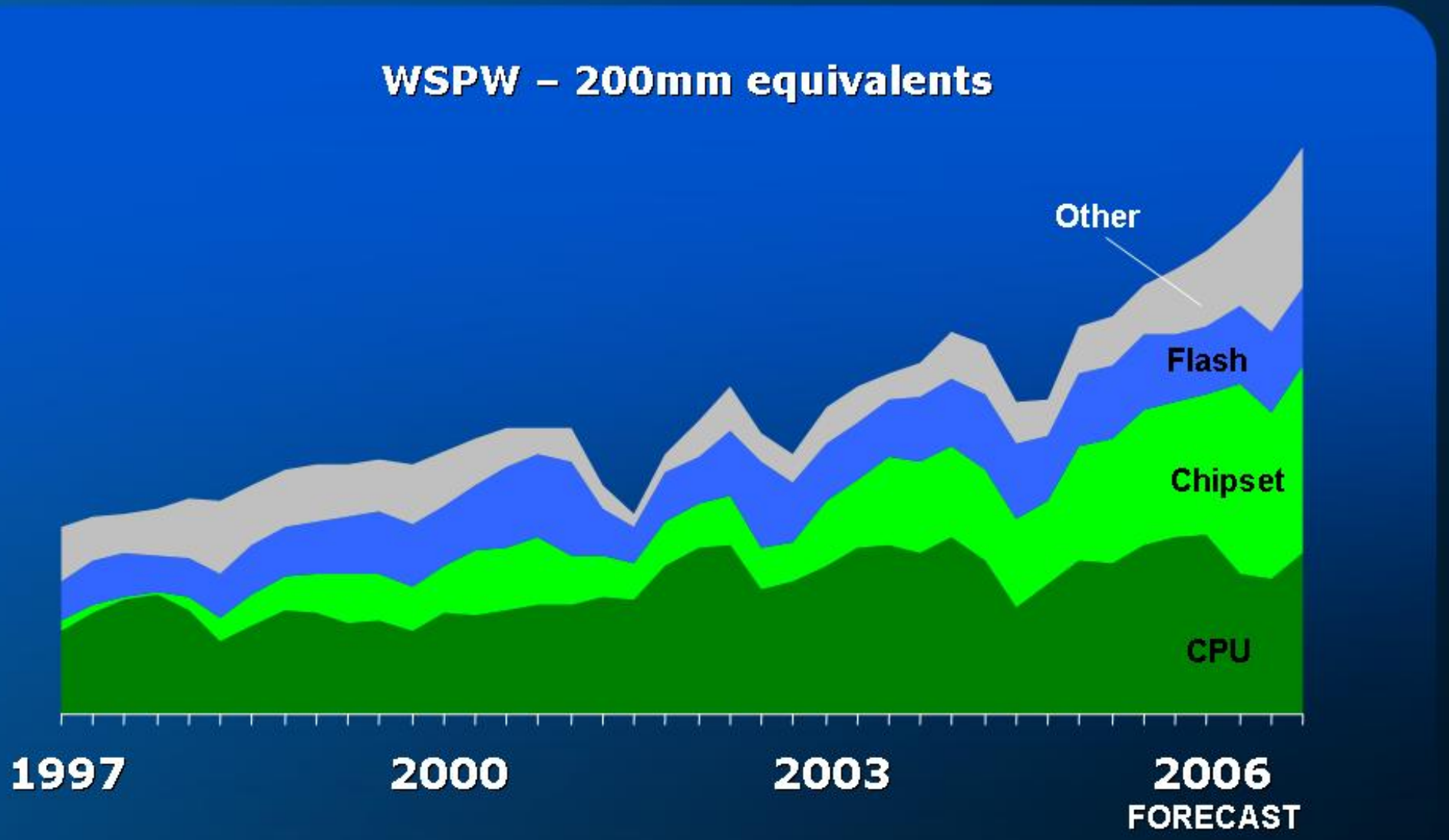
Source: Intel

Elements of Capital Spending



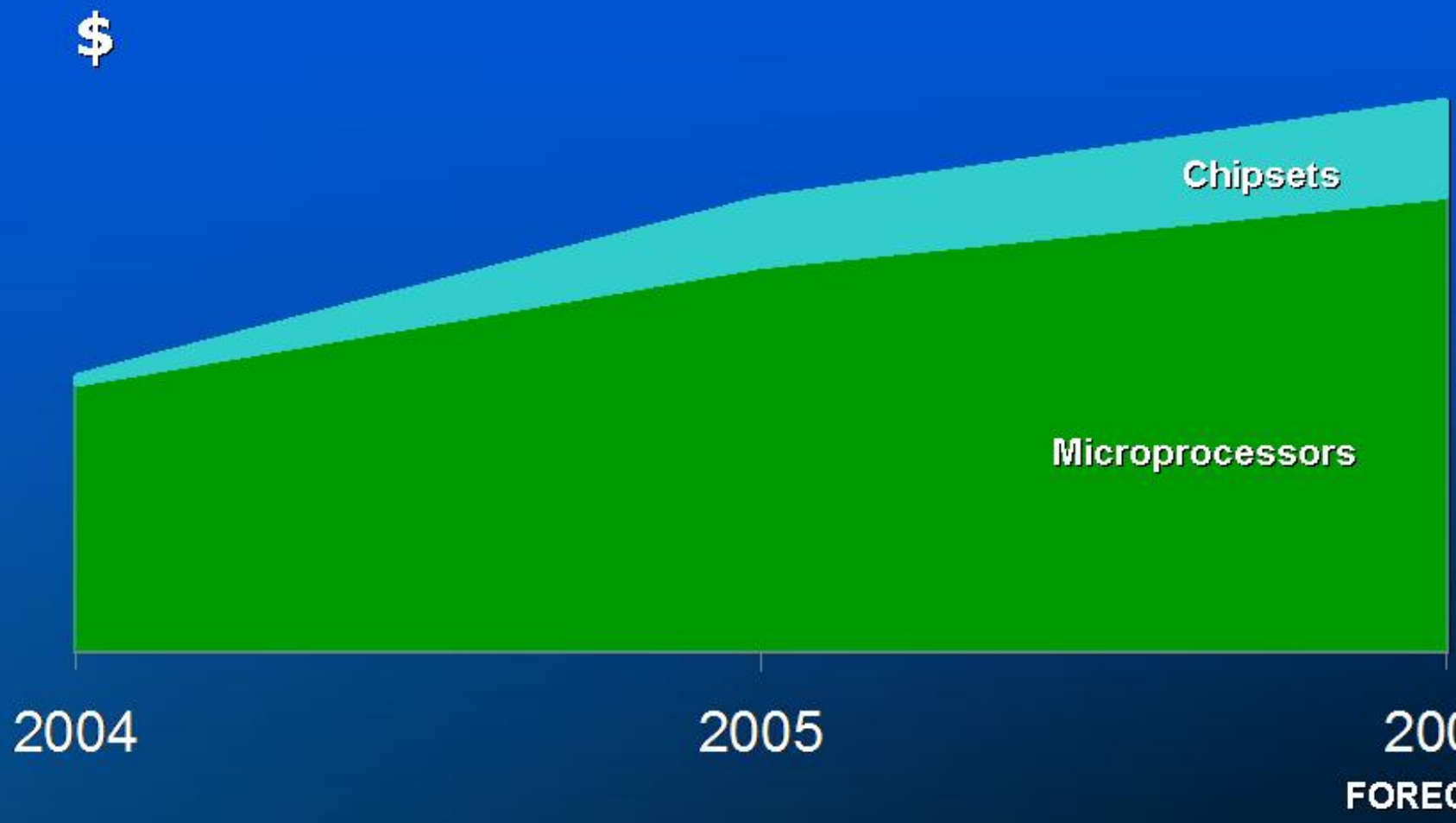
