

# A Decade of Excellence

Microchip Technology Incorporated  
2003 Annual Report





# To Our Shareholders

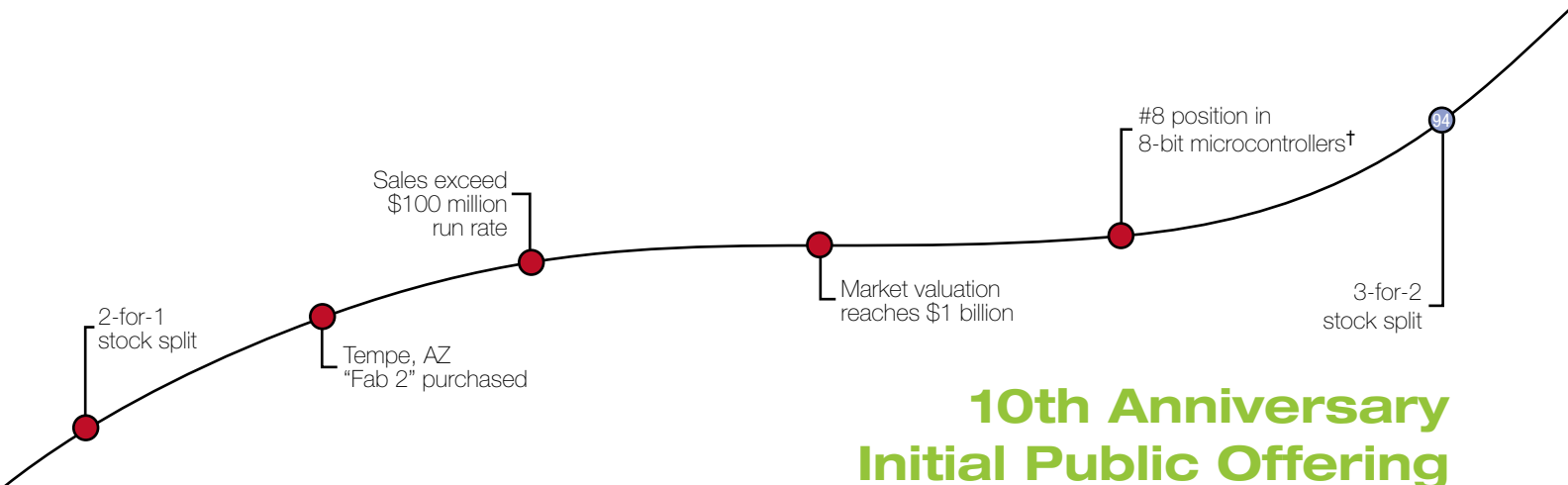
In recognizing our 10 year anniversary as a publicly traded company, Microchip Technology is proud of the many accomplishments we have achieved for our customers, shareholders and employees.

What began in April 1989 as a money-losing enterprise was transformed by our employees into one of the most remarkable turnaround stories in the semiconductor industry. Microchip launched its initial public offering (IPO) on March 19, 1993, and in the subsequent 10 years, we have created a high-performance stock investment that has yielded consistent returns and significant value to our shareholders:

- At the time of the IPO, a share of Microchip stock was offered for \$0.57 (split adjusted) compared to \$19.90 on March 31, 2003, resulting in a 3,391% appreciation.
- Microchip's market capitalization has jumped from approximately \$81 million at the IPO to more than \$4 billion at the end of fiscal year 2003.
- Microchip's annual net revenues have increased from \$89 million in fiscal year 1993 to more than \$651 million in fiscal year 2003.
- Our annual earnings per diluted share, before non-operating charges, have grown from \$0.04 to \$0.64 (split adjusted) in the same period.
- We have implemented seven stock splits.

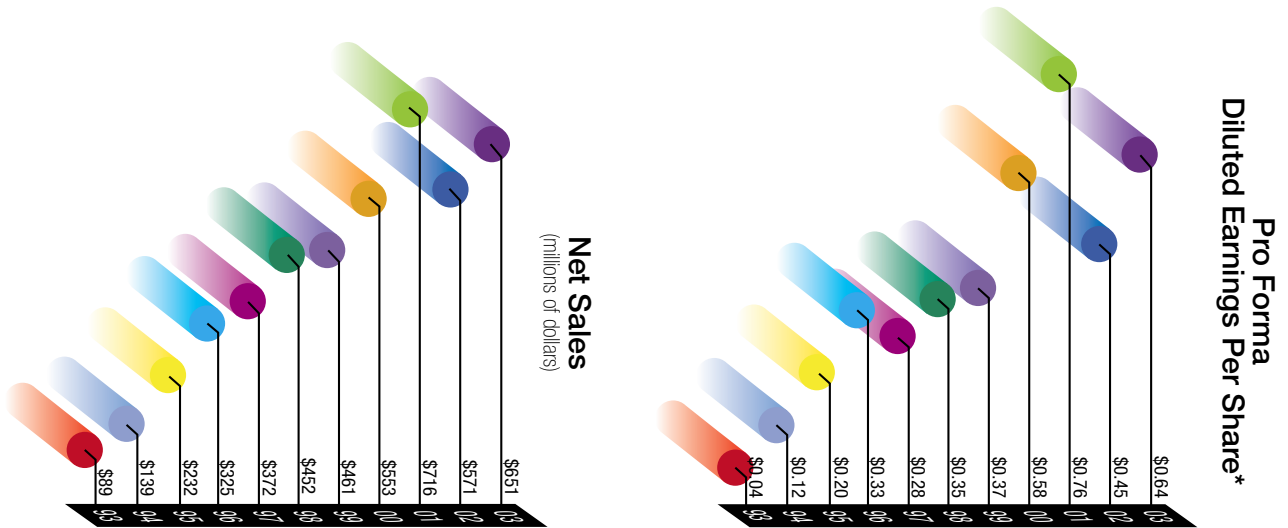
During this 10 year period, our business model has been successfully tested through three semiconductor industry cycles, in which Microchip has consistently outperformed the industry in both the peaks and valleys.

