

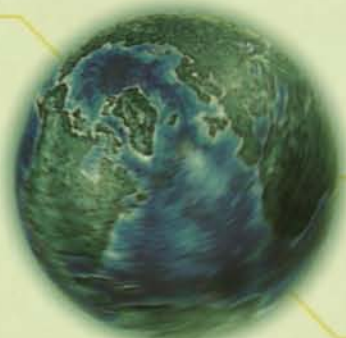
intel.



the technology



the brand



the markets

1996 Annual Report

www.intel.com



the results

It has been 25 years since Intel introduced the world's first microprocessor, making technological history. The computer revolution that this technology enabled has changed the world. Today, Intel supplies the computing industry with the chips, boards, systems and software that are the "ingredients" of computer architecture. These products are used by industry members to create advanced computing systems. Intel's mission is to be the preeminent building block supplier to the new computing industry worldwide.

Principal products

Processor products. *Microprocessors*, also called central processing units (CPUs) or chips, are frequently described as the "brains" of a computer, because they control the central processing of data in personal computers (PCs) and other computers. *Chipsets* perform essential logic functions surrounding the CPU in computers based on Intel architecture processors. *Motherboards* combine Intel microprocessors and chipsets to form the basic subsystem of a PC or server.

Networking and communications products enhance the capabilities of PC systems and networks, and make them easier to use and manage. These products are sold through reseller, retail and original equipment manufacturer (OEM) channels.

Computer enhancement products. *Flash memory* provides easily reprogrammable memory for computers, mobile phones and many other products. Flash memory has the advantage of retaining data when the unit's power is turned off. *Embedded control chips* are designed to perform specific functions in products such as automobile engine and braking systems, hard disk drives, laser printers, input/output control modules, cellular phones and home appliances.

Major customers

Original equipment manufacturers of computer systems and peripherals. **PC users**, who buy Intel's PC enhancements, business communications products and networking products through reseller, retail and OEM channels. **Other manufacturers**, including makers of a wide range of industrial and telecommunications equipment.

2 Letter to our stockholders

Our two key tasks: help make the connected PC the most exciting and useful tool in history, and keep delivering the high-performance processors that make it possible. We made enormous strides on both fronts in 1996.



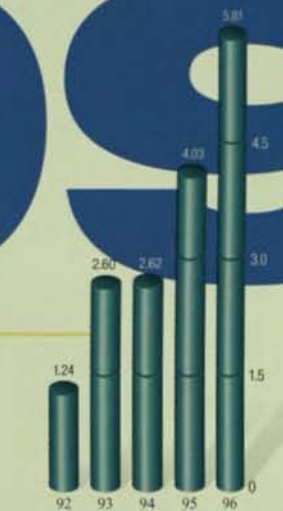
4 Highlights of 1996

Celebrating technological history. Showcasing dramatic software developments. Working with movie stars. It has been an exciting year.

1996

6 Facts and figures

For history at a glance, we like the story told in charts. Check here for the bottom line on another fantastic year.



Earnings per share
(Dollars, adjusted for stock splits through 1996)

8 A strategy for growth

Our road map for the future: drive networked PC improvements, expand our branding programs and develop new customer bases around the world.



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To our stockholders

Intel Corporation 1996



Increase in
net revenues.
(1995-1996)



Increase in
earnings per share.
(1995-1996)



Return on average
stockholders' equity.
(1996)

2

In 1996, Intel's
market value
more than
doubled—to
\$111 billion.

We are pleased to report another outstanding year at Intel. Revenues totaled \$20.8 billion, up 29 percent from \$16.2 billion in 1995. Earnings per share rose 44 percent over last year, to \$5.81.

Our performance in 1996 was driven by strong demand for our Pentium® and Pentium® Pro processors, which provide the brains for computers from servers to home PCs. We expanded the Pentium processor family in 1996 with a new 200-MHz Pentium processor and shifted the entry-level chip to the 120- and 133-MHz Pentium processors.

We continued to invest heavily in the manufacturing facilities that allow us to deliver more powerful microprocessors while keeping PC system costs low. In 1996, we announced plans for two new manufacturing sites: a new state-of-the-art wafer fab in Fort Worth, Texas, and an assembly and test facility in San Jose, Costa Rica.

Driving connected PC growth. About 70 million PCs were sold around the world in 1996, and a substantial majority of those PCs contained Intel microprocessors. This year, one trend in particular has driven this PC market growth: the spread of networked computing via the popularity of the Internet and internal corporate networks. In fact, 1996 was the year in which PC manufacturers and users around the world embraced the concept that computing is, by definition, networked.

R&D lab to the computing industry. We at Intel have long known that our growth depends on the continued expansion of the PC platform's capabilities. The more users demand of PCs, the more power will be required to drive them, and the more microproces-

sors will be sold. In response, we have expanded Intel's role in the computing industry over the last several years. Acting as a sort of R&D lab and strategic think tank to the industry, we work with PC makers, software developers and PC users to understand their future needs and wishes, and work intensely with industry leaders to develop products or specifications that meet those needs.

In 1996, we focused on two key initiatives that aim to solve persistent problems in computing and embody the exciting potential of a world of



networked computers: connected CD-ROMs and down-the-wire manageability.

• **Connected CD-ROMs:** Users have long been frustrated by the snail-like bandwidth performance of today's modem-and-phone-line Internet connections. We have worked with software developers to create a solution—connected CD-ROM software.

The bandwidth-hungry, multimedia environment and content of the program are delivered on a CD-ROM. These "hybrid applications" link to the Internet to provide updated content and real-time interaction with other users. We believe that connected PC software is the wave of the future for home PCs.

• **Down-the-wire manageability:** Expansion of internal business PC networks has been hindered by the high costs of establishing, maintaining and updating such networks. Indeed, network management costs have raised the total cost of ownership of a single connected business PC to more than

\$7,000 annually, according to Gartner Group, a research and consulting firm.

To address this serious issue, we launched our Wired for Management initiative, aimed at reducing the total cost of ownership of business PCs. We and other industry leaders are delivering immediate hardware and software solutions to make it easier to install and maintain PC networks without sacrificing performance.

Taking responsibility for our own growth. We know we can't wait for growth to come to us. We are responsible for our own future and

work to make it as successful as possible by removing roadblocks to PC platform growth, developing preference for the Intel Inside®

brand among PC users and supporting emerging PC markets around the world. Together, these strategies build value for our stockholders, which is, after all, our most important goal.

This has been an outstanding year. We have confidence in our strategies and capabilities, and we are determined to do what we can to continue expanding developments in computing and telecommunications.

As part of our continuous evolution of Intel's management team, in January 1997 we announced a realignment of titles and responsibilities in the Executive Office. Effective May 21, 1997, Craig Barrett becomes president and continues as chief operating officer. Andy Grove becomes chairman and continues as chief executive officer. Gordon Moore becomes chairman emeritus and continues, with Craig and Andy, to be part of the Executive Office. Together, we look forward to the continuing opportunities and challenges of our business in the coming year.

Gordon E. Moore
Chairman

Andrew S. Grove
President and Chief Executive Officer

Craig R. Barrett
Executive Vice President and Chief Operating Officer

A revolution in progress

Twenty-five years ago, we introduced the world's first commercial microprocessor, the 4004. The microprocessor's invention revolutionized computing and changed forever the way people work, learn and communicate. We were proud this year when former Intel engineers and microprocessor co-inventors (left to right) **Stan Mazor, Federico Faggin and Ted Hoff** were inducted into the Inventors Hall of Fame for this remarkable contribution to technology and society.



New territory for our smartest chip

Our powerhouse Pentium® Pro processors were at the core of the growing **PC server market segment** this year. In a new breed of scalable servers, several Pentium Pro chips are combined, providing power to connect desktop systems or run large applications more effectively than traditional single-chip servers. This capability is moving the Intel architecture up into the mid-range market segment for servers and workstations, competing with traditionally more expensive, proprietary systems.



The best of the Web—without the wait

In July, Intel gathered more than 1,000 software, communications and entertainment industry representatives to share our vision of the most exciting new multimedia solution: **connected CD-ROMs**. For example, in *Monopoly® Interactive*, a CD-ROM generates an exciting animated 3D game world, while players from around the globe challenge each other over the program's Internet link. This and other connected CD-ROMs provide powerful solutions to the bandwidth-clogging frustrations of the World Wide Web.



Multimedia goes to Hollywood

In 1996 we worked with Creative Artists Agency (CAA), one of Hollywood's leading literary and talent agencies, to expose actors, directors, writers and musicians to the **potential of new media** on networked PCs. Our new CAA/Intel Media Lab in Beverly Hills, California, is a state-of-the-art multimedia facility designed to stimulate the development of compelling new electronic content, such as broadcast-quality entertainment and interactive programs.



Business PC costs come tumbling down



To help drive down the costs of business computing, we launched our Wired for Management initiative in September. Leading hardware and software suppliers joined us in announcing a series of specifications and products expected to make business PCs easier to upgrade, diagnose and repair remotely. For example, a new hardware monitoring chip tracks environmental conditions such as temperature and voltage, and reports to the central management software, which responds promptly to abnormal conditions.

Manufacturing records

Our manufacturing performance continues to improve, even as we add new facilities and advances to increasingly complex production processes. We built our newest factory, Fab 12 in Chandler, Arizona, in record time, going from ground breaking to production in 23 months. The plant also achieved record product yields on ramp-up, trimming months off time to market and validating our policy of copying new manufacturing processes exactly from development lab to production floor.



Improving tomorrow today



In 1996, we expanded our corporate giving and community programs in response to enormous employee enthusiasm. "Intel Involved" links employee volunteers with projects in their interest areas: building homes with Habitat for Humanity, teaching computing skills in schools, protecting local wetlands, reading to children and more. In 1996 Intel employees around the world volunteered a total of 106,000 hours of labor to help make our communities better places to live and work.

Show grandma the kids' latest artwork—over the phone

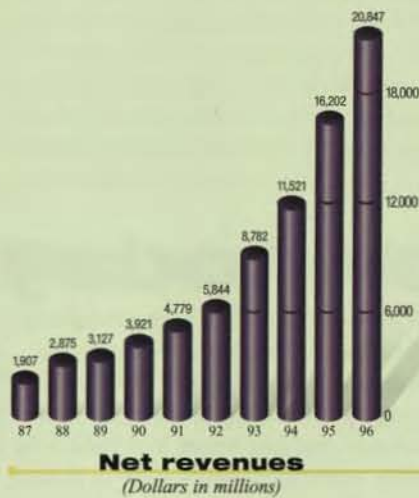
It sounds futuristic, but it's here: For the first time, a simple low-cost, PC-based video phone is available to home PC users (133-MHz Pentium® processor minimum). The Intel Video Phone with ProShare® technology, introduced to market in 1996, delivers quality video communications over ordinary telephone lines. Major PC OEMs have incorporated the technology into their current PCs, and developers have embraced the standards, ensuring compatibility among various video phone products.