Source: Intel

Wafer Start Requirements



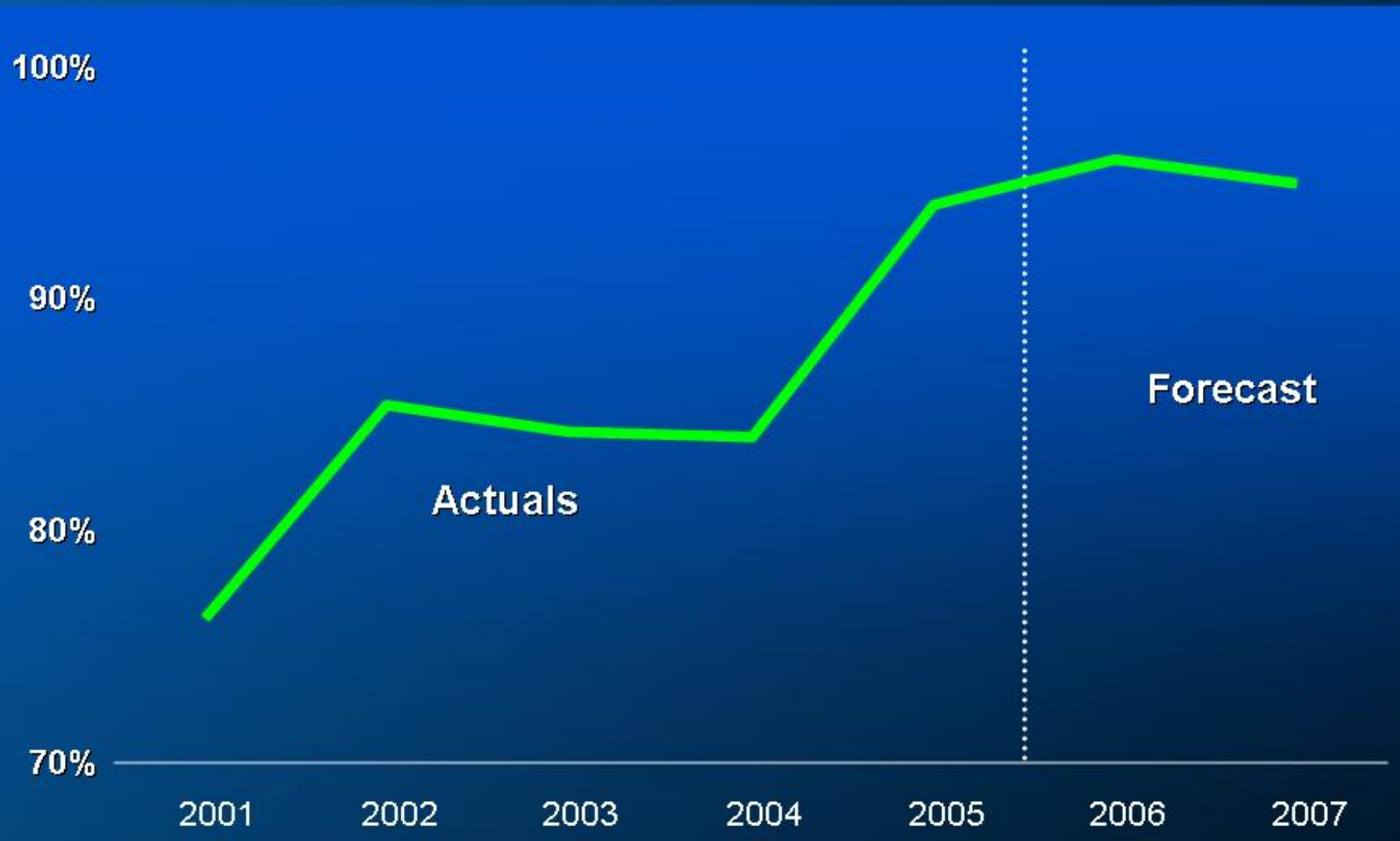
Source: Intel