Annual sales for the Company's flagship product line, PIC® microcontrollers, have grown in the past decade from \$32 million in fiscal year 1993 to \$516 million in fiscal year 2003, and the portfolio has expanded from seven to more than 180 proprietary devices. With our PIC microcontrollers achieving 30% unit growth from calendar year 2001 to calendar year 2002, Microchip is now the number one supplier of 8-bit microcontrollers, based on worldwide unit shipments, according to Gartner Dataquest<sup>††</sup>. We believe this milestone demonstrates that engineers worldwide turn to Microchip for superior 8-bit microcontroller solutions.

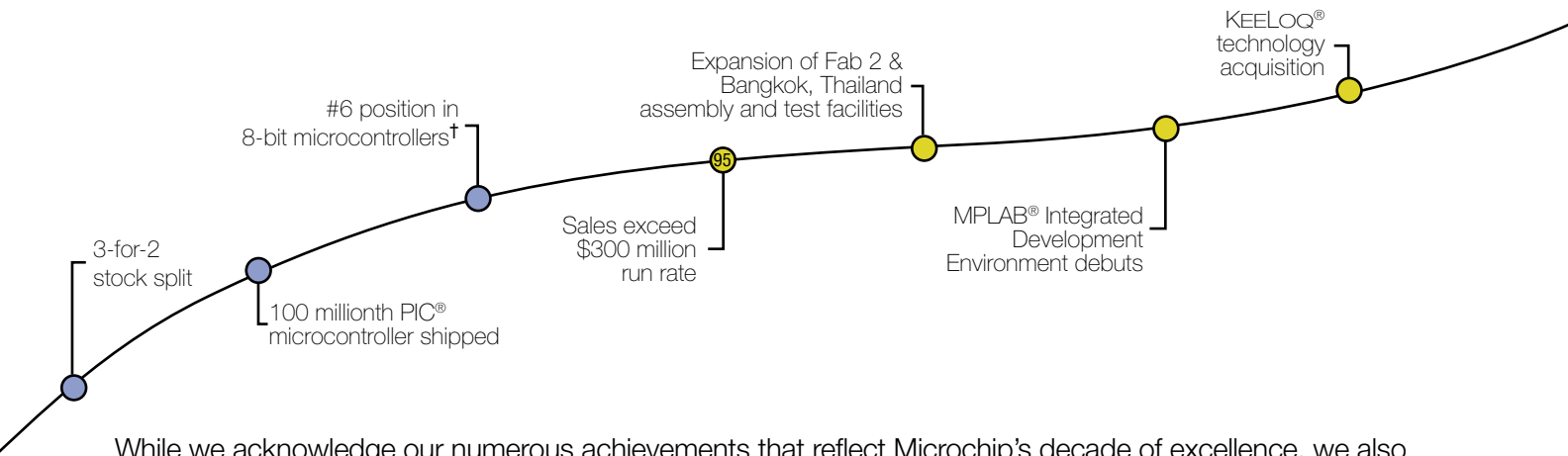


# Financial Highlights

(in thousands, except per share amounts)	1999	2000	2001	2002	2003
Net Sales	\$460,723	\$553,051	\$715,730	\$571,254	\$651,462
Gross Profit	\$220,553	\$283,440	\$380,714	\$286,736	\$352,235
Pro Forma Net Income*	\$70,858	\$113,586	\$155,473	\$94,814	\$133,875
Pro Forma Diluted Earnings Per Share*	\$0.37	\$0.58	\$0.76	\$0.45	\$0.64
Stockholders Equity	\$384,715	\$662,878	\$942,848	\$1,075,779	\$1,178,949



All charts in this shareholders letter are based on fiscal year data, except where noted.



While we acknowledge our numerous achievements that reflect Microchip's decade of excellence, we also remain focused on the current business environment. No matter what the industry cycle or business environment is, our goal is for Microchip to continue to outpace the semiconductor industry.

For fiscal year 2003, net sales were \$651.5 million, an increase of 14% from net sales of \$571.3 million in fiscal year 2002. Pro forma diluted earnings per share for fiscal year 2003 were \$0.64, an increase of 41% over diluted earnings per share in the prior year of \$0.45\*. We achieved gross margins of approximately 54% and maintained pro forma operating profits above 26%\*, significantly better than the performance of most of our competitors. Our balance sheet is strong and debt free. Microchip continues to generate strong operating cash balances, allowing us to invest in acquisitions and capital expenditures as determined by our business requirements. In this past fiscal year, Microchip declared a 3-for-2 stock split and instituted a quarterly cash dividend.