1996: the b

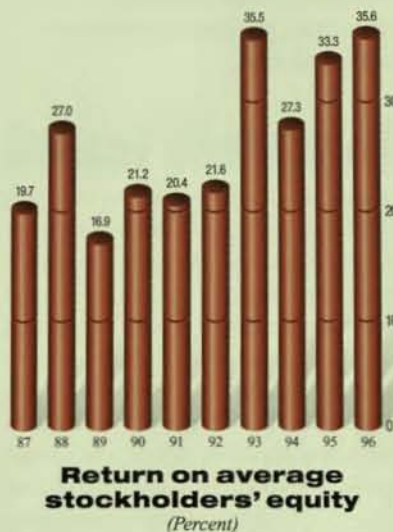
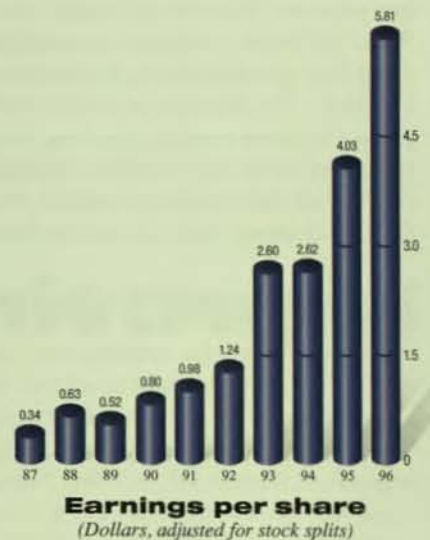
In 1996, PC users around the world continued to make the Pentium® processor their chip of choice. Strong sales of this processor family drove our 1996 results, returning our seventh consecutive year of both record revenues and earnings. We hit a new milestone with more than \$20 billion in revenues in one year.

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30%

Compound annual growth rate (CAGR) percent increase in net revenues over the last decade.

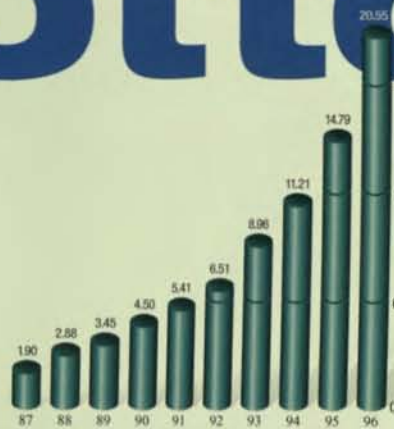


The fiscal year-end closing price of Intel stock has risen at a 39% CAGR over the last ten years.



Note: Past performance does not guarantee future results. Share and per share amounts reported herein have been adjusted for stock splits through 1996 only.

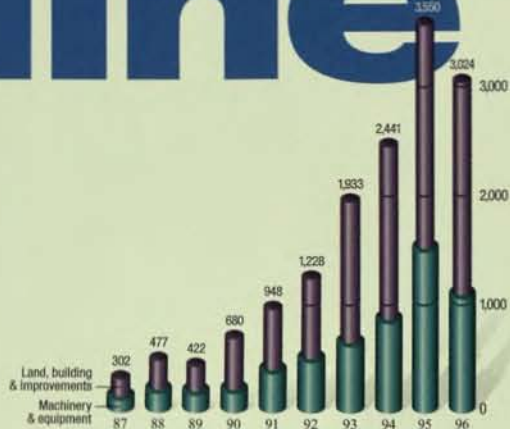
Bottom line



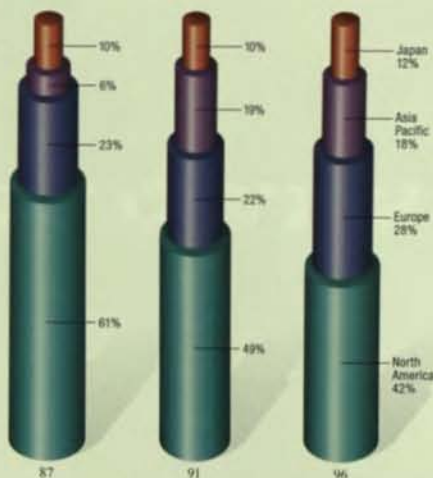
Book value per share at year-end
(Dollars, adjusted for stock splits)

30%

Ten-year CAGR percent increase in book value per share, reflecting reinvestments of profits and new infusions of capital.

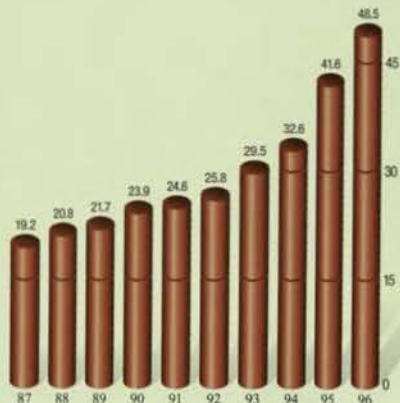


Capital additions to property, plant and equipment
(Dollars in millions)



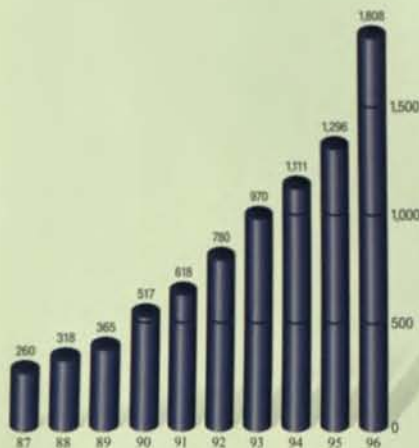
Geographic breakdown of revenues
(Percent)

More than half of Intel's 1996 revenues came from outside North America.



Employees at year-end
(In thousands)

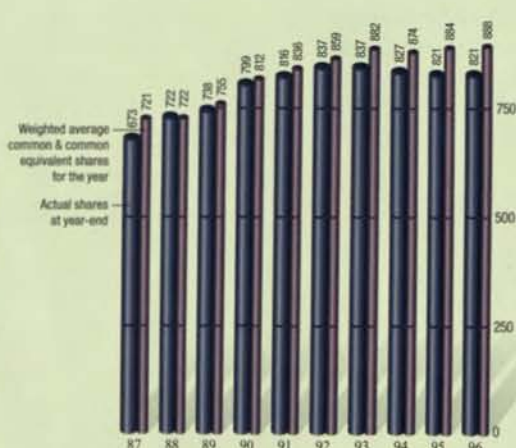
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Research and development
(Dollars in millions)

24%

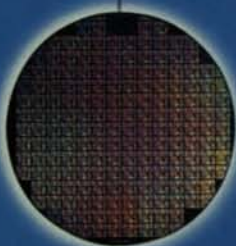
CAGR percent increase in R&D over the last decade.



Common shares outstanding
(In millions, adjusted for stock splits)

For many years, we at Intel have focused our efforts around one touchstone belief: that as the PC provides more excitement and usefulness to consumers, more PCs will be sold and more Intel processors will be needed. Recently, the World Wide Web has been driving PC growth, as this easy-to-use, graphical Internet interface continues to attract

8



Many booming product areas rely on Intel processors. We encourage the growth with active initiatives to expand the connected PC's potential.



Our Intel Inside® program is growing internationally, continuing to make consumers aware of the benefits of genuine Intel technology.



the markets

for growth

the results

new users and investments in PC communications. Intel's strategy for growth is twofold: First, we deliver the high-performance processors that drive today's connected PCs and related products. Second, we work with other industry leaders to expand the PC's role as a consumer and business communications device, driving future PC sales.



Around the world, people are waking up to the power of the connected PC. We are working to educate potential users and stimulate demand in emerging markets.



Results orientation is one of our central values. We stay focused on delivering performance for our customers and stockholders.

1971
4004

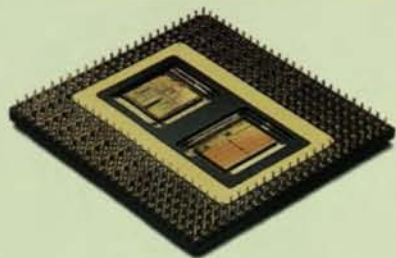


2,300 transistors
60,000 instructions per second
25 process steps to produce the 4004 chip

The microprocessor then and now

What a difference a quarter-century makes. In 1971, our 4004 was the world's first microprocessor, providing astonishing performance for the time. Today, the complexity and performance of our chips have increased exponentially, continuing to power new revolutions.

1996
Pentium® Pro processor



5.5 million transistors
300 million instructions per second
More than 200 major steps to produce the Pentium® Pro processor

the tech

10

driving product growth

The richest PC experience

Based on Intel's Media Benchmark, our new Pentium® processor with MMX™ media enhancement technology **boosts multimedia performance** by more than 60 percent, compared to equivalent-speed Pentium processors without MMX technology. The technology will be incorporated into Intel's new microprocessors beginning in 1997.



The content users want

Intel is committed to improving the Internet experience for PC consumers. Among other efforts in 1996, we encouraged software developers to create more **connected CD-ROM** titles, giving PC users the best of both the powerful desktop and the dynamic Web. For instance, with *Frommer's Interactive Travel Guide*, users can take a 3D multimedia tour of San Francisco on CD-ROM, and then use a built-in Internet link to book hotel rooms and event tickets.



nology

Memories on the move

Intel's flash-memory-based Miniature Cards open exciting doors for many digital consumer appliances. A **matchbook-sized card** can slip into a digital camera in lieu of film, and then be plugged into a PC. Users can easily edit their pictures and incorporate them into a family newsletter or Web page.



More manageable networking

Our Wired for Management initiative aims to make network management less complex and costly. Our new LANDesk® Management Suite of software allows **remote monitoring and control** of networked PCs, and centralized distribution of software updates, making business networks much easier to manage and lowering the total costs of business computing.



Brand value worldwide

The Intel Inside® branding program, which educates PC users about the benefits of Intel microprocessors, has played a critical role in our growth. In 1996, the journal *Financial World* designated the Intel brand the tenth most valuable brand in the world.



the building block preference for

12

Prime time is Intel time

In 1996, we launched new TV ad campaigns for the Pentium® processor. They highlight the processor's ability to deliver the best performance for local software and Internet applications—and for the connected CD-ROM

software that brings users the best of both worlds. The ads are helping to convey the message that

the Pentium processor is the chip of choice for the best PC experience.



International advertising

We have worked to develop advertising messages and visual styles that will work in markets around the world. Our efforts are aimed at building a **consistent image of Intel** in the minds of PC customers everywhere.



and

the Intel Inside® brand

Growing our brand

In 1996, more than 1,300 licensees worldwide participated in the Intel Inside program. Television advertising support for customers began in 1995 and has grown to include more than 60 OEMs, who use the Intel Inside logo and “bong” sound in ads for their Pentium processor-based PCs.

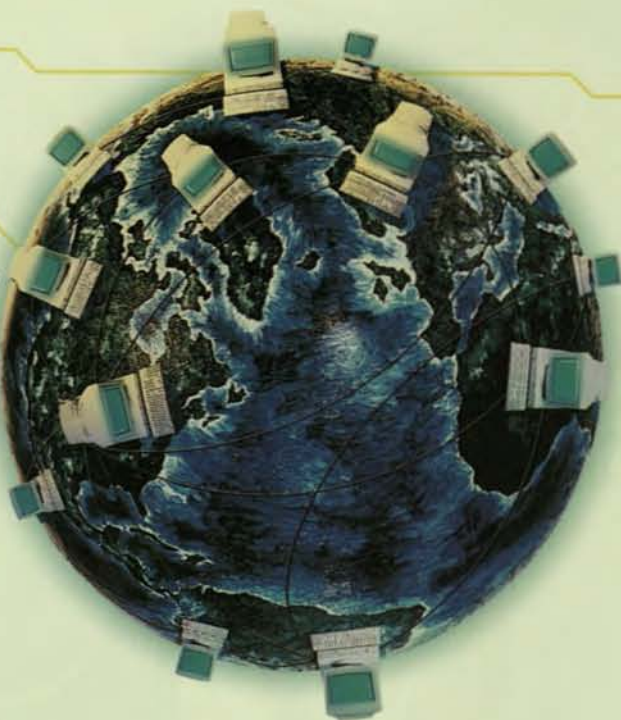
#10

Intel's 1996 rank among the world's most valuable brands.