Capital Spending for CPU/Chipset Products



Source: Intel

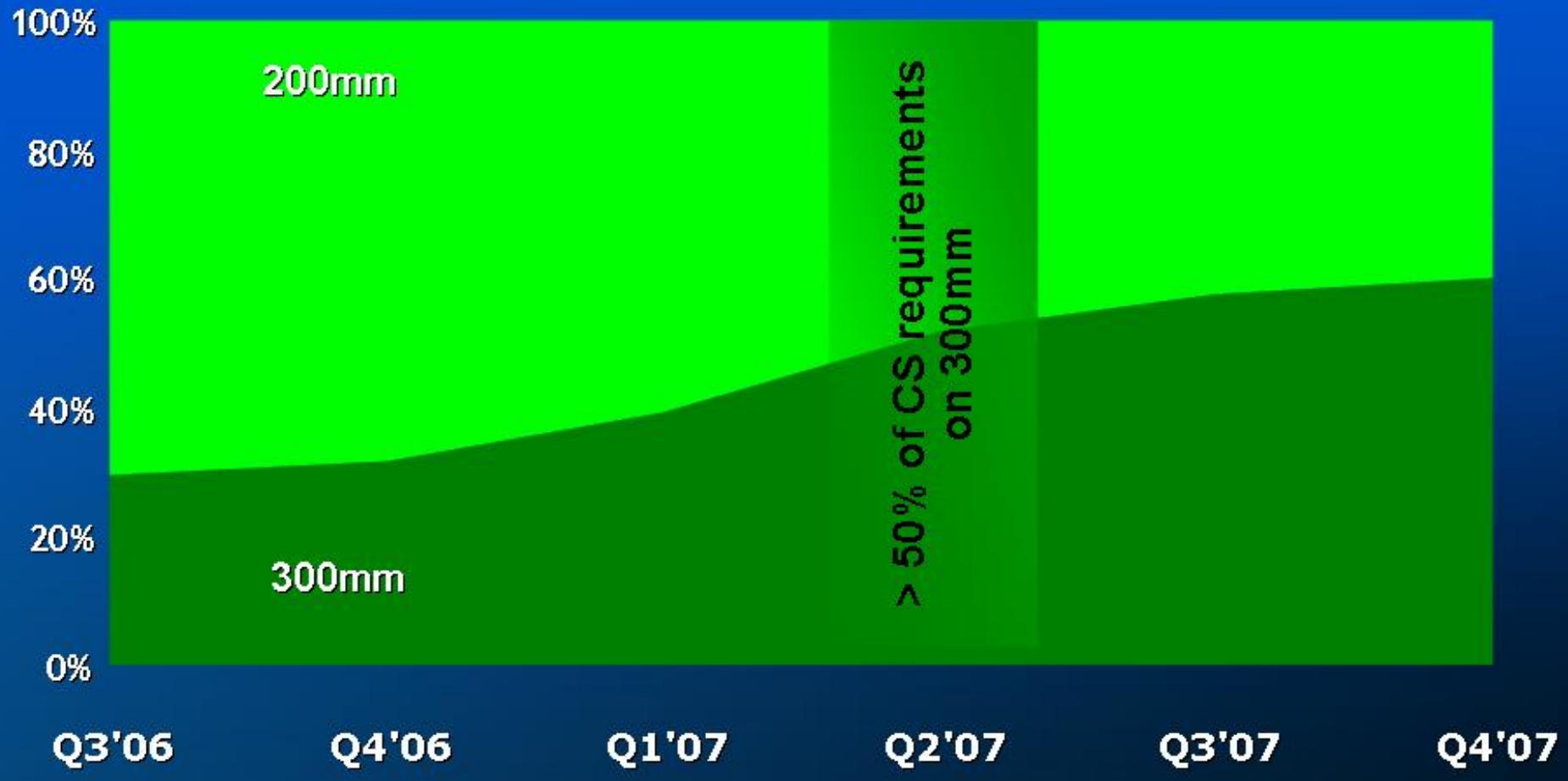
Fab Capacity Percent Loaded