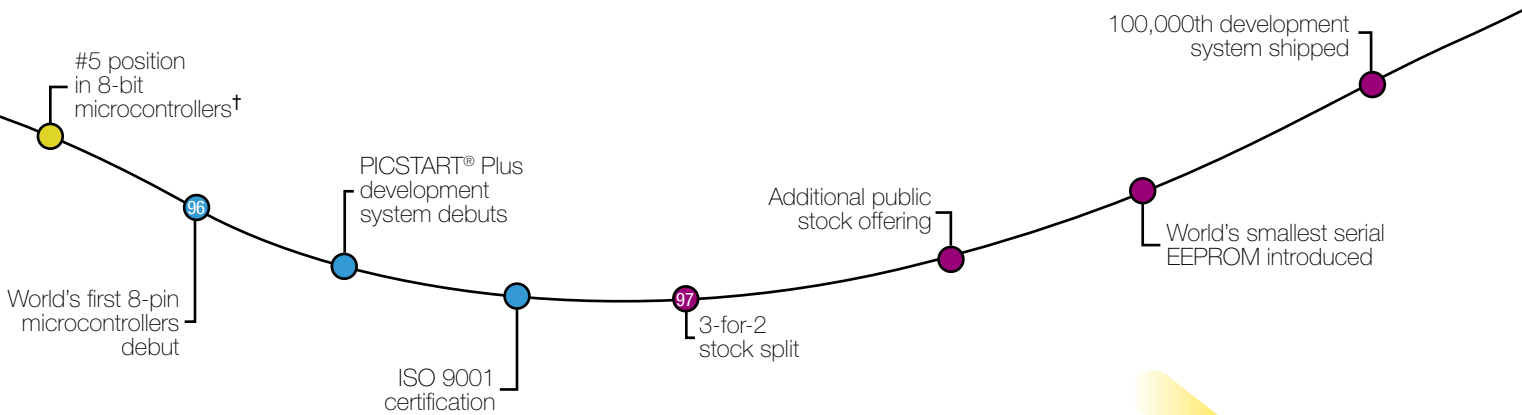
\*Excludes restructuring and acquisition-related special charges/special income. Please see "Reconciliation of Pro Forma Net Income to Reported Results" for additional information, located at the end of this document, following page F-28 of Form 10-K.

# Fab 4 in Gresham, Oregon

In fiscal year 2003, Microchip undertook many steps to position itself for continued growth and success. In many ways, these recent milestones reflect Microchip's successful business philosophy and illustrate how the Company has performed so well over the past decade.

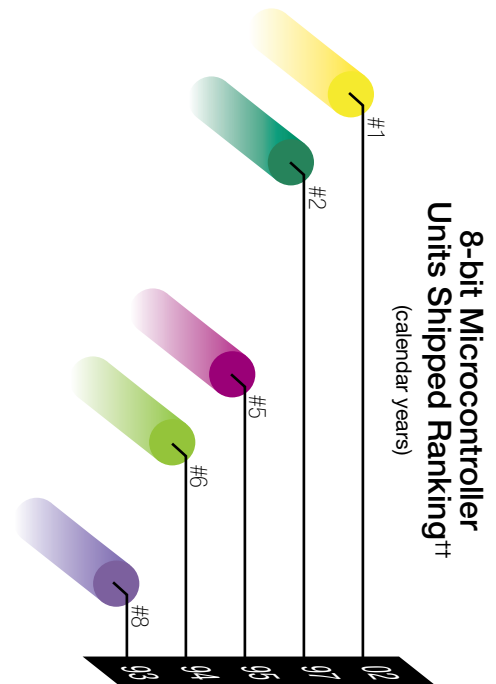
A recent example is our acquisition of the semiconductor manufacturing facility in Gresham, Oregon from Fujitsu Microelectronics, Inc. Referred to as "Fab 4," the facility is anticipated to substantially enhance Microchip's short- and long-term global manufacturing capacity and help accommodate the Company's projected worldwide demand for its field-programmable microcontrollers, analog products, and complementary silicon solutions.

Microchip paid \$183.5 million in cash for the 140-acre campus, which included 200,000 square feet of clean room space and the required process and semiconductor manufacturing equipment. We believe the former owner had invested nearly \$1.8 billion to build and equip this facility.



In the past decade, the Company acquired its Tempe, Arizona "Fab 2" facility in 1994 and its Bangkok, Thailand assembly and test facility in 1995 using the same strategy of securing very low cost manufacturing. The result is a sound enterprise that posts strong profit margins, even in the current downcycle, and can respond to competitive pricing pressures.