Tapping potential worldwide

Around the world, we are working to stimulate demand in emerging markets and educate potential PC users about the power of networked PCs. About 50 percent of Intel's advertising and promotion dollars are spent in locations outside the United States.



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the im

reaching potential PC

The fastest growing user group

Korea emerged as one of the world's most promising consumer markets for PCs in 1996. With children being the country's fastest growing segment of users, Intel donated Pentium® processor-based PCs and a Web server to KidNet®, an online service dedicated to Korean children.

合家欢

Brazil is hot

According to market research firm IDC, the Brazilian PC market segment (largest in South America) grew 42 percent in units sold from 1994 to 1995. Intel is focusing on the 70 percent of Brazilians under age 30, a **generation hungry for powerful PC technology**. Our promotional programs are having a strong effect—distributors report vigorous demand for Intel processor-based PCs.



arkets

customers worldwide

15

Taking it to the streets of China

Exciting new technology was on display in the People's Republic of China in the fall of 1996. Intel coordinated a series of PC Demo Days in the country's major cities, with one hundred PC retailers holding special events to **demonstrate PC capabilities to curious crowds**. In Beijing alone, more than 80,000 people joined in, getting a first-



The India boom

Home to one-sixth of the Earth's population, India enjoys a thriving economy, a growing high-tech industry base and a highly educated work force. Intel is establishing business and technology offices in cities throughout the country and is working directly with local PC companies, distributors and users. In 1996, to **increase computer literacy through hands-on experience**, we donated equipment and software for a new Intel Technology Lab at the prestigious Indian Institute of Technology in Bangalore.

电脑游园会

hand experience of the world of connected Intel processor-based computing.

Why we do what we do

Intel is committed to building value for stockholders. We maintain a vigilant, flexible and highly strategic approach to market opportunities in order to maximize long-term results. We are pleased that our efforts have returned significant value for our investors. In fiscal 1996, Intel's market capitalization increased more than \$64 billion, and our fiscal year-end stock price grew 139 percent.



the re

the bottom

16

139%

Increase in fiscal year-end stock price, 1995-96.

Outstanding earnings growth

For fiscal 1996, our earnings per share were \$5.81, a 44 percent jump over 1995 earnings per share.



87

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89

90

91

Note: Past performance does not guarantee future results. Share and per share amounts reported herein have been adjusted for stock splits through 1996 only.

Customers get more for less

Returning value to stockholders is rooted in our ability to deliver results to our customers. We have consistently generated manufacturing advances to squeeze increasing numbers of transistors onto each processor—leading to more power on desktops for less and less money. This trend spurs creativity among hardware and software companies, continuing to drive growth in the industry as a whole.



PC cost per MIPS in 1991.
(million instructions per second)



PC cost per MIPS in 1996.

Many happy returns

Intel stock has split 10 times through 1996. A purchase of 100 shares for \$2,350 at the initial public offering in 1971 would have grown to 15,188 shares worth more than \$2 million by the end of fiscal 1996.

suits

line for customers and stockholders

THE MOST ADMIRIED

COMPANY	COMPOUND ANNUAL RATE	TOTAL RETURN TO INVESTORS	
		1986-96	1996
Coca-Cola		29.8%	43.3%
Mirage Resorts		27.9%	25.4%
Merck		22.1%	24.0%
United Parcel Service		N.A.	N.A.
Microsoft		44.5%	88.3%
Johnson & Johnson		22.2%	18.1%
Intel		43.8%	131.2%
Pfizer		21.7%	34.0%
Procter & Gamble		21.9%	32.1%
Berkshire Hathaway		28.3%	6.2%
S&P 500		11.8%	20.3%

N.A. Not applicable.

What Intel did for stockholders

Intel ranked #1 in calendar year 1996 total return to investors among the top 100 U.S. companies by market capitalization. In addition, in *Fortune* magazine's annual Corporate Reputations Survey, Intel was named the seventh most admired company in the U.S. (see table at left).

Consolidated statements of income

Intel Corporation 1996

Three years ended December 28, 1996*(In millions—except per share amounts)*

	1996	1995	1994
Net revenues	\$ 20,847	\$ 16,202	\$ 11,521
Cost of sales.....	9,164	7,811	5,576
Research and development.....	1,808	1,296	1,111
Marketing, general and administrative.....	2,322	1,843	1,447
Operating costs and expenses.....	13,294	10,950	8,134
Operating income	7,553	5,252	3,387
Interest expense.....	(25)	(29)	(57)
Interest income and other, net.....	406	415	273
Income before taxes	7,934	5,638	3,603
Provision for taxes.....	2,777	2,072	1,315
Net income	\$ 5,157	\$ 3,566	\$ 2,288
Earnings per common and common equivalent share	\$ 5.81	\$ 4.03	\$ 2.62
Weighted average common and common equivalent shares outstanding	888	884	874

See accompanying notes.

Consolidated balance sheets

Intel Corporation 1996

December 28, 1996 and December 30, 1995

(In millions—except per share amounts)

	1996	1995
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,165	\$ 1,463
Short-term investments	3,742	995
Trading assets	87	—
Accounts receivable, net of allowance for doubtful accounts of \$68 (\$57 in 1995)	3,723	3,116
Inventories	1,293	2,004
Deferred tax assets	570	408
Other current assets	104	111
Total current assets	13,684	8,097
Property, plant and equipment:		
Land and buildings	4,372	3,145
Machinery and equipment	8,729	7,099
Construction in progress	1,161	1,548
	14,262	11,792
Less accumulated depreciation	5,775	4,321
Property, plant and equipment, net	8,487	7,471
Long-term investments	1,353	1,653
Other assets	211	283
Total assets	\$ 23,735	\$ 17,504
Liabilities and stockholders' equity		
Current liabilities:		
Short-term debt	\$ 389	\$ 346
Accounts payable	969	864
Deferred income on shipments to distributors	474	304
Accrued compensation and benefits	1,128	758
Accrued advertising	410	218
Other accrued liabilities	507	328
Income taxes payable	986	801
Total current liabilities	4,863	3,619
Long-term debt	728	400
Deferred tax liabilities	997	620
Put warrants	275	725
Commitments and contingencies		
Stockholders' equity:		
Preferred Stock, \$.001 par value, 50 shares authorized; none issued	—	—
Common Stock, \$.001 par value, 1,400 shares authorized; 821 issued and outstanding in 1996 and 1995, and capital in excess of par value	2,897	2,583
Retained earnings	13,975	9,557
Total stockholders' equity	16,872	12,140
Total liabilities and stockholders' equity	\$ 23,735	\$ 17,504

See accompanying notes.

Consolidated statements of cash flows

Intel Corporation 1996

Three years ended December 28, 1996

(In millions)

	1996	1995	1994
Cash and cash equivalents, beginning of year	\$ 1,463	\$ 1,180	\$ 1,659
Cash flows provided by (used for) operating activities:			
Net income	5,157	3,566	2,288
Adjustments to reconcile net income to net cash provided by (used for) operating activities:			
Depreciation	1,888	1,371	1,028
Net loss on retirements of property, plant and equipment	120	75	42
Amortization of debt discount	—	8	19
Change in deferred tax assets and liabilities	179	346	(150)
Changes in assets and liabilities:			
(Increase) in accounts receivable	(607)	(1,138)	(530)
Decrease (increase) in inventories	711	(835)	(331)
(Increase) in other assets	(7)	(251)	(57)
Increase in accounts payable	105	289	148
Tax benefit from employee stock plans	196	116	61
Purchase of trading assets	(75)	—	—
(Gain) on trading assets	(12)	—	—
Increase in income taxes payable	185	372	38
Increase in accrued compensation and benefits	370	170	44
Increase (decrease) in other liabilities	533	(73)	337
Total adjustments	3,586	450	649
Net cash provided by operating activities	8,743	4,016	2,937
Cash flows provided by (used for) investing activities:			
Additions to property, plant and equipment	(3,024)	(3,550)	(2,441)
Purchases of available-for-sale investments	(4,683)	(685)	(3,168)
Sales of available-for-sale investments	225	114	10
Maturities and other changes in available-for-sale investments	2,214	1,444	2,740
Net cash (used for) investing activities	(5,268)	(2,677)	(2,859)
Cash flows provided by (used for) financing activities:			
Increase (decrease) in short-term debt, net	43	(179)	(63)
Additions to long-term debt	317	—	128
Retirement of long-term debt	—	(4)	(98)
Proceeds from sales of shares through employee stock plans and other	261	192	150
Proceeds from sales of put warrants	56	85	76
Repurchase and retirement of Common Stock	(1,302)	(1,034)	(658)
Payment of dividends to stockholders	(148)	(116)	(92)
Net cash (used for) financing activities	(773)	(1,056)	(557)
Net increase (decrease) in cash and cash equivalents	2,702	283	(479)
Cash and cash equivalents, end of year	\$ 4,165	\$ 1,463	\$ 1,180
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	\$ 51	\$ 182	\$ 76
Income taxes	\$ 2,217	\$ 1,209	\$ 1,366

Cash paid for interest in 1995 includes approximately \$108 million of accumulated interest on Zero Coupon Notes that matured in 1995.

Certain 1995 and 1994 amounts have been reclassified to conform to the 1996 presentation.

See accompanying notes.

Consolidated statements of stockholders' equity

Intel Corporation 1996

Three years ended December 28, 1996

(In millions)	Common Stock and capital in excess of par value		Retained earnings	Total
	Number of shares	Amount		
Balance at December 25, 1993	837	\$ 2,194	\$ 5,306	\$ 7,500
Proceeds from sales of shares through employee stock plans, tax benefit of \$61 and other	12	215	—	215
Proceeds from sales of put warrants	—	76	—	76
Reclassification of put warrant obligation, net	—	(15)	(106)	(121)
Repurchase and retirement of Common Stock	(22)	(164)	(429)	(593)
Redemption of Common Stock Purchase Rights	—	—	(2)	(2)
Cash dividends declared (\$.115 per share)	—	—	(96)	(96)
Net income	—	—	2,288	2,288
Balance at December 31, 1994	827	2,306	6,961	9,267
Proceeds from sales of shares through employee stock plans, tax benefit of \$116 and other	13	310	—	310
Proceeds from sales of put warrants	—	85	—	85
Reclassification of put warrant obligation, net	—	61	(42)	19
Repurchase and retirement of Common Stock	(19)	(179)	(855)	(1,034)
Cash dividends declared (\$.15 per share)	—	—	(124)	(124)
Unrealized gain on available-for-sale investments, net	—	—	51	51
Net income	—	—	3,566	3,566
Balance at December 30, 1995	821	2,583	9,557	12,140
Proceeds from sales of shares through employee stock plans, tax benefit of \$196 and other	17	457	—	457
Proceeds from sales of put warrants	—	56	—	56
Reclassification of put warrant obligation, net	—	70	272	342
Repurchase and retirement of Common Stock	(17)	(269)	(925)	(1,194)
Cash dividends declared (\$.19 per share)	—	—	(156)	(156)
Unrealized gain on available-for-sale investments, net	—	—	70	70
Net income	—	—	5,157	5,157
Balance at December 28, 1996	821	\$ 2,897	\$ 13,975	\$ 16,872

See accompanying notes.