Source: Intel

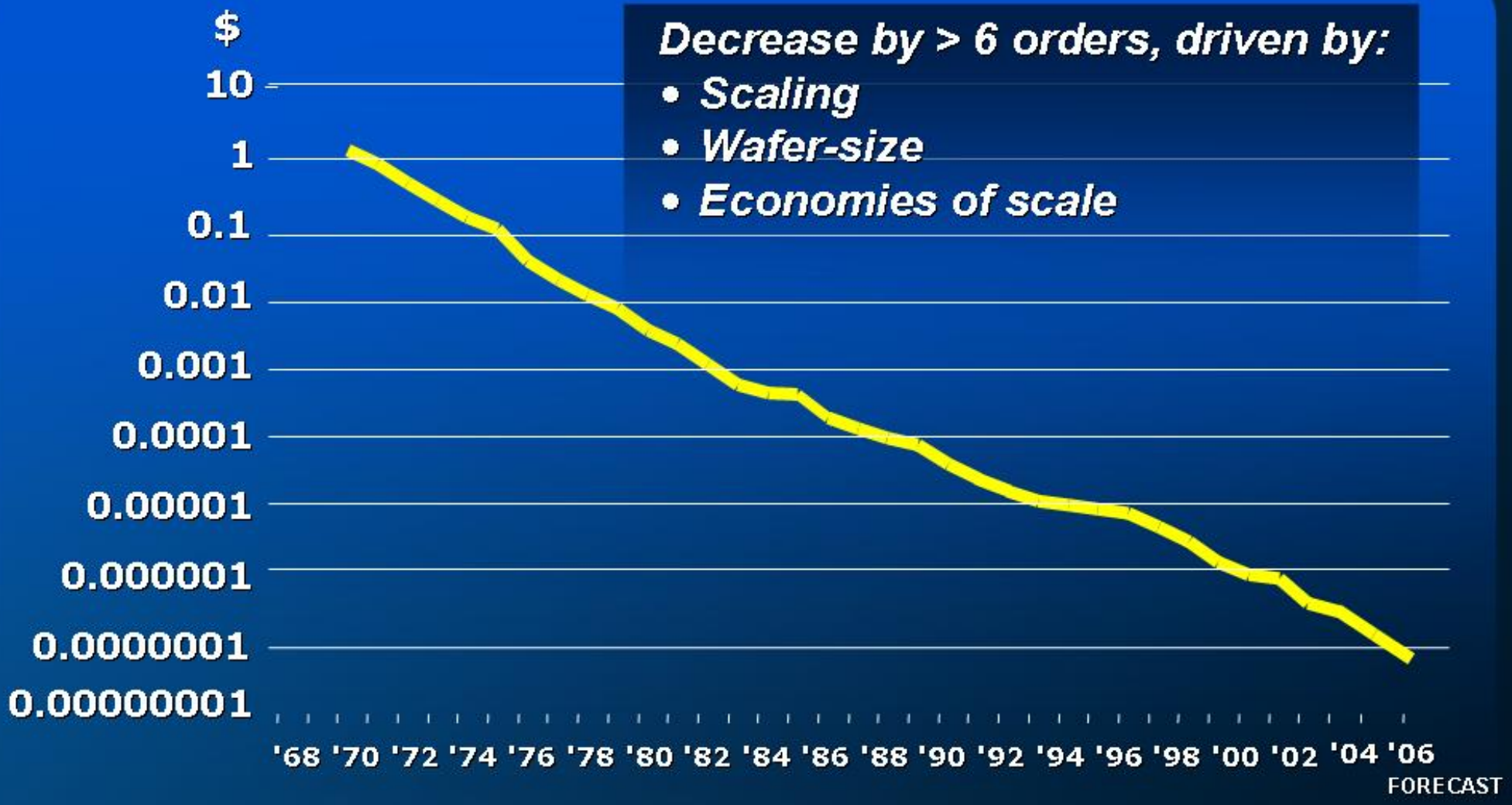
Chipset Wafer Start Forecast:
200mm v. 300mm