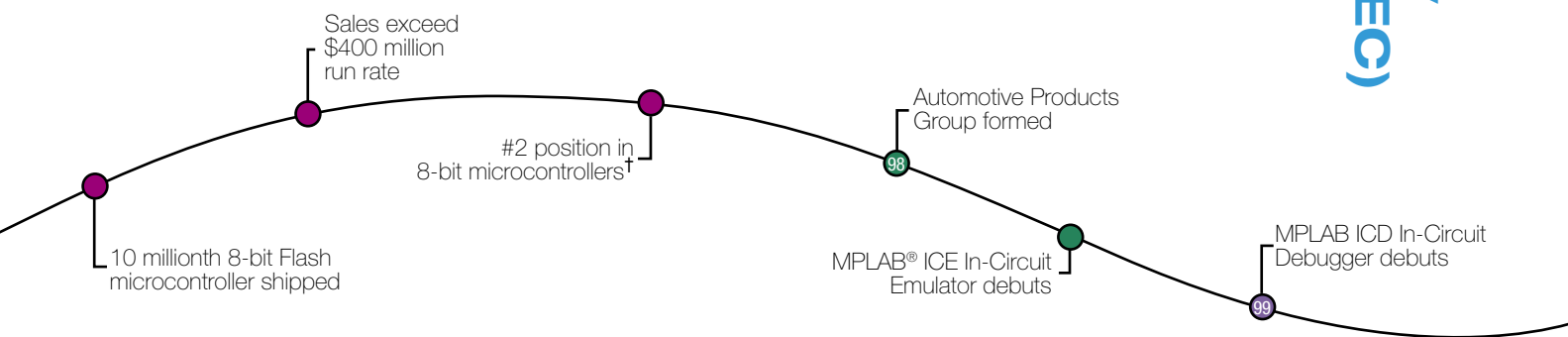
Through Microchip's continuous improvement efforts this past year, the Company generated record fabrication line and die yields of more than 90% at its Fab 2. As Fab 4 ramps up for volume production in fiscal year 2004, Microchip is installing the same proven high-yielding manufacturing processes.



# PMOS Electrically Erasable Cell (PEEC)

Securing extremely low-cost manufacturing facilities has complemented our proprietary products, resulting in strong gross margin performance. We believe the development of advanced products and technology will continue to provide the basis for cost improvements and future growth.

In fiscal year 2003, Microchip extended its advanced PMOS Electrically Erasable Cell (PEEC) process technology with a 0.4 micron 2.0-5.5 volt capability. Our proprietary PEEC technology continues to lay the foundation for industry-leading Flash microcontrollers, providing best-in-class erase/write endurance, retention and disturb reliability for both program and on-chip data EEPROM memory.



The Company launched 11 low-pin-count Flash microcontrollers in fiscal year 2003, including a unique family of 14-pin PIC16F630 and PIC16F676 devices which feature an analog-to-digital converter, internal oscillator, comparator and quick start up for distributed intelligence applications.

Using the advanced PEEC technology, along with unique circuit design and manufacturing techniques, Microchip debuted the *nanoWatt Technology* family of power managed Flash microcontrollers, which enables designers to command complete control of overall system power consumption. More than 12 products began shipping in fiscal year 2003, providing an ideal solution for thousands of battery-managed embedded control applications worldwide.

## nanoWatt Technology

Recognizing this growing opportunity for intelligent battery management, Microchip acquired PowerSmart, Inc., a privately held semiconductor company in June 2002. PowerSmart® products provide a unique battery management whole product solution which improves system run-times and increases predictability of use with a lower system cost for the user. By leveraging our existing microcontroller customer infrastructure with the leading-edge PowerSmart technology, we expect to gain market share in the office automation and consumer product markets.

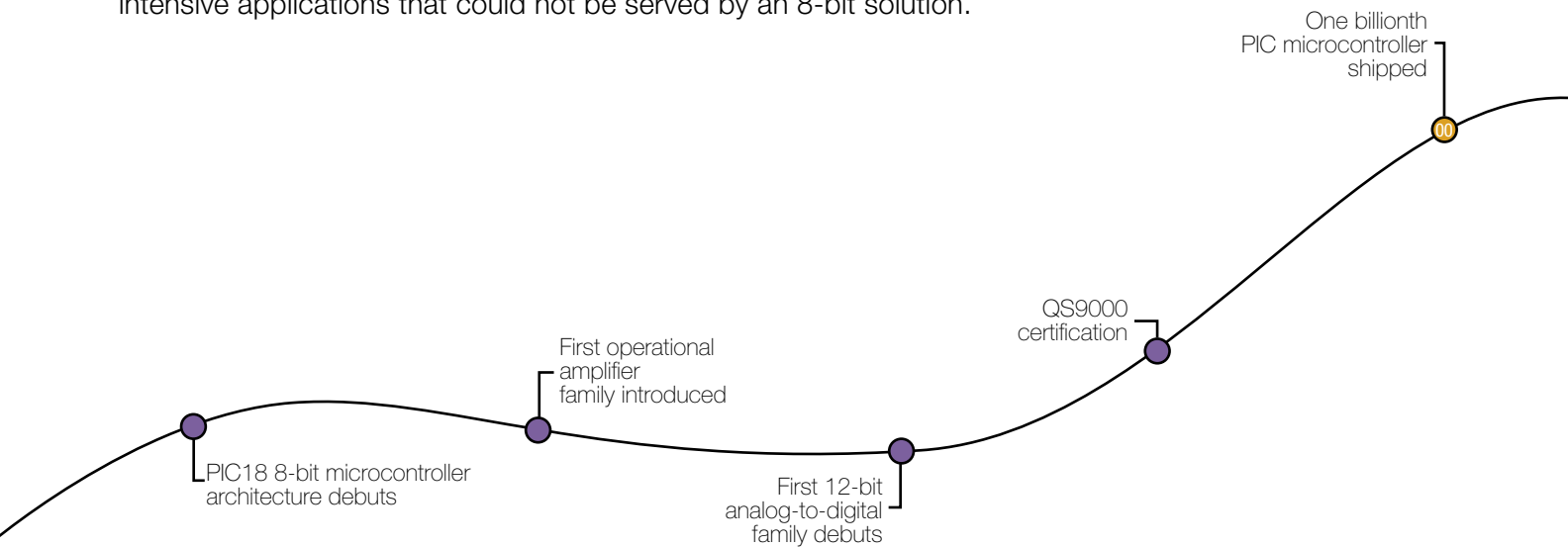
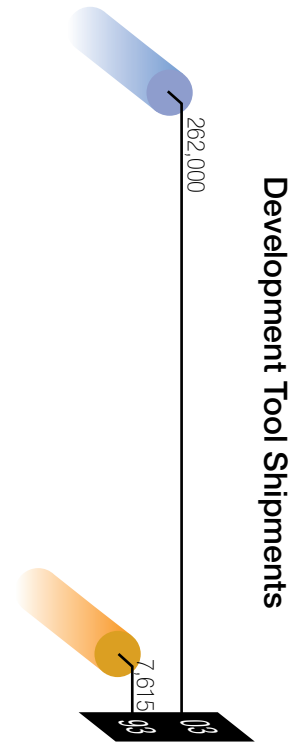