Accounting policies

Fiscal year. Intel Corporation ("Intel" or "the Company") has a fiscal year that ends the last Saturday in December. Fiscal years 1996 and 1995, each 52-week years, ended on December 28 and 30, respectively. Fiscal 1994 was a 53-week year and ended on December 31, 1994. The next 53-week year will end on December 30, 2000.

Basis of presentation. The consolidated financial statements include the accounts of Intel and its wholly owned subsidiaries. Significant intercompany accounts and transactions have been eliminated. Accounts denominated in foreign currencies have been remeasured into the functional currency in accordance with Statement of Financial Accounting Standards (SFAS) No. 52, "Foreign Currency Translation," using the U.S. dollar as the functional currency.

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

Investments. Highly liquid investments with insignificant interest rate risk and with original maturities of three months or less are classified as cash and cash equivalents. Investments with maturities greater than three months and less than one year are classified as short-term investments. Investments with maturities greater than one year are classified as long-term investments.

The Company accounts for investments in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." The Company's policy is to protect the value of its investment portfolio and to minimize principal risk by earning returns based on current interest rates. A substantial majority of the Company's marketable investments are classified as available-for-sale as of the balance sheet date and are reported at fair value, with unrealized gains and losses, net of tax, recorded in stockholders' equity. The cost of securities sold is based on the specific identification method. Realized gains or losses and declines in value, if any, judged to be other than temporary on available-for-sale securities are reported in other income or expense. Investments in non-marketable instruments are recorded at the lower of cost or market and included in other assets.

Trading assets. During 1996, the Company purchased securities classified as trading assets. The Company maintains its trading asset portfolio to generate returns that offset changes in certain liabilities related to deferred compensation arrangements. The trading assets consist of marketable equity securities and are stated at fair value. Both realized and unrealized gains and losses are included in other income or expense and generally offset the change in the deferred compensation liability, which is also included in other income or expense.

Fair values of financial instruments. Fair values of cash and cash equivalents approximate cost due to the short period of time to maturity. Fair values of long-term investments, long-term debt, short-term investments, short-term debt, trading assets, non-marketable instruments, swaps, currency forward contracts, currency options, options hedging marketable instruments and options hedging non-marketable instruments are based on quoted market prices or pricing models using current

market rates. No consideration is given to liquidity issues in valuing debt.

Derivative financial instruments. The Company utilizes derivative financial instruments to reduce financial market risks. These instruments are used to hedge foreign currency, equity and interest rate market exposures of underlying assets, liabilities and other obligations. The Company does not use derivative financial instruments for speculative or trading purposes. The Company's accounting policies for these instruments are based on the Company's designation of such instruments as hedging transactions. The criteria the Company uses for designating an instrument as a hedge include the instrument's effectiveness in risk reduction and one-to-one matching of derivative instruments to underlying transactions. Gains and losses on currency forward contracts, and options that are designated and effective as hedges of anticipated transactions, for which a firm commitment has been attained, are deferred and recognized in income in the same period that the underlying transactions are settled. Gains and losses on currency forward contracts, options and swaps that are designated and effective as hedges of existing transactions are recognized in income in the same period as losses and gains on the underlying transactions are recognized and generally offset. Gains and losses on any instruments not meeting the above criteria would be recognized in income in the current period. Income or expense on swaps is accrued as an adjustment to the yield of the related investments or debt they hedge.

Inventories. Inventories are stated at the lower of cost or market. Cost is computed on a currently adjusted standard basis (which approximates actual cost on a current average or first-in, first-out basis). Inventories at fiscal year-ends were as follows:

<i>(In millions)</i>	1996	1995
Materials and purchased parts	\$ 280	\$ 674
Work in process	672	707
Finished goods	341	623
Total	\$ 1,293	\$ 2,004

Property, plant and equipment. Property, plant and equipment are stated at cost. Depreciation is computed for financial reporting purposes principally by use of the straight-line method over the following estimated useful lives: machinery and equipment, 2-4 years; land and buildings, 4-45 years.

The Company adopted SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," effective as of the beginning of fiscal 1995. This adoption had no material effect on the Company's financial statements.

Deferred income on shipments to distributors. Certain of the Company's sales are made to distributors under agreements allowing price protection and/or right of return on merchandise unsold by the distributors. Because of frequent sales price reductions and rapid technological obsolescence in the industry, Intel defers recognition of such sales until the merchandise is sold by the distributors.

Advertising. Cooperative advertising obligations are accrued and the costs expensed at the same time the related revenue is recognized. All other advertising costs are expensed as incurred. The Company does not incur any direct-response advertising costs. Advertising expense was \$974 million, \$654 million and \$459 million in 1996, 1995 and 1994, respectively.

Interest. Interest as well as gains and losses related to contractual agreements to hedge certain investment positions and debt (see "Derivative financial instruments") are recorded as net interest income or expense on a monthly basis. Interest expense capitalized as a component of construction costs was \$33 million, \$46 million and \$27 million for 1996, 1995 and 1994, respectively.

Earnings per common and common equivalent share.

Earnings per common and common equivalent share are computed using the weighted average number of common and dilutive common equivalent shares outstanding. Fully diluted earnings per share have not been presented as part of the consolidated statements of income because the differences are insignificant.

Stock distributions. On June 16, 1995, the Company effected a two-for-one stock split in the form of a special stock distribution to stockholders of record as of May 19, 1995. Share, per share, Common Stock, capital in excess of par value, stock option and warrant amounts herein have been restated to reflect the effect of this split.

On January 13, 1997, the Board of Directors of the Company approved a two-for-one stock split (the "1997 stock split") to be effected as a special stock distribution of one share of Common Stock for each share of the Company's Common Stock outstanding, subject to stockholder approval of an increase in authorized shares at the Company's Annual Meeting on May 21, 1997. Because the 1997 stock split cannot be effected until there is an increase in authorized shares, none of the share, per share, Common Stock, capital in excess of par value, stock option or warrant amounts herein has been restated to reflect the effect of the 1997 stock split.

Common Stock

1998 Step-Up Warrants. In 1993, the Company issued 40 million 1998 Step-Up Warrants to purchase 40 million shares of Common Stock. This transaction resulted in an increase of \$287 million in Common Stock and capital in excess of par value, representing net proceeds from the offering. The Warrants became exercisable in May 1993 at an effective price of \$35.75 per share of Common Stock, subject to annual increases to a maximum price of \$41.75 per share effective in March 1997. As of December 28, 1996, approximately 40 million Warrants were exercisable at a price of \$40.25 and expire on March 14, 1998 if not previously exercised. For 1996 and 1995, the Warrants had a dilutive effect on earnings per share and represented approximately 19 million and 11 million common equivalent shares, respectively. The Warrants did not have a dilutive effect on earnings per share in 1994.

Stock repurchase program. The Company has an authorization from the Board of Directors to repurchase up to 110 million

shares of Intel's Common Stock in open market or negotiated transactions. During 1996 the company repurchased 16.8 million shares at a cost of \$1.3 billion, including \$108 million for exercised put warrants. As of December 28, 1996, the Company had repurchased and retired approximately 84.9 million shares at a cost of \$3.5 billion since the program began in 1990. As of December 28, 1996, after reserving 4.5 million shares to cover outstanding put warrants, 20.6 million shares remained available under the repurchase authorization.

Put warrants

In a series of private placements from 1991 through 1996, the Company sold put warrants that entitle the holder of each warrant to sell one share of Common Stock to the Company at a specified price. Activity during the past three years is summarized as follows:

(In millions)	Cumulative premium received	Put warrants outstanding	
		Number of warrants	Potential obligation
December 25, 1993	\$ 118	29.6	\$ 688
Sales	76	25.0	744
Exercises	—	(2.0)	(65)
Expirations	—	(27.6)	(623)
December 31, 1994	194	25.0	744
Sales	85	17.5	925
Repurchases	—	(5.5)	(201)
Expirations	—	(25.0)	(743)
December 30, 1995	279	12.0	725
Sales	56	9.0	603
Exercises	—	(1.8)	(108)
Expirations	—	(14.7)	(945)
December 28, 1996	\$ 335	4.5	\$ 275

The amount related to Intel's potential repurchase obligation has been reclassified from stockholders' equity to put warrants. The 4.5 million put warrants outstanding at December 28, 1996 expire on various dates between February 1997 and April 1997 and have exercise prices ranging from \$56 to \$69 per share, with an average exercise price of \$61 per share. There is no significant dilutive effect on earnings per share for the periods presented.

Borrowings

Short-term debt. Short-term debt and weighted average interest rates at fiscal year-ends were as follows:

(In millions)	1996		1995	
	Balance	Weighted average interest rate	Balance	Weighted average interest rate
Borrowed under lines of credit	\$ 30	N/A	\$ 57	3.2%
Reverse repurchase agreements payable in non-U.S. currencies	263	6.4%	124	9.2%
Notes payable	3	0.7%	2	4.7%
Drafts payable	93	N/A	163	N/A
Total	\$ 389		\$ 346	

At December 28, 1996, the Company had established foreign and domestic lines of credit of approximately \$1.1 billion, a portion of which is uncommitted. The Company generally renegotiates these lines annually. Compensating balance requirements are not material.

The Company also borrows under commercial paper programs. Maximum borrowings reached \$306 million during 1996 and \$700 million during 1995. This debt is rated A1+ by Standard and Poor's and P1 by Moody's. Proceeds are used to fund short-term working capital needs.

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

(In millions)	1996	1995
Payable in U.S. dollars:		
AFICA Bonds due 2013 at 4%	\$ 110	\$ 110
Reverse repurchase arrangement due 2001	300	—
Other U.S. dollar debt	4	4
Payable in other currencies:		
Irish punt due 2008-2024 at 6%-12%	268	240
Greek drachma due 2001	46	46
Total	\$ 728	\$ 400

The Company has guaranteed repayment of principal and interest on the AFICA Bonds issued by the Puerto Rico Industrial, Medical and Environmental Pollution Control Facilities Financing Authority (AFICA). The bonds are adjustable and redeemable at the option of either the Company or the bondholder every five years through 2013 and are next adjustable and redeemable in 1998. The Irish punt borrowings were made in connection with the financing of a factory in Ireland, and Intel has invested the proceeds in Irish punt denominated instruments of similar maturity to hedge foreign currency and interest rate exposures. The Greek drachma borrowings were made under a tax incentive program in Ireland, and the proceeds and cash flows have been swapped to U.S. dollars. The \$300 million reverse repurchase arrangement payable in 2001 has a current borrowing rate of 5.9%. The funds received under this arrangement are available for general corporate purposes. This debt may be redeemed or repaid under certain circumstances at the option of either the lender or Intel.