>50% of Chipset Production forecasted on 300mm in 1H'07



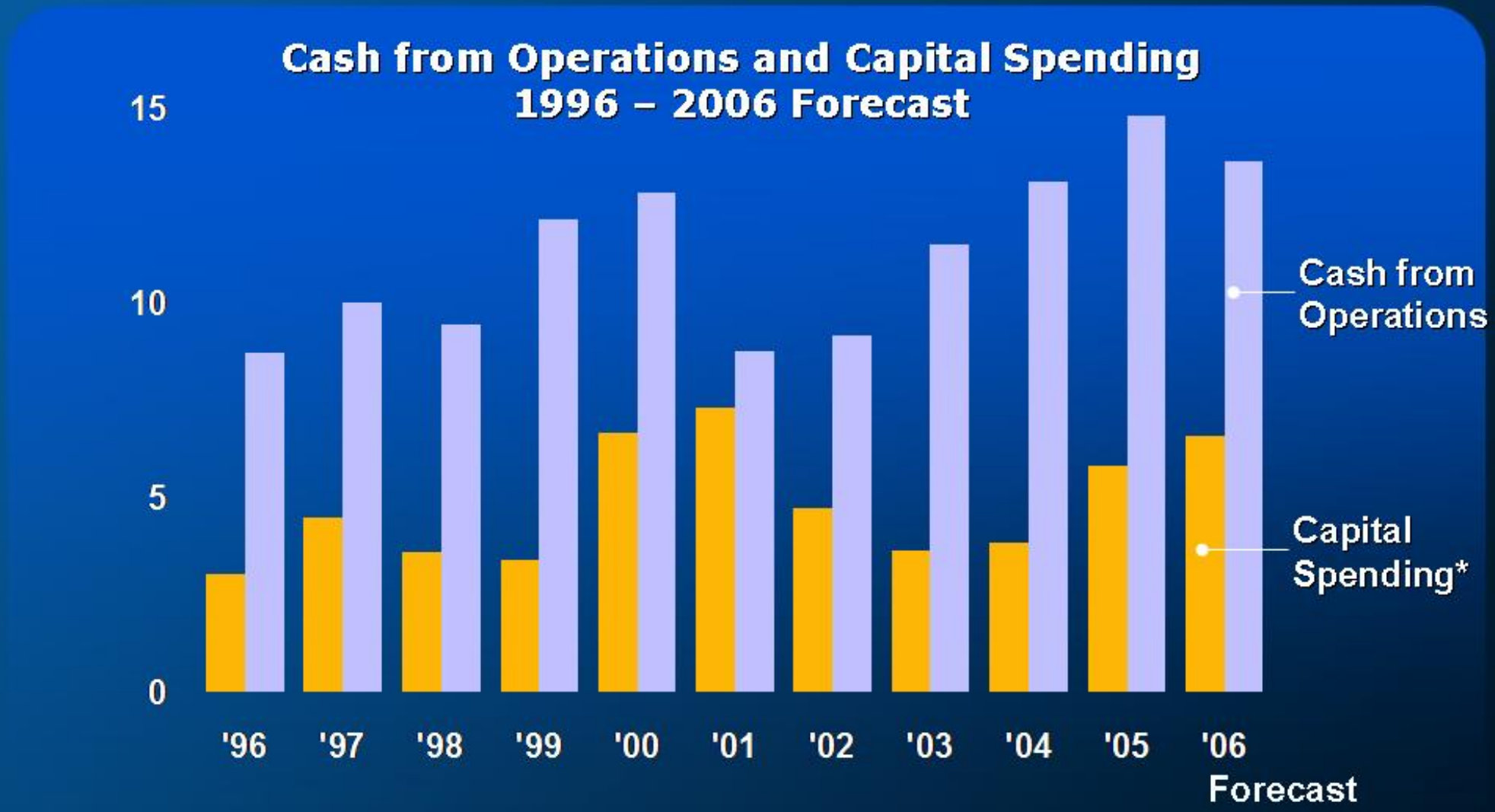
Source: Intel

...the cost per transistor goes DOWN



Source: Intel

Generating Cash



Source: Intel, *$6.6 billion is midpoint of forecast range

Cash Returned to Stockholders

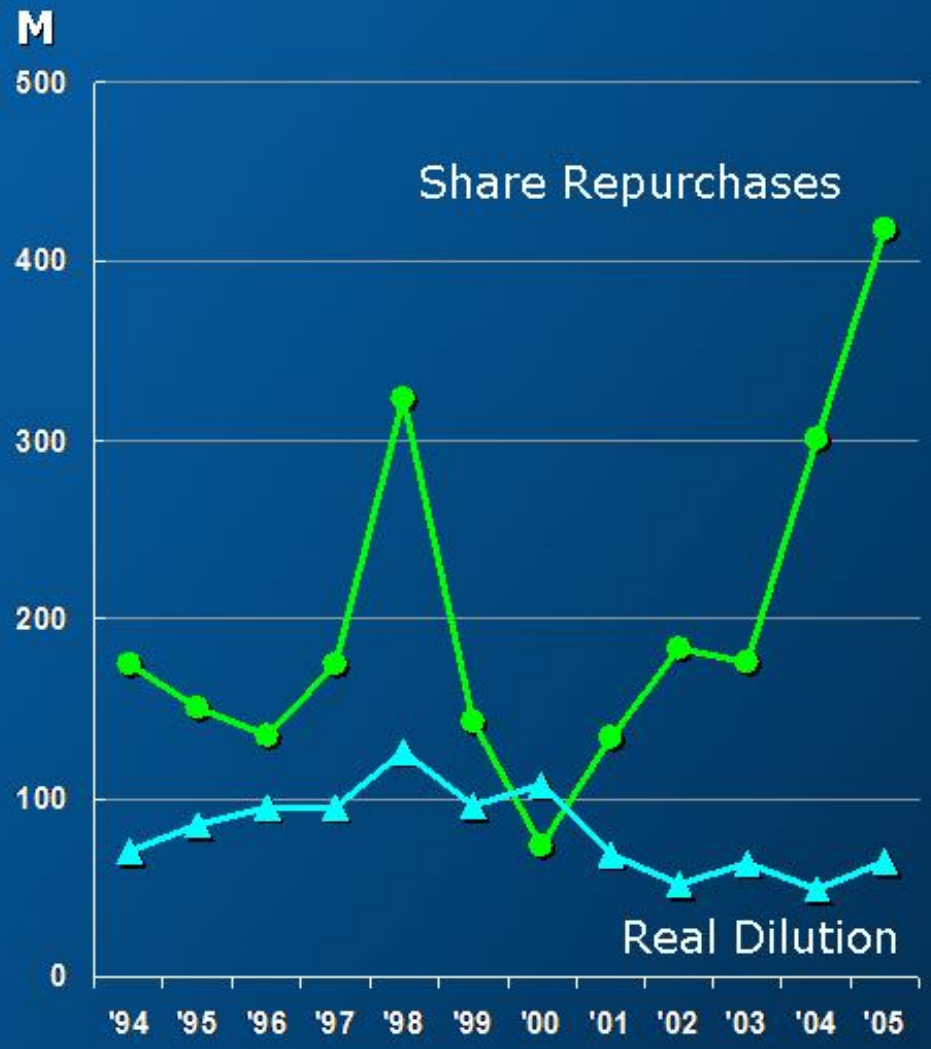
Source: Intel

Dilution Control

- Share base down
  - 6% in 12 months
  - 14% since peak
- Cumulative 2.7 billion repurchased
  - 32% of total before repurchase