# MPLAB® Development Tools

Helping to fuel the success of the past 10 years has been the availability of world-class development systems. This year, Microchip shipped a record 35,000 development systems, an increase of about 50% over fiscal year 2002. In the past decade, Microchip has delivered nearly 262,000 development systems to engineers worldwide, representing one of the largest installed base of such tools in the entire semiconductor industry.

Microchip debuted the next-generation version of its MPLAB® Integrated Development Environment (IDE) this year. Available at no cost to users, the MPLAB IDE v6.10 is a 32-bit desktop development environment that can decrease design time by offering the flexibility to edit, compile, debug and emulate embedded designs without ever leaving the MPLAB environment. The Company also introduced the MPLAB In-Circuit Emulator 4000 system which provides full speed, low voltage emulation, interchangeable processor modules and device adapters to support the PIC18F microcontroller and dsPIC™ digital signal controller families.

In fiscal year 2003, Microchip began sampling its dsPIC digital signal controllers and related development tools to key customers. This marks Microchip's formal entry into the nearly \$2.9 billion 16-bit microcontroller market<sup>††</sup> with a highly competitive product offering. The dsPIC digital signal controller provides a high performance 16-bit Flash microcontroller solution with an on-board digital signal processor, allowing Microchip to penetrate numerous computationally intensive applications that could not be served by an 8-bit solution.



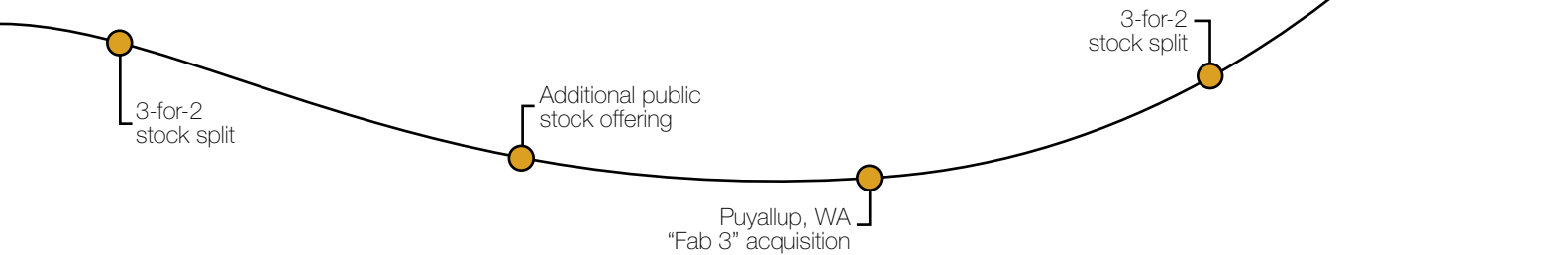
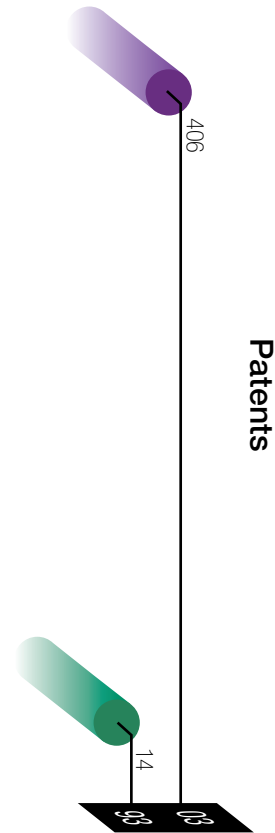
## Analog Attach Strategy

Our analog and interface products continued to gain acceptance in the competitive analog market. The strategy of attaching our analog products to our microcontroller design wins is working well and offers significant growth opportunities for these products.