Under shelf registration statements filed with the Securities and Exchange Commission (SEC), Intel has the authority to issue up to \$3.3 billion in the aggregate of Common Stock, Preferred Stock, depositary shares, debt securities and warrants to purchase the Company's or other issuers' Common Stock, Preferred Stock and debt securities, and, subject to certain limits, stock index warrants and foreign currency exchange units. In 1993, Intel completed an offering of Step-Up Warrants (see "1998 Step-Up Warrants"). The Company may issue up to \$1.4 billion in additional securities under effective registration statements.

As of December 28, 1996, aggregate debt maturities were as follows: 1997—none; 1998—\$110 million; 1999—none; 2000—none; 2001—\$346 million; and thereafter—\$272 million.

Investments

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

Investments with maturities of greater than six months consist primarily of A and A2 or better rated financial instruments and counterparties. Investments with maturities of up to six months consist primarily of A1 and P1 or better rated financial instruments and counterparties. Foreign government regulations imposed upon investment alternatives of foreign subsidiaries, or the absence of A and A2 rated counterparties in certain countries, result in some minor exceptions. Intel's practice is to obtain and secure available collateral from counterparties against obligations whenever Intel deems appropriate. At December 28, 1996, investments were placed with approximately 200 different counterparties.

Investments at December 28, 1996 were as follows:

(In millions)	Cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Commercial paper	\$ 2,386	\$ —	\$ (1)	\$ 2,385
Bank deposits	1,846	—	(2)	1,844
Repurchase agreements	931	—	(1)	930
Loan participations	691	—	—	691
Corporate bonds	657	10	(6)	661
Floating rate notes	366	—	—	366
Securities of foreign governments	265	14	(2)	277
Fixed rate notes	262	—	—	262
Other debt securities	284	—	(2)	282
Total debt securities	7,688	24	(14)	7,698
Hedged equity	891	71	(15)	947
Preferred stock and other equity	270	174	(3)	441
Total equity securities	1,161	245	(18)	1,388
Swaps hedging investments in debt securities	—	5	(17)	(12)
Swaps hedging investments in equity securities	—	15	(42)	(27)
Options hedging investments in equity securities	(9)	—	(16)	(25)
Currency forward contracts hedging investments in debt securities	—	5	—	5
Total available-for-sale securities	8,840	294	(107)	9,027
Less amounts classified as cash equivalents	(3,932)	—	—	(3,932)
Total investments	\$ 4,908	\$ 294	\$ (107)	\$ 5,095

Investments at December 30, 1995 were as follows:

(In millions)	Cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Commercial paper	\$ 576	\$ —	\$ —	\$ 576
Repurchase agreements	474	—	—	474
Securities of foreign governments	456	1	(1)	456
Corporate bonds	375	5	—	380
Bank time deposits	360	—	—	360
Loan participations	278	—	—	278
Floating rate notes	224	—	—	224
Fixed rate notes	159	1	(1)	159
Collateralized mortgage obligations	129	—	(1)	128
Other debt securities	119	—	(1)	118
Total debt securities	3,150	7	(4)	3,153
Hedged equity	431	45	—	476
Preferred stock and other equity	309	91	(11)	389
Total equity securities	740	136	(11)	865
Swaps hedging investments in debt securities	—	2	(9)	(7)
Swaps hedging investments in equity securities	—	5	(47)	(42)
Currency forward contracts hedging investments in debt securities	—	3	—	3
Total available-for-sale securities	3,890	153	(71)	3,972
Less amounts classified as cash equivalents	(1,324)	—	—	(1,324)
Total investments	\$ 2,566	\$ 153	\$ (71)	\$ 2,648

In 1996 and 1995, debt and marketable securities with a fair value at the date of sale of \$225 million and \$114 million, respectively, were sold. The gross realized gains on such sales totaled \$7 million and \$60 million, respectively. There were no material proceeds, gross realized gains or gross realized losses from sales of securities in 1994.

The amortized cost and estimated fair value of investments in debt securities at December 28, 1996, by contractual maturity, were as follows:

(In millions)	Cost	Estimated fair value
Due in 1 year or less	\$ 7,005	\$ 7,007
Due in 1-2 years	320	327
Due in 2-5 years	86	88
Due after 5 years	277	276
Total investments in debt securities	\$ 7,688	\$ 7,698

Derivative financial instruments

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

(In millions)	1996	1995
Swaps hedging investments in debt securities	\$ 900	\$ 824
Swaps hedging investments in equity securities	\$ 918	\$ 567
Swaps hedging debt	\$ 456	\$ 156
Currency forward contracts	\$ 1,499	\$ 1,310
Currency options	\$ 94	\$ 28
Options hedging investments in marketable equity securities	\$ 82	\$ —
Options hedging investments in non-marketable instruments	\$ —	\$ 82

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

Swap agreements. The Company utilizes swap agreements to exchange the foreign currency, equity and interest rate returns of its investment and debt portfolios for a floating U.S. dollar interest rate based return. The floating rates on swaps are based primarily on U.S. dollar LIBOR and reset on a monthly, quarterly or semiannual basis. Income or expense on swaps is accrued as an adjustment to the yield of the related investments or debt they hedge.

Pay rates on swaps hedging investments in debt securities match the yields on the underlying investments they hedge. Payments on swaps hedging investments in equity securities match the equity returns on the underlying investments they hedge. Receive rates on swaps hedging debt match the expense on the underlying debt they hedge. Maturity dates of swaps match those of the underlying investment or the debt they hedge. There is approximately a one-to-one matching of swaps to investments and debt. Swap agreements remain in effect until expiration. If a contract remains outstanding after the termination of a hedged relationship, subsequent changes in the market value of the contract would be recognized in earnings.

Weighted average pay and receive rates, average maturities and range of maturities on swaps at December 28, 1996 were as follows:

	Weighted average pay rate	Weighted average receive rate	Weighted average maturity	Range of maturities
Swaps hedging investments in U.S. dollar debt securities	6.3%	5.7%	.7 years	0-2 years
Swaps hedging investments in foreign currency debt securities	8.7%	7.4%	.8 years	0-3 years
Swaps hedging investments in equity securities	N/A	5.6%	.4 years	0-1 years
Swaps hedging debt	5.6%	6.9%	3.9 years	2-5 years

Note: Pay and receive rates are based on the reset rates that were in effect at December 28, 1996.

Other foreign currency instruments. Intel transacts business in various foreign currencies, primarily Japanese yen and certain European currencies. The Company has established revenue and balance sheet hedging programs to protect against reductions in value and volatility of future cash flows caused by changes in foreign exchange rates. The Company utilizes currency forward contracts and currency options in these hedging programs. The maturities on these instruments are less than 12 months. Deferred gains or losses attributable to foreign currency instruments are not material.

Fair values of financial instruments

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

(In millions)	1996		1995	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Cash and cash equivalents	\$ 4,165	\$ 4,165	\$ 1,463	\$ 1,463
Short-term investments	\$ 3,736	\$ 3,736	\$ 995	\$ 995
Trading assets	\$ 87	\$ 87	\$ —	\$ —
Long-term investments	\$ 1,418	\$ 1,418	\$ 1,699	\$ 1,699
Non-marketable instruments	\$ 119	\$ 194	\$ 239	\$ 259
Swaps hedging investments in debt securities	\$ (12)	\$ (12)	\$ (7)	\$ (7)
Swaps hedging investments in equity securities	\$ (27)	\$ (27)	\$ (42)	\$ (42)
Options hedging investments in marketable equity securities	\$ (25)	\$ (25)	\$ —	\$ —
Options hedging investments in non-marketable instruments	\$ —	\$ —	\$ (9)	\$ (13)
Short-term debt	\$ (389)	\$ (389)	\$ (346)	\$ (346)
Long-term debt	\$ (728)	\$ (731)	\$ (400)	\$ (399)
Swaps hedging debt	\$ —	\$ 13	\$ —	\$ (1)
Currency forward contracts	\$ 5	\$ 18	\$ 3	\$ 4
Currency options	\$ —	\$ —	\$ —	\$ —

Concentrations of credit risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of investments

and trade receivables. Intel places its investments with high-credit-quality counterparties and, by policy, limits the amount of credit exposure to any one counterparty. A substantial majority of the Company's trade receivables are derived from sales to manufacturers of microcomputer systems, with the remainder spread across various other industries.

During 1995, the Company experienced an increase in its concentration of credit risk due to increasing trade receivables from sales to manufacturers of microcomputer systems. Although the financial exposure to individual customers increased in 1996, the concentration of credit among the largest customers decreased slightly during the year. The Company's five largest customers accounted for approximately 30% of net revenues for 1996. At December 28, 1996, these customers accounted for approximately 25% of net accounts receivable.

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

Interest income and other

(In millions)	1996	1995	1994
Interest income	\$ 364	\$ 272	\$ 235
Foreign currency gains	26	29	15
Other income	16	114	23
Total	\$ 406	\$ 415	\$ 273

Other income for 1995 included approximately \$58 million from the settlement of ongoing litigation and \$60 million from sales of a portion of the Company's investment in marketable equity securities. Other income for 1994 included non-recurring gains from the settlement of various insurance claims.

Provision for taxes

The provision for taxes consisted of the following:

(In millions)	1996	1995	1994
Income before taxes:			
U.S.	\$ 5,515	\$ 3,427	\$ 2,460
Foreign	2,419	2,211	1,143
Total income before taxes	\$ 7,934	\$ 5,638	\$ 3,603
Provision for taxes:			
Federal:			
Current	\$ 2,046	\$ 1,169	\$ 1,169
Deferred	8	307	(178)
	2,054	1,476	991
State:			
Current	286	203	162
Foreign:			
Current	266	354	134
Deferred	171	39	28
	437	393	162
Total provision for taxes	\$ 2,777	\$ 2,072	\$ 1,315
Effective tax rate	35.0%	36.8%	36.5%

The tax benefit associated with dispositions from employee stock plans reduced taxes currently payable for 1996 by \$196 million (\$116 million and \$61 million for 1995 and 1994, respectively).

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

(In millions)	1996	1995	1994
Computed expected tax	\$ 2,777	\$ 1,973	\$ 1,261
State taxes, net of federal benefits	186	132	105
Other	(186)	(33)	(51)
Provision for taxes	\$ 2,777	\$ 2,072	\$ 1,315

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

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

(In millions)	1996	1995
Deferred tax assets		
Accrued compensation and benefits	\$ 71	\$ 61
Deferred income	147	127
Inventory valuation and related reserves	187	104
Interest and taxes	54	61
Other, net	111	55
	570	408
Deferred tax liabilities		
Depreciation	(573)	(475)
Unremitted earnings of certain subsidiaries	(359)	(116)
Other, net	(65)	(29)
	(997)	(620)
Net deferred tax (liability)	\$ (427)	\$ (212)

U.S. income taxes were not provided for on a cumulative total of approximately \$992 million of undistributed earnings for certain non-U.S. subsidiaries. The Company intends to reinvest these earnings indefinitely in operations outside the United States.

During 1996, Intel reached resolution on all outstanding issues related to income tax returns for the years 1978-1987. Final adjustments were also received from the Internal Revenue Service (IRS) for the years 1988-1990. Neither event had a material effect on the Company's 1996 financial statements.

The Company's U.S. income tax returns for the years 1991-1993 are presently under examination by the IRS. Final proposed adjustments have not yet been received for these years. Management believes that adequate amounts of tax and related interest and penalties, if any, have been provided for any adjustments that may result for the years under examination.