Source: Intel

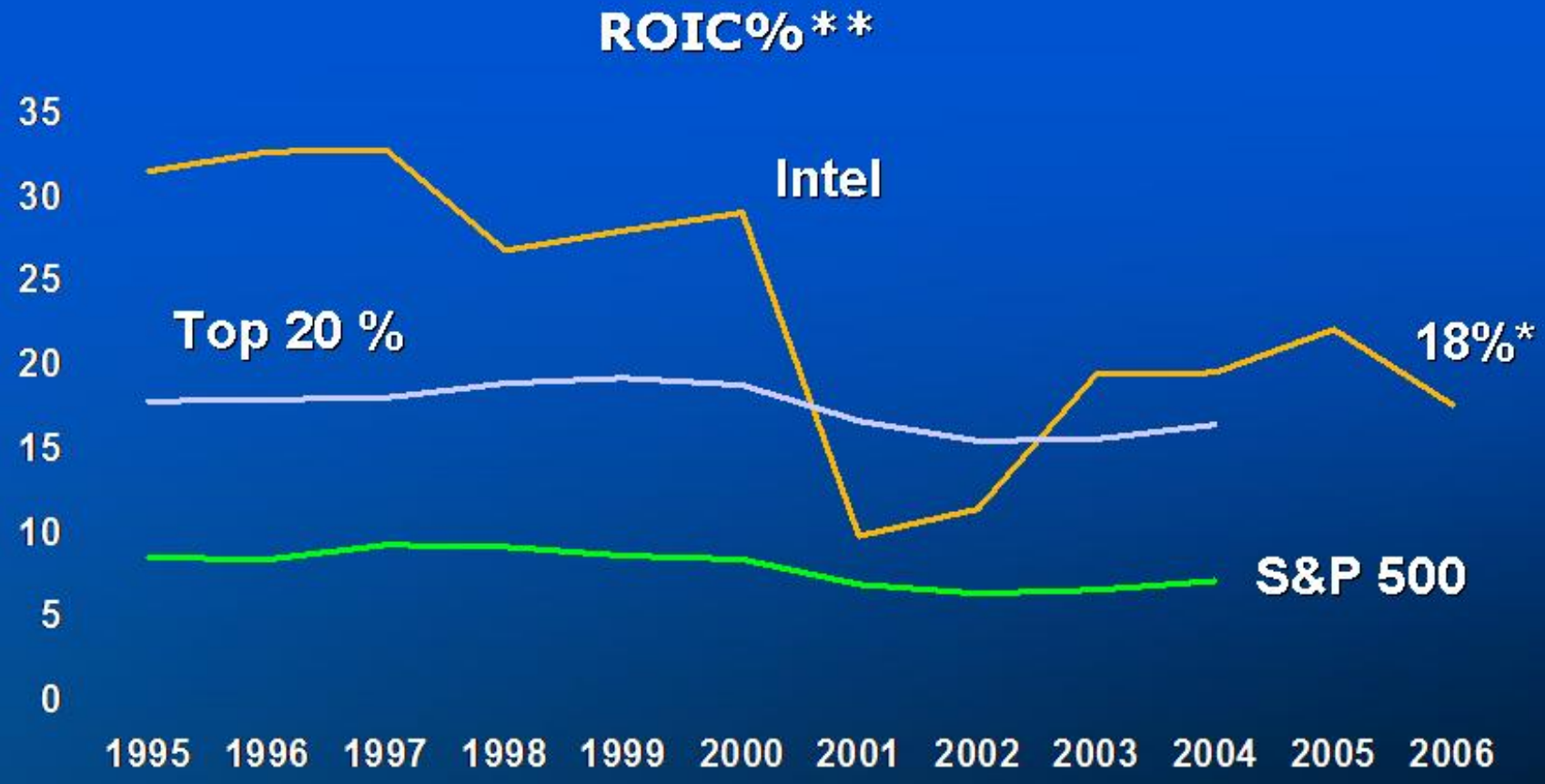
Dilution Control



- Real dilution as % of shares out:
  - 5 year average = 0.9%
  - 12 year average = 1.2%
- Repurchases:
  - >6 times real dilution for 2004 and 2005
  - >2 times real dilution since 1994

Source: Intel

ROIC Progress Report



Long term goal to rank among top ROIC performers

*2006 Annualized figure for return on invested capital is not an Intel forecast but represents the Q1 2006 figures multiplied by four..
**ROIC includes cash and goodwill; from 1995 to 1996, ROIC includes marketable equity securities.

Source: Intel

Summary

- Profit and cost leadership are critical to success.
- Intel is acting now to reduce operating expenses.
- Unit costs and platform costs are coming under better control and forecast to improve.
- Capacity utilization is high, and capital spending is targeted at technology leadership.
- The 65nm process is healthy and leads the industry.
- The business model is generating high levels of cash, and we expect to be among the top performers in ROIC.

Risk Factors

This presentation contains forward-looking statements that involve a number of risks and uncertainties. These statements do not reflect the potential impact of any mergers, acquisitions, divestitures, investments or other similar transactions that may be completed in the future. The information presented is accurate only as of today's date and will not be updated. In addition to any factors discussed in the presentation, the important factors that could cause actual results to differ materially include the following: Intel operates in intensely competitive industries that are characterized by a high percentage of costs that are fixed or difficult to reduce in the short term, and by product demand that is highly variable and difficult to forecast. Revenue and the gross margin percentage are affected by the timing of new Intel product introductions and the demand for and market acceptance of Intel's products; actions taken by Intel's competitors, including product offerings, marketing programs and pricing pressures; Intel's ability to respond quickly to technological developments and to incorporate new features into its products; and the availability of sufficient inventory of Intel products and related components from other suppliers to meet demand. Factors that could cause demand to be different from Intel's expectations include customer acceptance of Intel and competitors' products; changes in customer order patterns, including order cancellations; changes in the level of inventory at customers; and changes in business and economic conditions. The gross margin percentage could vary from expectations based on changes in revenue levels; product mix and pricing; variations in inventory valuation, including variations related to the timing of qualifying products for sale; excess or obsolete inventory; manufacturing yields; changes in unit costs; capacity utilization; impairments of long-lived assets, including manufacturing, assembly/test and intangible assets; and the timing and execution of the manufacturing ramp and associated costs, including start-up costs. Expenses, particularly certain marketing and compensation expenses, vary depending on the level of demand for Intel's products and the level of revenue and profits. The tax rate expectation is based on current tax law and current expected income and assumes Intel continues to receive tax benefits for export sales. The tax rate may be affected by the closing of acquisitions or divestitures; the jurisdictions in which profits are determined to be earned and taxed; changes in the estimates of credits, benefits and deductions; the resolution of issues arising from tax audits with various tax authorities; and the ability to realize deferred tax assets. Gains or losses from equity securities and interest and other could vary from expectations depending on equity market levels and volatility; gains or losses realized on the sale or exchange of securities; impairment charges related to marketable, non-marketable and other investments; interest rates; cash balances; and changes in fair value of derivative instruments. Dividend declarations and the dividend rate are at the discretion of Intel's board of directors, and plans for future dividends may be revised by the board. Intel's dividend and stock buyback programs could be affected by changes in its capital spending programs, changes in its cash flows and changes in the tax laws, as well as by the level and timing of acquisition and investment activity. Intel's results could be impacted by unexpected economic, social and political conditions in the countries in which Intel, its customers or its suppliers operate, including security risks, possible infrastructure disruptions, health concerns, natural disasters and fluctuations in foreign currency exchange rates. Intel's results could be affected by adverse effects associated with product defects and errata (deviations from published specifications), and by litigation or regulatory matters involving intellectual property, stockholder, consumer, antitrust and other issues, such as the litigation and regulatory matters described in Intel's SEC reports. Intel's results could be affected by the amount, type, and valuation of share-based awards granted as well as the amount of awards cancelled due to employee turnover and the timing of award exercises by employees. Please refer to Intel's most recent Earnings Release and most recent Form 10-K or 10-Q filing for more information on the risk factors that could cause actual results to differ.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Intel Corporation Appendix A
Reconciliation of Non-GAAP Financial Measures - Forecast