For example, the MCP6S2X programmable gain amplifier was developed to provide digital control over the amplifier function and reduce board space and cost. Another proprietary innovation is the MCP3221, a 12-bit low power analog-to-digital converter in the tiny SOT-23 package.

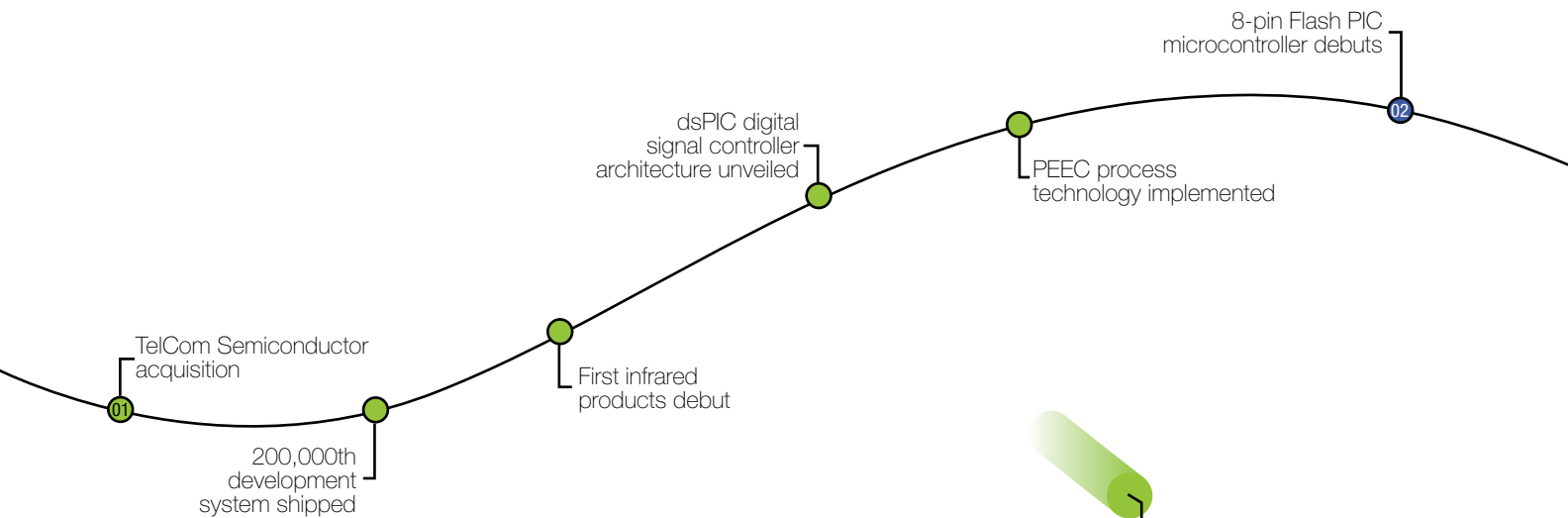
The Company's serial EEPROM portfolio continues to expand, including the highest density serial EEPROMs available in an 8-lead MSOP package. Because of its small size, this package offers designers an unprecedented level of flexibility when implementing non-volatile memory in space-constrained applications.

In addition to launching compelling new products, Microchip has dedicated groups to support the unique needs of specific markets. Microchip's Home Appliance Solutions Group has penetrated additional appliance OEM customers worldwide with targeted applications support.



Our Automotive Products Group continues to reap additional opportunities, including winning several high volume safety critical applications that will go into production starting in Model Year 2006. The MCP201 transceiver debuted, allowing engineers to add connectivity to the Local Interconnect Network (LIN) bus for automotive applications.

While the appliance and automotive markets are important, they represent just two industry segments that we support. Microchip's decade of excellence can be seen in its successful model of sales diversification.



Today, Microchip serves more than 40,000 customers creating thousands of diverse applications in the consumer, automotive, industrial control, office automation and communications markets. Our top 10 customers represent less than 11% of our business, and overall sales are diversified across Europe, Asia and the Americas. This ongoing strategy helps insulate our business, ensuring that Microchip's performance is not tied to the successes or failures of any one customer, market or geographic region.