Employee benefit plans

Stock option plans. Intel has a stock option plan (hereafter referred to as the EOP Plan) under which officers, key employees and non-employee directors may be granted options to pur-

chase shares of the Company's authorized but unissued Common Stock. The Company also has an Executive Long-Term Stock Option Plan (ELTSOP) under which certain employees, including officers, may be granted options to purchase shares of the Company's authorized but unissued Common Stock. In January 1997 the Board of Directors approved the 1997 Stock Option Plan, which made an additional 65 million shares available for employees other than officers and directors. Under all plans, the option purchase price is equal to fair market value at the date of grant.

Options currently expire no later than ten years from the grant date and generally vest after five years. Proceeds received by the Company from exercises are credited to Common Stock and capital in excess of par value. Additional information with respect to the EOP and the ELTSOP activity was as follows:

(In millions)	Outstanding options		
	Shares available for options	Number of shares	Weighted average exercise price
December 25, 1993	64.8	83.6	\$ 11.90
Grants	(12.0)	12.0	\$ 33.08
Exercises	—	(8.8)	\$ 6.59
Cancellations	1.6	(1.6)	\$ 20.63
December 31, 1994	54.4	85.2	\$ 15.28
Grants	(14.0)	14.0	\$ 48.22
Exercises	—	(10.7)	\$ 8.14
Cancellations	3.0	(3.0)	\$ 25.66
December 30, 1995	43.4	85.5	\$ 21.20
Grants	(13.3)	13.3	\$ 69.12
Exercises	—	(11.9)	\$ 9.86
Cancellations	2.5	(2.5)	\$ 34.10
December 28, 1996	32.6	84.4	\$ 29.96
Options exercisable at:			
December 31, 1994		28.8	\$ 7.54
December 30, 1995		29.1	\$ 9.10
December 28, 1996		28.6	\$ 11.44

The range of exercise prices for options outstanding at December 28, 1996 was \$4.79 to \$131.19. The range of exercise prices for options is wide due primarily to the increasing price of the Company's stock over the period of the grants.

The following tables summarize information about options outstanding at December 28, 1996:

Range of exercise prices	Outstanding options		
	Number of shares (in millions)	Weighted average contractual life (in years)	Weighted average exercise price
\$4.79-\$13.41	34.0	3.7	\$10.26
\$13.63-\$36.13	25.3	6.7	\$27.29
\$38.91-\$131.19	25.1	8.9	\$59.12
Total	84.4	6.1	\$29.96

Range of exercise prices	Exercisable options	
	Number of shares (in millions)	Weighted average exercise price
\$4.79-\$13.41	25.6	\$ 9.34
\$13.63-\$36.13	2.6	\$24.92
\$38.91-\$131.19	.4	\$55.21
Total	28.6	\$11.44

These options will expire if not exercised at specific dates ranging from January 1997 to December 2006. Prices for options exercised during the three-year period ended December 28, 1996 ranged from \$3.04 to \$69.43.

Stock Participation Plan. Under this plan, eligible employees may purchase shares of Intel's Common Stock at 85% of fair market value at specific, predetermined dates. Of the 118 million shares authorized to be issued under the plan, 23.8 million shares were available for issuance at December 28, 1996. Employees purchased 3.5 million shares in 1996 (3.5 million and 4.0 million in 1995 and 1994, respectively) for \$140 million (\$110 million and \$94 million in 1995 and 1994, respectively).

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

Pro forma information regarding net income and earnings per share is required by SFAS No. 123. This information is required to be determined as if the Company had accounted for its employee stock options (including shares issued under the Stock Participation Plan, collectively called "options") granted subsequent to December 31, 1994 under the fair value method of that statement. The fair value of options granted in 1995 and 1996 reported below has been estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions:

	Employee stock options		Stock Participation Plan shares	
	1996	1995	1996	1995
Expected life (in years)	6.5	6.5	.5	.5
Risk-free interest rate	6.5%	6.8%	5.3%	6.0%
Volatility	.36	.36	.36	.36
Dividend yield	.2%	.3%	.2%	.3%

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because the

Company's options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in the opinion of management, the existing models do not necessarily provide a reliable single measure of the fair value of its options. The weighted average estimated fair value of employee stock options granted during 1996 and 1995 was \$32.69 and \$23.26 per share, respectively. The weighted average estimated fair value of shares granted under the Stock Participation Plan during 1996 and 1995 was \$16.22 and \$12.25, respectively.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information follows (in millions except for earnings per share information):

	1996	1995
Pro forma net income	\$ 5,046	\$ 3,506
Pro forma earnings per share	\$ 5.68	\$ 3.96

The effects on pro forma disclosures of applying SFAS No. 123 are not likely to be representative of the effects on pro forma disclosures of future years. Because SFAS No. 123 is applicable only to options granted subsequent to December 31, 1994, the pro forma effect will not be fully reflected until 1999.

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

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

The Company accrued \$209 million for the Qualified Plans and the Non-Qualified Plan in 1996 (\$188 million in 1995 and \$152 million in 1994). Of the \$209 million accrued in 1996, the Company expects to fund approximately \$181 million for the 1996 contribution to the Qualified Plans and to allocate approximately \$10 million for the Non-Qualified Plan. The remainder, plus approximately \$177 million carried forward from prior years, is expected to be contributed to these plans when allowable under IRS regulations and plan rules.

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

The Company provides tax-qualified defined-benefit pension plans for the benefit of eligible employees in the U.S. and Puerto Rico. Each plan provides for minimum pension benefits that are determined by a participant's years of service, final average

compensation (taking into account the participant's social security wage base) and the value of the Company's contributions, plus earnings, in the Qualified Plan. If the participant's balance in the Qualified Plan exceeds the pension guarantee, the participant will receive benefits from the Qualified Plan only. Intel's funding policy is consistent with the funding requirements of federal laws and regulations.

Pension expense for 1996, 1995 and 1994 for the U.S. and Puerto Rico plans was less than \$1 million per year, and no component of expense exceeded \$3 million.

The funded status of these plans as of December 28, 1996 and December 30, 1995 was as follows:

(In millions)	1996	1995
Vested benefit obligation	\$ (3)	\$ (3)
Accumulated benefit obligation	\$ (4)	\$ (4)
Projected benefit obligation	\$ (5)	\$ (6)
Fair market value of plan assets	11	8
Projected benefit obligation less than plan assets	6	2
Unrecognized net (gain)	(15)	(12)
Unrecognized prior service cost	3	3
Accrued pension costs	\$ (6)	\$ (7)

At fiscal year-ends, the weighted average discount rates and long-term rates for compensation increases used for estimating the benefit obligations and the expected return on plan assets were as follows:

	1996	1995	1994
Discount rate	7.0%	7.0%	8.5%
Rate of increase in compensation levels	5.0%	5.0%	5.5%
Expected long-term return on assets	8.5%	8.5%	8.5%

Plan assets of the U.S. and Puerto Rico plans consist primarily of listed stocks and bonds, repurchase agreements, money market securities, U.S. government securities and stock index derivatives.

The Company provides defined-benefit pension plans in certain foreign countries where required by statute. The Company's funding policy for foreign defined-benefit plans is consistent with the local requirements in each country.

Pension expense for 1996, 1995 and 1994 for the foreign plans included the following:

(In millions)	1996	1995	1994
Service cost-benefits earned during the year	\$ 10	\$ 9	\$ 5
Interest cost of projected benefit obligation	7	6	5
Actual investment (return) on plan assets	(14)	(4)	(8)
Net amortization and deferral	14	(2)	3
Net pension expense	\$ 17	\$ 9	\$ 5

The funded status of the foreign defined-benefit plans as of December 28, 1996 and December 30, 1995 is summarized below:

1996 (In millions)	Assets exceed accumulated benefits	Accumulated benefits exceed assets
Vested benefit obligation	\$ (43)	\$ (9)
Accumulated benefit obligation	\$ (46)	\$ (15)
Projected benefit obligation	\$ (62)	\$ (23)
Fair market value of plan assets	68	3
Projected benefit obligation less than (in excess of) plan assets	6	(20)
Unrecognized net loss	3	3
Unrecognized net transition obligation	2	1
Prepaid (accrued) pension costs	\$ 11	\$ (16)

1995 (In millions)	Assets exceed accumulated benefits	Accumulated benefits exceed assets
Vested benefit obligation	\$ (44)	\$ (8)
Accumulated benefit obligation	\$ (46)	\$ (14)
Projected benefit obligation	\$ (62)	\$ (22)
Fair market value of plan assets	67	4
Projected benefit obligation less than (in excess of) plan assets	5	(18)
Unrecognized net loss	4	5
Unrecognized net transition obligation	2	—
Prepaid (accrued) pension costs	\$ 11	\$ (13)

At fiscal year-ends, the weighted average discount rates and long-term rates for compensation increases used for estimating the benefit obligations and the expected return on plan assets were as follows:

	1996	1995	1994
Discount rate	5.5%–14%	5.5%–14%	5.5%–14%
Rate of increase in compensation levels	4.5%–11%	4.5%–11%	4.5%–11%
Expected long-term return on assets	5.5%–14%	5.5%–14%	5.5%–14%

Plan assets of the foreign plans consist primarily of listed stocks, bonds and cash surrender value life insurance policies.

Other postemployment benefits. The Company has adopted SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," and SFAS No. 112, "Employers' Accounting for Postemployment Benefits." There was no material impact on the Company's financial statements for the periods presented.

Commitments

The Company leases a portion of its capital equipment and certain of its facilities under operating leases that expire at various dates through 2011. Rental expense was \$57 million in 1996, \$38 million in 1995 and \$38 million in 1994. Minimum rental commitments under all non-cancelable leases with an initial term in excess of one year are payable as follows: 1997—\$23 million; 1998—\$18 million; 1999—\$14 million; 2000—\$11 million; 2001—\$9 million; 2002 and beyond—\$25 million. Commitments for construction or purchase of property, plant and equipment approximated \$1.6 billion at December 28, 1996. In connection with certain manufacturing arrangements, Intel had minimum purchase commitments of approximately \$333 million at December 28, 1996 for flash memories and other memory components and for production capacity of board-level products.

Contingencies

In March 1995, EMI Group, N.A. (formerly known as Thorn EMI North America Inc.) brought suit in Federal Court in Delaware against Intel, alleging that certain Intel manufacturing processes infringe a U.S. patent. In May 1996, the Court granted Intel's motion for summary judgment on some of the processes in issue. In November 1996, the Court granted Intel's motion for summary judgment on the remaining processes in issue and entered judgment in favor of Intel and against EMI on the claims in EMI's complaint. EMI has filed a Notice of Appeal with respect to the Court's decision. Although the ultimate outcome of this lawsuit cannot be determined at this time, management, including internal counsel, does not believe that the outcome of this litigation will have a material adverse effect on the Company's financial position or overall trends in results of operations.

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

The Company is party to various other legal proceedings. In the opinion of management, including internal counsel, these proceedings will not have a material adverse effect on the financial position or overall trends in results of operations of the Company.