In addition to disclosing financial results calculated in accordance with U.S. generally accepted accounting principles (GAAP), the company's Spring Analyst Meeting presentation contains forecasts of non-GAAP financial measures that exclude the effects of share-based compensation and the requirements of SFAS No. 123(R), "Share-based Payment" ("123R"). The non-GAAP financial measures used by management and disclosed by the company exclude the income statement effects of all forms of share-based compensation and the effects of 123R upon the number of diluted shares used in calculating non-GAAP earnings per share. The non-GAAP financial measures disclosed by the company should not be considered a substitute for, or superior to, financial measures calculated in accordance with GAAP, and the financial results calculated in accordance with GAAP and reconciliations to those financial statements should be carefully evaluated. The non-GAAP financial measures used by the company may be calculated differently from, and therefore may not be comparable to, similarly titled measures used by other companies. Set forth below are reconciliations of the non-GAAP financial measures to the most directly comparable GAAP financial measures.

	2006 Forecast
GAAP gross margin percentage	53%
Adjustment for share-based compensation	1%
Gross margin excluding share-based compensation	54%

(In Billions)		
GAAP R&D and MG&A	$	12.1
Adjustment for share-based compensation		(1.1)
Total R&D and MG&A excluding share-based compensation	$	11.0

(In Billions)		
GAAP operating income	$	7.8
Adjustment for share-based compensation		1.5
Operating income excluding share-based compensation	$	9.3

Intel Corporation

Reconciliation of Non-GAAP Financial Measures - Return on Invested Capital

We define Return on Invested Capital (ROIC) as net operating profit after taxes divided by average invested capital. Management believes that ROIC provides greater visibility into how effectively Intel deploys capital. Management uses ROIC as a high level target to help ensure that overall performance is understood and acceptable. ROIC is not a measure of financial performance under accounting principles generally accepted in the United States (GAAP), and may not be defined and calculated by other companies in the same manner as Intel does. ROIC should not be considered in isolation or as an alternative to net income as an indicator of company performance.

($m)	1996	1997	1998	1999	2000
Net income (GAAP)	$ 5,157	$ 6,945	$ 6,068	$ 7,314	$ 10,535
Goodwill and intangible impairment and amortization	-	-	56	411	1,586
Purchased in-process research and development	-	-	165	392	109
Gains or losses on equity securities, net (1)	-	(106)	(185)	(883)	(3,759)
Interest and other, net	(381)	(666)	(573)	(578)	(987)
Change in deferred taxes	179	6	77	(219)	(130)
Income tax adjustment (2)	137	278	254	511	1,637
Net operating profit after taxes	$ 5,092	$ 6,457	$ 5,862	$ 6,948	$ 8,991

	1995	1996	1996 Average	1997	1997 Average	1998	1998 Average	1999	1999 Average	2000	2000 Average
Total assets (GAAP)	$ 17,504	$ 23,735	$ 20,620	$ 28,880	$ 26,308	$ 31,471	$ 30,176	$ 43,849	$ 37,660	$ 47,945	$ 45,897
Deferred tax asset, net of valuation allowance	(408)	(570)		(676)		(618)		(673)		(721)	
Marketable strategic equity securities (3)	-	-		(375)		(1,757)		(7,121)		(1,915)	
Other assets (4)	(283)	(211)		(508)		(911)		(1,470)		(2,129)	
Current liabilities	(3,619)	(4,863)		(6,020)		(5,804)		(7,099)		(8,650)	
Invested capital	$ 13,194	$ 18,091	$ 15,643	$ 21,301	$ 19,696	$ 22,381	$ 21,841	$ 27,486	$ 24,934	$ 34,530	$ 31,008

	1996	1997	1998	1999	2000
Return on invested capital (Net operating profit after taxes / avg prior year end & current year end invested capital)	32.6%	32.8%	26.8%	27.9%	29.0%
Net income / avg prior year end & current year end total assets	25.0%	26.4%	20.1%	19.4%	23.0%

(1) In 1996, gains or losses on equity securities are included in interest and other, net.

(2) Assumed tax effect of gain or loss on equity securities and interest and other.

(3) From 1995 to 1996, marketable equity securities were not separately reported in Intel's financial statements and were included in invested capital. Starting in 1997, marketable equity securities are excluded from invested capital.