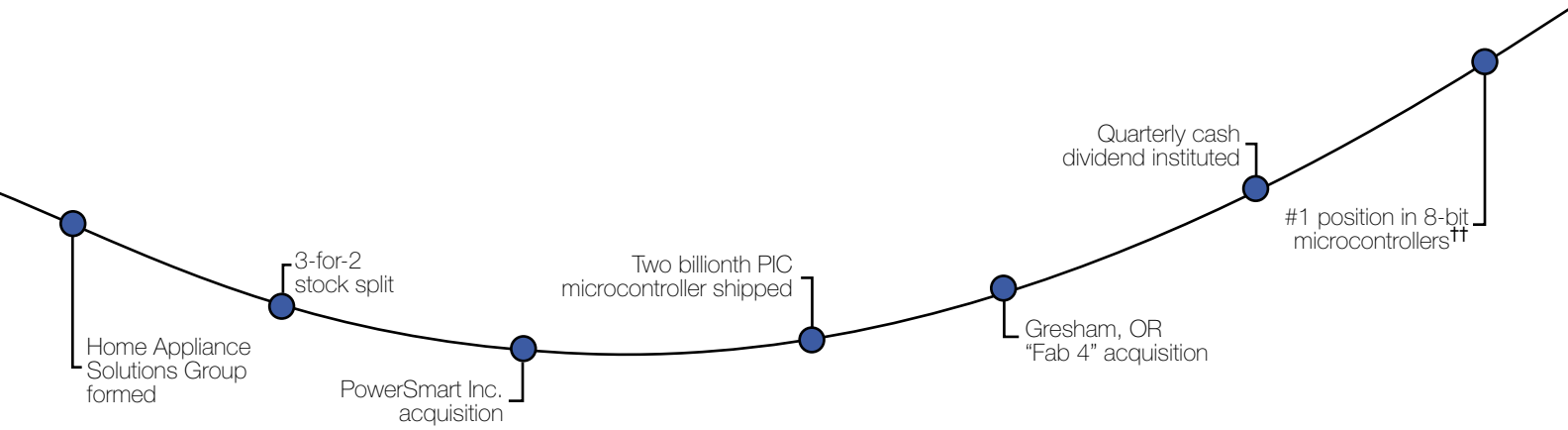


## 40,000 Customers Worldwide

Because of this strategy, Microchip was able to significantly outperform the rest of the semiconductor industry during this multi-year downcycle. In fiscal year 2003, our total sales increased by 14% over fiscal year 2002, despite challenging business conditions worldwide. Our direct and distribution sales channels both contributed double-digit percentage growth, and Microchip expanded its share of the nearly \$5.1 billion 8-bit microcontroller market to 16% (based on unit shipments)<sup>††</sup>.

Sales in Asia grew by approximately 28% in fiscal year 2003 compared to fiscal year 2002. Given the large sales potential in China, Microchip opened sales offices in QingDao and Shunde and plans to open an office in Wuhan this fiscal year, providing nine total sales offices including Hong Kong in this country alone.





Microchip has attracted numerous engineering customers over the past decade by making it easy for them to engage with us. To shorten design-in cycle times, Microchip this year instituted online product sampling capability on our website, giving designers the ability to request and receive product samples within days. Providing ongoing technical training, more than 750 engineers worldwide attended Microchip's Annual Summer Technical Exchange Review (MASTERS) conferences in fiscal year 2003 to learn about designing embedded control systems using the Company's products.

Despite the continued tough business environment and the prolonged industry downcycle, Microchip yet again outperformed the semiconductor industry, as we have over the past decade.

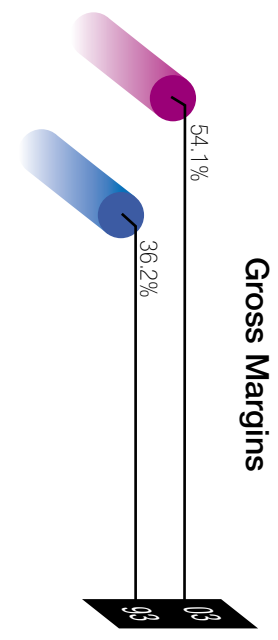
We remain very optimistic about our future given our acquisition of Fab 4, growth in stand-alone analog products, sampling of the new digital signal controllers, and a portfolio of products that continues to expand. And, Microchip is now the number one supplier of 8-bit microcontrollers, based on worldwide unit shipments<sup>††</sup>.

With sincere appreciation to our shareholders, customers and employees for helping Microchip make the last 10 years truly *a decade of excellence*.

*Steve Sanghi*

Steve Sanghi  
 President and CEO  
 Microchip Technology Incorporated

**Outperformed the Semiconductor Industry**



Microchip Technology Incorporated (NASDAQ: MCHP) is a leading provider of microcontroller and analog semiconductors, providing risk-free product development, lower total system cost and faster time to market for thousands of diverse customer applications worldwide. Headquartered in Chandler, Arizona, Microchip offers outstanding technical support along with dependable delivery and quality. For more information, visit the Microchip website at [www.microchip.com](http://www.microchip.com).

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Microchip celebrates  
10 years of being public

†Rankings based on total worldwide unit shipments, as listed in the following reports:

Gartner Dataquest, [Final 1993 Microcontroller Market Share and Shipments](#), May 30, 1994

Gartner Dataquest, [Final 1994 Microcontroller Market Share and Shipments](#), June 19, 1995

Gartner Dataquest, [1996 Microcontroller Market Share and Unit Shipments](#), August 11, 1997

Gartner Dataquest, [1997 Microcontroller Market Share and Unit Shipments](#), June 1, 1998

††Gartner Dataquest, [2002 Microcontroller Market Share and Unit Shipments](#), Tom Starnes, June 2003