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

Industry segment reporting

Intel operates predominantly in one industry segment. The Company designs, develops, manufactures and markets micro-computer components and related products at various levels of integration. The Company sells its products directly to original equipment manufacturers (OEMs) and also to a network of industrial and retail distributors throughout the world. The Company's principal markets are in the United States, Europe, Asia-Pacific and Japan, with the U.S. and Europe being the largest based on revenues. The Company's major products include microprocessors and related board-level products, chipsets, embedded processors and microcontrollers, flash memory chips, and network and communications products. Microprocessors and related board-level products account for a substantial majority of the Company's net revenues. No customer exceeded 10% of revenues in 1996, 1995 or 1994. Summary balance sheet information for operations outside the United States at fiscal year-ends is as follows:

<i>(In millions)</i>	1996	1995
Assets	\$ 4,784	\$ 4,404
Total liabilities	\$ 1,694	\$ 1,661
Net property, plant and equipment	\$ 1,615	\$ 1,414

Notes to consolidated financial statements

Intel Corporation 1996

Geographic information for the three years ended December 28, 1996 is presented in the following tables. Transfers between geographic areas are accounted for at amounts that are generally above cost and consistent with rules and regulations of governing tax authorities. Such transfers are eliminated in the consolidated financial statements. Operating income by geographic segment

does not include an allocation of general corporate expenses. Identifiable assets are those that can be directly associated with a particular geographic area. Corporate assets include cash and cash equivalents, short-term investments, trading assets, deferred tax assets, long-term investments and certain other assets.

(In millions)
1996

	Sales to unaffiliated customers	Transfers between geographic areas	Net revenues	Operating income	Identifiable assets
United States	\$ 8,668	\$ 9,846	\$ 18,514	\$ 5,255	\$ 12,982
Europe	5,876	917	6,793	1,118	2,405
Japan	2,459	20	2,479	340	659
Asia-Pacific	3,844	2,004	5,848	509	1,361
Other	—	865	865	529	359
Eliminations	—	(13,652)	(13,652)	453	(3,439)
Corporate	—	—	—	(651)	9,408
Consolidated	\$ 20,847	\$ —	\$ 20,847	\$ 7,553	\$ 23,735

1995

United States	\$ 7,922	\$ 6,339	\$ 14,261	\$ 3,315	\$ 12,603
Europe	4,560	1,190	5,750	1,383	2,517
Japan	1,737	28	1,765	353	665
Asia-Pacific	1,983	1,566	3,549	271	893
Other	—	684	684	410	329
Eliminations	—	(9,807)	(9,807)	124	(3,651)
Corporate	—	—	—	(604)	4,148
Consolidated	\$ 16,202	\$ —	\$ 16,202	\$ 5,252	\$ 17,504

1994

United States	\$ 5,826	\$ 4,561	\$ 10,387	\$ 2,742	\$ 7,771
Europe	3,158	380	3,538	418	1,733
Japan	944	61	1,005	125	343
Asia-Pacific	1,593	1,021	2,614	154	540
Other	—	639	639	378	324
Eliminations	—	(6,662)	(6,662)	179	(1,878)
Corporate	—	—	—	(609)	4,983
Consolidated	\$ 11,521	\$ —	\$ 11,521	\$ 3,387	\$ 13,816

Supplemental information (unaudited)

Quarterly information for the two years ended December 28, 1996 is presented on page 37.

Report of Ernst & Young LLP, independent auditors

Intel Corporation 1996

The Board of Directors and Stockholders, Intel Corporation

We have audited the accompanying consolidated balance sheets of Intel Corporation as of December 28, 1996 and December 30, 1995, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 28, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating

the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Intel Corporation at December 28, 1996 and December 30, 1995, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 28, 1996, in conformity with generally accepted accounting principles.

Ernst & Young LLP

San Jose, California
January 13, 1997

Financial summary

Intel Corporation 1996

Ten Years Ended December 28, 1996

(In millions)	Net investment in property, plant & equipment	Total assets	Long-term debt & put warrants	Stock- holders' equity	Additions to property, plant & equipment
1996	\$ 8,487	\$ 23,735	\$ 1,003	\$ 16,872	\$ 3,024
1995	\$ 7,471	\$ 17,504	\$ 1,125	\$ 12,140	\$ 3,550
1994	\$ 5,367	\$ 13,816	\$ 1,136	\$ 9,267	\$ 2,441
1993	\$ 3,996	\$ 11,344	\$ 1,114	\$ 7,500	\$ 1,933
1992	\$ 2,816	\$ 8,089	\$ 622	\$ 5,445	\$ 1,228
1991	\$ 2,163	\$ 6,292	\$ 503	\$ 4,418	\$ 948
1990	\$ 1,658	\$ 5,376	\$ 345	\$ 3,592	\$ 680
1989	\$ 1,284	\$ 3,994	\$ 412	\$ 2,549	\$ 422
1988	\$ 1,122	\$ 3,550	\$ 479	\$ 2,080	\$ 477
1987	\$ 891	\$ 2,499	\$ 298	\$ 1,276	\$ 302

(In millions—except per share amounts)	Net revenues	Cost of sales	Research & devel- opment	Operating income	Net income	Earnings per share	Dividends declared per share
1996	\$ 20,847	\$ 9,164	\$ 1,808	\$ 7,553	\$ 5,157	\$ 5.81	\$.19
1995	\$ 16,202	\$ 7,811	\$ 1,296	\$ 5,252	\$ 3,566	\$ 4.03	\$.15
1994	\$ 11,521	\$ 5,576	\$ 1,111	\$ 3,387	\$ 2,288	\$ 2.62	\$.115
1993	\$ 8,782	\$ 3,252	\$ 970	\$ 3,392	\$ 2,295	\$ 2.60	\$.10
1992	\$ 5,844	\$ 2,557	\$ 780	\$ 1,490	\$ 1,067	\$ 1.24	\$.05
1991	\$ 4,779	\$ 2,316	\$ 618	\$ 1,080	\$ 819	\$.98	—
1990	\$ 3,921	\$ 1,930	\$ 517	\$ 858	\$ 650	\$.80	—
1989	\$ 3,127	\$ 1,721	\$ 365	\$ 557	\$ 391	\$.52	—
1988	\$ 2,875	\$ 1,506	\$ 318	\$ 594	\$ 453	\$.63	—
1987	\$ 1,907	\$ 1,044	\$ 260	\$ 246	\$ 248	\$.34	—

Results of operations

Intel posted record net revenues in 1996, for the tenth consecutive year, rising by 29% from 1995 to 1996 and by 41% from 1994 to 1995. Higher volumes of the rapidly ramping Pentium® microprocessor family, partially offset by lower processor prices and decreased revenues from sales of related board-level products, were responsible for most of the growth in revenues from 1995 to 1996. The Pentium® Pro microprocessor family, introduced in late 1995, also contributed to the growth in revenues from 1995 to 1996. The growth in revenues from 1994 to 1995 was driven primarily by higher volumes of the Pentium processor family and related board-level products, which surpassed sales of the Intel486™ microprocessor family in the third quarter of 1995. Revenues from the Intel486 microprocessor family declined substantially in 1995 and 1996, primarily due to this shift in market demand toward the Company's more advanced microprocessors.

Higher volumes of flash memory and chipset products also contributed toward the increase in revenues from 1994 to 1996 and also helped enable the successful Pentium and Pentium Pro microprocessor ramps. Revenues from embedded control products and networking and communications products also grew over this period.

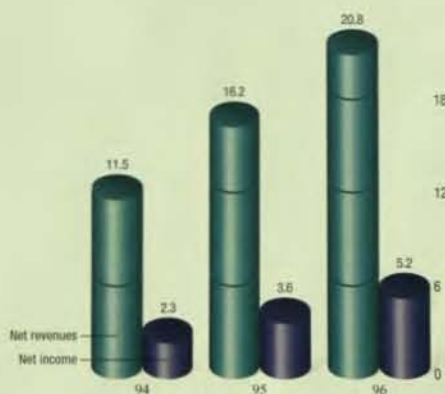
Cost of sales increased by 17% from 1995 to 1996 and by 40% from 1994 to 1995. The overall growth in cost of sales from 1994 to 1996 was driven by unit volume growth in Pentium microprocessor and related board-level products, new factories commencing production, manufacturing process conversions and shifts in product mix. While revenues increased substantially from 1995 to 1996, growth in cost of sales was significantly less. Cost of sales in the first half of 1996 and the fourth quarter of 1995 were negatively impacted by unusually high reserves related to inventories of certain purchased components. The second half of 1996 was favorably impacted by factory efficiencies from higher volumes, as well as relatively lower new factory startup costs. In addition, in the second half of 1996 the Company sold significantly more processor products than in the second half of 1995.

The gross margin percentage was 56% in 1996, compared to 52% in 1995 and 1994. However, as a result of all of the revenue and cost factors discussed above, the gross margin percentage in the second half of 1996 was 60% (63% in the fourth quarter), compared to 50% in the second half of 1995 (48% in the fourth quarter). Gross margin for the fourth quarter of 1994 included the impact of a \$475 million charge, primarily to cost of sales, related to a divide problem in the floating point unit of the Pentium microprocessor. See "Outlook" for a discussion of gross margin expectations.

Sales of Pentium microprocessors and related board-level products comprised a majority of the Company's revenues and a substantial majority of its gross margin during 1995 and 1996. During 1996 Pentium Pro microprocessors and related board-level products became an increasing portion of the Company's revenues and gross margin. The Intel486 microprocessor family contributed negligible revenues and gross margin during 1996. During 1995, the Intel486 microprocessor family represented a significant but rapidly declining portion of the Company's revenues and gross margin, while it comprised a majority of the Company's revenues and a substantial majority of its gross margin during 1994.

Research and development spending grew by 40% from 1995 to 1996 and 17% from 1994 to 1995, as the Company substantially increased its investments over this time period in strategic programs, particularly for the internal development of microprocessor products and related manufacturing technology. Increased spending for marketing programs, including media merchandising and the Company's Intel Inside® cooperative advertising program, and other revenue-dependent expenses drove the 26% and 27% increases in marketing, general and administrative expenses from 1995 to 1996 and from 1994 to 1995, respectively.

The \$4 million decrease in interest expense from 1995 to 1996 was mainly due to lower average borrowing balances and interest rates in 1996, partially offset by lower interest capitalization. The decrease in interest expense from 1994 to 1995 was primarily due to lower average borrowing balances in 1995 in addition to higher interest capitalization resulting from increased facility construction programs.



Revenues and income
(Dollars in billions)



Costs and expenses
(Percent of revenues)

Although the Company had higher average investment balances in 1996, interest and other income decreased by \$9 million from 1995 to 1996, primarily due to the offsetting effect of \$118 million in unusual gains in 1995. Interest and other income increased by \$142 million from 1994 to 1995, mainly due to the previously noted gains in 1995, in addition to higher average interest rates on investments in 1995.

The Company utilizes investments and corresponding interest rate swaps to preserve principal while enhancing the yield on its investment portfolio without significantly increasing risk, and uses forward contracts, options and swaps to hedge foreign currency, equity and interest rate market exposures of underlying assets, liabilities and other obligations. Gains and losses on these instruments are generally offset by those on the underlying hedged transactions; as a result, there was no material net impact on the Company's financial results during the 1994 to 1996 period.

The Company's effective income tax rate decreased to 35.0% in 1996 compared to 36.8% and 36.5% in 1995 and 1994, respectively.