(4) Starting in 2002, acquisition-related intangibles are reported in other assets on Intel's balance sheet. However, other assets as presented in the table above for 2002, 2003, 2004, and 2005 excludes acquisition-related intangibles of $420M, $267M, $163M, and $60M respectively, so that acquisition-related intangibles continue to be included in invested capital. In 2005, non-current deferred assets $35M, which are reported in other assets, are included in Deferred tax asset in the table above.

Intel Corporation

Reconciliation of Non-GAAP Financial Measures - Return on Invested Capita

We define Return on Invested Capital (ROIC) as net operating profit after taxes divided by average invested capital. Management believes that ROIC provides greater visibility into how effectively Intel deploys capital. Management uses ROIC as a high level target to help ensure that overall performance is understood and acceptable. ROIC is not a measure of financial performance under accounting principles generally accepted in the United States (GAAP), and may not be defined and calculated by other companies in the same manner as Intel does. ROIC should not be considered in isolation or as an alternative to net income as an indicator of company performance.

($m)	2001	2002	2003	2004	2005
Net income (GAAP)	$ 1,291	$ 3,117	$ 5,641	$ 7,516	$ 8,664
Goodwill and intangible impairment and amortization	2,338	548	918	179	126
Purchased in-process research and development	198	20	5	0	0
Gains or losses on equity securities, net (1)	466	372	283	2	45
Interest and other, net	(393)	(194)	(192)	(289)	(565)
Change in deferred taxes	(519)	110	391	(207)	(413)
Income tax adjustment (2)	(18)	(53)	(31)	92	178
Net operating profit after taxes	$ 3,363	$ 3,920	$ 7,015	$ 7,293	$ 8,035

	2001	2001 Average	2002	2002 Average	2003	2003 Average	2004	2004 Average	2005	2005 Average
Total assets (GAAP)	$ 44,395	$ 46,170	$ 44,224	$ 44,310	$ 47,143	$ 45,684	$ 48,143	$ 47,643	$ 48,314	$ 48,229
Deferred tax asset, net of valuation allowance	(958)		(1,136)		(969)		(1,126)		(1,527)	
Marketable strategic equity securities (3)	(155)		(56)		(514)		(656)		(537)	
Other assets (4)	(2,040)		(1,468)		(1,248)		(1,216)		(1,369)	
Current liabilities	(6,570)		(6,595)		(6,879)		(8,006)		(9,234)	
Invested capital	$ 34,672	$ 34,601	$ 34,969	$ 34,821	$ 37,533	$ 36,251	$ 37,139	$ 37,336	$ 35,647	$ 36,393

	2001	2002	2003	2004	2005	10 year avg	2001/2002 avg
Return on invested capital (Net operating profit after taxes / avg prior year end & current year end invested capital)	9.7%	11.3%	19.4%	19.5%	22.1%	23.1%	10.5%
Net income / avg prior year end & current year end total assets	2.8%	7.0%	12.3%	15.8%	18.0%	17.0%	4.9%

(1) In 1996, gains or losses on equity securities are included in interest and other, net.

(2) Assumed tax effect of gain or loss on equity securities and interest and other.

(3) From 1995 to 1996, marketable equity securities were not separately reported in Intel's financial statements and were included in invested capital. Starting in 1997, marketable equity securities are excluded from invested capital.

(4) Starting in 2002, acquisition-related intangibles are reported in other assets on Intel's balance sheet. However, other assets as presented in the table above for 2002, 2003, 2004, and 2005 excludes acquisition-related intangibles of $420M, $267M, $163M, and $60M respectively, so that acquisition-related intangibles continue to be included in invested capital. In 2005, non-current deferred assets $35M, which are reported in other assets, are included in Deferred tax asset in the table above.

Intel Corporation

Reconciliation of Non-GAAP Financial Measures - Return on Invested Capital

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($m)	Q1 2006
Net income (GAAP)	$ 1,347
Goodwill and intangible impairment and amortization	19
Purchased in-process research and development	0
Stock based compensation	374
Gains or losses on equity securities, net (1)	(2)
Interest and other, net	(154)
Change in deferred taxes	1
Income tax adjustment (2)	(63)
Net operating profit after taxes	$ 1,522

	2005	Q1 2006	Q1 2006 Average	2006 Annualized (5)
Total assets (GAAP)	$ 48,314	$ 47,179	$ 47,747	
Deferred tax asset, net of valuation allowance	(1,149)	(1,032)		
Marketable strategic equity securities (3)	(537)	(588)		
Other assets (4) excludes IMFT	(1,404)	(1,923)		
Current liabilities	(9,234)	(9,838)		
Invested capital	$ 35,990	$ 33,798	$ 34,894	
Return on invested capital (Net operating profit after taxes / avg prior year end & current year end invested capital)			4.4%	17.5%
Net income / avg prior year end & current year end total assets			2.8%	11.3%

(1) In 1996, gains or losses on equity securities are included in interest and other, net.

(2) Assumed tax effect of gain or loss on equity securities, interest & other, and stock based compensation.

(3) From 1995 to 1996, marketable equity securities were not separately reported in Intel's financial statements and were included in invested capital. Starting in 1997, marketable equity securities are excluded from invested capital.

(4) Starting in 2002, acquisition-related intangibles are reported in other assets on Intel's balance sheet. However, other assets as presented in the table above for 2002, 2003, 2004, 2005 and Q1 2006 excludes acquisition-related intangibles of $420M, $267M, $163M, $60M and $42M respectively, so that acquisition-related intangibles continue to be included in invested capital. In 2005, non-current deferred assets $35M, which are reported in other assets, are included in Deferred tax asset in the table above.

(5) 2006 Annualized figure for return on invested capital is not an Intel forecast but represents the Q1 2006 figures multiplied by four.