The statements contained in this annual report relating to our goal that we will continue to outpace the semiconductor industry, our ability to continue generating strong operating cash balances to allow us to invest in acquisitions and capital, our belief that we have positioned ourselves for continued growth and success, expectations that Fab 4 will substantially enhance our short- and long-term manufacturing capacity and help accommodate worldwide demand, our belief that we can respond to competitive pricing pressures, ramping of Fab 4 to volume production in fiscal year 2004, that the installation of proven processes in Fab 4 will generate high yielding manufacturing processes, that development of advanced products and technology will continue to provide the basis for cost improvements and future growth, our belief that our proprietary PEEC technology will continue to lay the foundation for industry-leading Flash microcontrollers, that there is a growing opportunity for intelligent battery management, that leveraging our existing microcontroller customer infrastructure with the PowerSmart technology will provide us market share gains in the office automation and consumer segments, that the MPLAB IDE v.6.10 can decrease design time, our ability to penetrate numerous computationally intensive applications, that our attach strategy for analog to our microcontroller business is working well and will offer significant growth opportunities, that additional opportunities are continuing in alternative applications, several high volume automotive safety critical applications going into production starting in Model Year 2006, our belief that our diversification strategy insulates our business and ensures that our performance is not tied to the successes or failures of any one customer, market or geographic region, our plans to open a sales office in Wuhan, China in fiscal year 2004, our optimism about our future, our growth in stand-alone analog products, and the expansion of our product portfolio are forward looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Actual results may differ materially because of the following factors, among others: demand for our products and the products of our customers; our ability to ramp products into volume production; the level of orders that are received and can be shipped in a quarter; levels of inventories at our distributors and other customers; inventory mix and timing of customer orders; changes in customer order patterns and seasonality; the level at which design wins become actual orders and sales; pricing pressures; disruptions in international transport or delivery occasioned by terrorist activity, armed conflict, war or an unexpected increase in the price of, or decrease in supply of, oil; impact of events outside the United States, such as the business impact of fluctuating currency rates or unrest or political instability; general industry, economic and political conditions; the impact on our business and on customer order patterns due to major health concerns (such as the spread of the SARS virus); financial stability in foreign markets; our ability to maintain operating margins; our timely introduction of new technologies; market acceptance of our new products and those of our customers; competitive factors, such as competing architectures and manufacturing technologies and acceptance of new products in the markets we generally serve; the costs and outcome of any litigation involving intellectual property, customer and other issues; changes in utilization of our current manufacturing capacity; unanticipated costs in bringing Fab 4 on-line; timely facilitization of Fab 4, including the availability of equipment and other supplies; our ability to ramp products into volume production at Fab 4; and the ability to attract and retain qualified personnel in the Gresham, Oregon area.

For a detailed discussion of these and other risk factors, please refer to Microchip's filings on Forms 10-K and 10-Q. Our fiscal year 2003 Form 10-K follows this letter to shareholders. Additionally, you can obtain copies of Forms 10-K and 10-Q and any other relevant documents for free at the SEC's web site ([www.sec.gov](http://www.sec.gov)) or from commercial document retrieval services.

## Independent Auditors

Ernst & Young LLP  
Phoenix, Arizona

## Legal Counsel

Wilson Sonsini Goodrich & Rosati, P.C.  
Palo Alto, California  
Austin, Texas

## Transfer Agent & Registrar

Wells Fargo Bank Minnesota, N.A.  
Shareowner Services  
161 North Concord Exchange  
P.O. Box 64854  
St. Paul, Minnesota 55075-1139  
800-468-9716

## Form 10-K

A copy of the Company's Form 10-K as filed with the Securities and Exchange Commission is available upon request to:

Investor Relations  
Microchip Technology Incorporated  
2355 West Chandler Boulevard  
Chandler, Arizona 85224-6199  
480-792-7761

## Annual Meeting

The annual meeting of the stockholders of Microchip Technology Incorporated will be held at the Company's Chandler facility, 2355 West Chandler Boulevard, Chandler, Arizona on Friday, August 15, 2003 at 9:00 a.m. Pacific Standard Time.

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## Common Stock

Microchip Technology's common stock is traded on the Nasdaq National Market under the symbol "MCHP." The following table sets forth the quarterly high and low closing prices as reported by the Nasdaq National Market for the last two years, adjusted to reflect a 3-for-2 stock split effected in May 2002.

<b>Fiscal 2003</b>	<b>High</b>	<b>Low</b>
First Quarter	\$33.07	\$26.52
Second Quarter	\$27.54	\$15.36
Third Quarter	\$29.29	\$19.44
Fourth Quarter	\$27.51	\$19.90

<b>Fiscal 2002</b>	<b>High</b>	<b>Low</b>
First Quarter	\$22.29	\$14.96
Second Quarter	\$25.59	\$16.89
Third Quarter	\$27.84	\$16.81
Fourth Quarter	\$28.81	\$22.26

## Internet Address

Additional Company information, along with the most recent financial and product information and press releases, can be accessed at: [www.microchip.com](http://www.microchip.com)

## Corporate Facilities

Microchip Technology Incorporated  
2355 West Chandler Boulevard  
Chandler, Arizona 85224-6199

Microchip Technology Incorporated  
1200 South 52nd Street  
Tempe, Arizona 85281

Microchip Technology Incorporated  
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Gresham, Oregon 97030

Microchip Technology (Thailand) Co., Ltd.  
14 Moo 1 T. Wangtakien  
A. Muangchachoengsao  
Chachoengsao, 24000, Thailand



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[www.microchip.com](http://www.microchip.com)

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04

The excellence  
continues