Financial condition

The Company's financial condition remains very strong. As of December 28, 1996, total cash and short- and long-term investments totaled \$9.3 billion, up from \$4.1 billion at December 30, 1995. Cash generated from operating activities rose to \$8.7 billion in 1996, compared to \$4.0 billion and \$2.9 billion in 1995 and 1994, respectively.

Investing activities consumed \$5.3 billion in cash during 1996, compared to \$2.7 billion during 1995 and \$2.9 billion during 1994, as operating activities generated significantly more cash during 1996. Capital expenditures totaled \$3.0 billion in 1996, as the Company continued to invest in property, plant and equipment, primarily for microprocessor manufacturing capacity. The Company had committed approximately \$1.6 billion for the construction or purchase of property, plant and equipment as of December 28, 1996. See "Outlook" for a discussion of capital expenditure expectations in 1997.

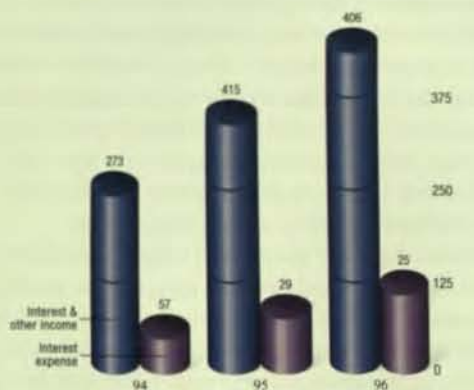
Inventory levels, particularly raw materials and finished goods, decreased significantly in 1996. This decrease was primarily attributable to the sell-through of purchased parts inventory and lower costs of manufacturing. The increase in accounts receivable

in 1996 was mainly due to revenue growth, offset somewhat by improved receivable collections. During 1995, the Company experienced an increase in its concentration of credit risk due to increasing trade receivables from sales to manufacturers of microcomputer systems. Although the financial exposure to individual customers has increased with the growth in revenues, the concentration of credit among the largest customers has decreased slightly in 1996. The Company's five largest customers accounted for approximately 30% of net revenues for 1996. At December 28, 1996, these customers accounted for approximately 25% of net accounts receivable.

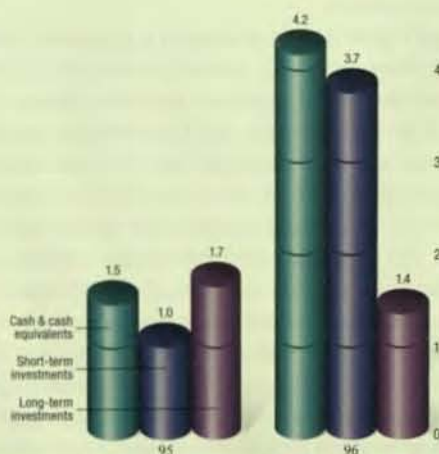
The Company used \$773 million for financing activities in 1996, compared to \$1.1 billion and \$557 million in 1995 and 1994, respectively. The major financing applications of cash in 1996 and 1995 were for stock repurchases totaling \$1.3 billion for 16.8 million shares (including \$108 million for exercised put warrants) and \$1.0 billion for 18.9 million shares, respectively. Financing applications of cash in 1994 included stock repurchases of \$658 million and the early retirement of the Company's 8 $\frac{1}{8}$ % debt. Financing sources of cash during 1996 included \$300 million under a private reverse repurchase arrangement and \$261 million in proceeds from the sale of shares primarily pursuant to employee stock plans (\$192 million in 1995 and \$150 million in 1994).

As part of its authorized stock repurchase program, the Company had outstanding put warrants at the end of 1996, with the potential obligation to buy back 4.5 million shares of its Common Stock at an aggregate price of \$275 million. The exercise price of these warrants ranged from \$56 to \$69 per share, with an average exercise price of \$61 per share as of December 28, 1996.

Other sources of liquidity include combined credit lines and authorized commercial paper borrowings of \$1.8 billion, \$30 million of which was outstanding at December 28, 1996. The Company also maintains the ability to issue an aggregate of approximately \$1.4 billion in debt, equity and other securities under Securities and Exchange Commission (SEC) shelf



Other income and expense
(Dollars in millions)



Cash and investments
(Dollars in billions)

registration statements. The Company believes that it has the financial resources needed to meet business requirements in the foreseeable future, including capital expenditures for the expansion of worldwide manufacturing capacity, working capital requirements, the potential put warrant obligation and the dividend program.

Outlook

The outlook section contains a number of forward-looking statements, all of which are based on current expectations. Actual results may differ materially.

Intel expects that the total number of personal computers using Intel's Pentium and Pentium Pro microprocessors and other semiconductor components sold worldwide will continue to grow in 1997. Intel has expanded manufacturing capacity over the last few years and continues to expand capacity. Intel's financial results are substantially dependent on this market segment. Revenue is also a function of the mix of microprocessors and related motherboards and the mix of microprocessor types and speed, all of which are difficult to forecast. Because of the large price difference between types of microprocessors, this mix affects the average price Intel will realize and has a large impact on Intel's revenues.

Intel's strategy has been, and continues to be, to introduce ever higher performance microprocessors. To implement this strategy, the Company plans to cultivate new businesses and continue to work with the software industry to develop compelling applications that can take advantage of this higher performance, thus driving demand toward the newer products. In line with this strategy, the Company has recently announced higher performance members of the Pentium microprocessor family, including the Pentium processor with MMX™ technology. Capacity has been planned based on the assumed continued success of the Company's strategy. If the market demand does not continue to grow and move rapidly toward higher performance products, revenues and gross margin may be impacted, the manufacturing capacity installed might be under-utilized and capital spending may be slowed. The Company may continue to reduce microprocessor prices aggressively and systematically to bring its technology to market.

The Company's gross margin percentage is a sensitive function of the product mixes sold in any period. Because the percentage of motherboards that Intel's customers purchase changes with the maturity of the product cycle, and motherboards generally have lower gross margin percentages than microprocessors, Intel's gross margin percentage varies depending on the mix of microprocessors and related motherboards within a product family and the mix of types of microprocessors. Various other factors, including unit volumes and costs, and yield issues associated with production at factories, processor speed mix and mix of shipments of other semiconductors, will also continue to affect the amount of cost of sales and the variability of gross margin percentages in future quarters. The Company's goal continues to be to grow gross margin dollars. Intel's current gross

margin expectation for 1997 is 60% plus or minus a few points. However, the Company believes that over the long-term the gross margin percentage will be 50% plus or minus a few points, as the Company introduces higher performance products and costs continue to increase. In addition, from time to time the Company may forecast a range of gross margin percentages for the coming quarter. Actual results may differ from these estimates.

To implement its strategy, Intel continues to build capacity to produce high-performance microprocessors and other products. The Company expects that capital spending will increase to approximately \$4.5 billion in 1997 to support significant expansion of worldwide manufacturing capacity. This spending plan is dependent upon changes in manufacturing efficiencies, delivery times of various machines and construction schedules for new facilities. Depreciation for 1997 is expected to be approximately \$2.5 billion, an increase of approximately \$600 million from 1996. Most of this increased depreciation would be included in cost of sales and research and development spending.

The industry in which Intel operates is characterized by very short product life cycles. Intel considers it imperative to maintain a strong research and development program to continue to succeed. The Company will also continue spending to promote its products and to increase the value of its product brands. Based on current forecasts, spending for marketing and general and administrative expenses is expected to increase in 1997.

The Company currently expects its tax rate to increase to 35.5% for 1997. This estimate is based on current tax law and current estimate of earnings, and is subject to change.

The Company's future results of operations and the other forward-looking statements contained in this outlook, in particular the statements regarding growth in the personal computer industry, gross margin, capital spending, depreciation, research and development, and marketing and general and administrative expenses, involve a number of risks and uncertainties. In addition to the factors discussed above, among the other factors that could cause actual results to differ materially are the following: business conditions and growth in the computing industry and in the general economy; changes in customer order patterns, including timing of delivery and changes in seasonal fluctuations in PC buying patterns; competitive factors, such as rival chip architectures, competing software-compatible microprocessors, acceptance of new products and price pressures; risk of inventory obsolescence due to shifts in market demand; variations in inventory valuation; timing of software industry product introductions; continued success in technological advances and their implementation, including the manufacturing ramp; shortage of manufacturing capacity; risks associated with foreign operations; changes in product mixes; and litigation involving intellectual property and consumer issues.

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

Financial information by quarter (unaudited)

Intel Corporation 1996

(In millions—except per share data)

1996 for quarter ended

	December 28	September 28	June 29	March 30
Net revenues	\$ 6,440	\$ 5,142	\$ 4,621	\$ 4,644
Cost of sales	\$ 2,392	\$ 2,201	\$ 2,150	\$ 2,421
Net income	\$ 1,910	\$ 1,312	\$ 1,041	\$ 894
Earnings per share	\$ 2.13	\$ 1.48	\$ 1.17	\$ 1.02
Dividends per share ^(A) Declared	\$.05	\$.05	\$.05	\$.04
Paid	\$.05	\$.05	\$.04	\$.04
Market price range Common Stock ^(B) High	\$137.50	\$ 97.38	\$ 76.88	\$ 61.00
Low	\$ 95.44	\$ 69.00	\$ 56.88	\$ 50.00
Market price range Step-Up Warrants ^(B) High	\$ 98.38	\$ 58.88	\$ 39.31	\$ 28.50
Low	\$ 56.75	\$ 31.75	\$ 24.00	\$ 21.63

(In millions—except per share data)

1995 for quarter ended

	December 30	September 30	July 1	April 1
Net revenues	\$ 4,580	\$ 4,171	\$ 3,894	\$ 3,557
Cost of sales	\$ 2,389	\$ 2,008	\$ 1,805	\$ 1,609
Net income	\$ 867	\$ 931	\$ 879	\$ 889
Earnings per share	\$.98	\$ 1.05	\$.99	\$ 1.02
Dividends per share ^(A) Declared	\$.04	\$.04	\$.04	\$.03
Paid	\$.04	\$.04	\$.03	\$.03
Market price range Common Stock ^(B) High	\$ 72.88	\$ 76.44	\$ 65.63	\$ 44.25
Low	\$ 56.75	\$ 58.63	\$ 42.75	\$ 31.81
Market price range Step-Up Warrants ^(B) High	\$ 39.00	\$ 43.63	\$ 31.88	\$ 11.91
Low	\$ 26.75	\$ 30.44	\$ 11.31	\$ 6.97

^(A) Intel plans to continue its dividend program. However, dividends are dependent on future earnings, capital requirements and financial condition.

^(B) Intel's Common Stock (symbol INTC) and 1998 Step-Up Warrants (symbol INTCW) trade on The Nasdaq Stock Market* and are quoted in the Wall Street Journal and other newspapers. Intel's Common Stock also trades on the Zurich, Basel and Geneva, Switzerland exchanges. At December 28, 1996, there were approximately 105,000 registered holders of Common Stock. All stock and warrant prices are closing prices per The Nasdaq Stock Market.

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Intel on Nasdaq

Intel's Common Stock and 1998 Step-Up Warrants trade on The Nasdaq Stock Market* under the symbols INTC and INTCW, respectively.

Intel on the Internet

Intel's home page on the World Wide Web contains background on the Company and its products, financial information, job listings and our animated online annual report, as well as other useful information. Specific information of interest to investors can be found at www.intc.com.

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