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

FORM 10-K
(Mark One)
[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the fiscal year ended December 28, 1996, OR

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 (No Fee Required) For the transition period from______to ______

Commission File Number 0-6217

INTEL CORPORATION
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware | 94-1672743 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

2200 Mission College Boulevard, Santa Clara, California, 95052-8119
(Address of principal executive offices, Zip Code)

Registrant's telephone number, including area code (408) 765-8080

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

| Title of each class | Name of each exchange on which registered |
|---|---|
| NONE | |

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

Common Stock, $.001 par value
1998 Step-Up Warrants to Purchase Common Stock

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES_X_NO___

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

Aggregate market value of voting stock held
by non-affiliates of the registrant as of February 28, 1997

$108.5 billion

817.5 million shares of Common Stock outstanding as of February 28, 1997

DOCUMENTS INCORPORATED BY REFERENCE

(1) Portions of Annual Report to Stockholders for fiscal year ended December 28, 1996 - Part II and Part IV.
(2) Portions of the Registrant's Proxy Statement related to the 1997 Annual Meeting of Stockholders, to be filed subsequent to the date hereof - Part III.

# PART I

## ITEM 1. BUSINESS

### Industry

Intel Corporation and its subsidiaries (collectively called "Intel," the "Company" or the "Registrant") operates predominantly in one industry segment. The Company designs, develops, manufactures and markets microcomputer components and related products at various levels of integration. Intel's principal components consist of silicon-based semiconductors etched with complex patterns of transistors. Each one of these integrated circuits can perform the functions of thousands--some even millions--of individual transistors, diodes, capacitors and resistors.

Products

The Company's major products include microprocessors and related board-level products, chipsets, embedded processors and microcontrollers, flash memory products, network and communications products and conferencing products.

Microprocessors and Related Board-Level Products.
- - ---------------------------------------------------
A microprocessor is the central processing unit of a computer system. It processes system data and controls other devices in the system, acting as the brains of a computer. Intel's flagship microprocessors include the Pentium Pro and the Pentium microprocessor families.

Intel-designed board-level products are used as basic building blocks for consumer, technical and commercial computing applications. Many original equipment manufacturers (OEMs) use Intel's board-level products to build their own computers products. OEM customers buy at this level of integration to accelerate their time-to-market and to direct their investments to other areas of their product lines. The Company provides board-level products to give OEM customers flexibility by enabling them to choose whether to buy at the component or board level.

Intel's developments in the area of semiconductor design and manufacturing have made it possible to decrease the feature size of circuits etched into silicon. This permits a greater number of transistors to be used on each microprocessor, and a greater number of microprocessors to be placed on each silicon wafer. The resulting trend is toward microprocessors that are smaller, faster, consume less power and cost less to manufacture. In 1996, the Company expanded manufacturing capacity on its 0.35 micron process technology, enabling very high-volume production of its newest, fastest Pentium Pro and Pentium microprocessors.

During 1996, the rapid transition of the personal computer (PC) market segment to the Pentium microprocessor continued. Pentium microprocessors now power entry-level to high-end computer systems. Intel significantly expanded the Pentium microprocessor family in 1996, introducing new versions operating at 150, 166 and 200 MHz. The 120- and 133-MHz versions of the Pentium processor are now used in entry-level PCs. In January 1997, the Company introduced versions of the Pentium microprocessor with MMX media enhancement technology, with improvements that significantly enhance media-rich and communications applications.

In 1996, Intel also introduced 133- and 150-MHz versions of the Pentium microprocessor for mobile computers. The 120-MHz mobile Pentium processor, introduced in 1995, is now aimed at entry-level notebook systems. These processors, optimized for notebook and mobile applications, consume less power and come in a smaller package than the desktop or server versions.

In February 1997, the Company introduced the Intel Mobile Module, an integrated module that plugs into a mobile system's motherboard. This module is designed to help equipment manufacturers bring new notebooks to market and to improve notebook performance.

Intel's sixth-generation processor, the Pentium Pro microprocessor, made significant advances in the server and workstation market segments in 1996. The Pentium Pro microprocessor is fully compatible with prior generations and delivers performance comparable to that of traditional mid-range workstations at about one-third of the system cost of such workstations. In 1996, the Pentium Pro microprocessor multiprocessing and manageability features made it a popular choice for enterprise server applications, as well as business desktops utilizing full 32-bit software environments such as Windows NT*. In early 1997, Intel named its new Pentium Pro processor with MMX media enhancement technology the Pentium II processor. This processor initially will be targeted at the business market segment and is expected to be available in computer systems in the first half of 1997.

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 revenue 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 margins, while it comprised a majority of the Company's revenues and a substantial majority of its gross margin during 1994.

During 1996, Intel's OverDrive processors, a family of upgrade microprocessors, expanded to include products based on certain of the newer Pentium microprocessors, allowing users to upgrade their older Pentium processor-based systems. Intel announced OverDrive processors that upgrade systems to the approximate level of 120-, 125-, 133-, 150- and 166-MHz versions of the Pentium microprocessor. Users may still upgrade Intel486 microprocessor systems with the Pentium OverDrive processor as well. In 1997, Intel expects to introduce Pentium OverDrive processors with MMX technology, bringing richer multimedia performance to Pentium processor-based PCs in a single upgrade chip.

Chipsets.
- - --------- The Company's core-logic chipsets support incremental performance, ease-of-use and new capabilities for systems based on Intel's Pentium and Pentium Pro microprocessors. Based on the Peripheral Components Interconnect (PCI) bus, the Intel 430 PCIset family for desktop and mobile Pentium microprocessors and the Intel 440 and 450 PCIset families for the Pentium Pro microprocessors perform essential logic functions surrounding the CPU in computers based on Intel architecture processors. Due to the growth of Pentium microprocessor-based systems, Intel has become a major supplier of core-logic chipsets.

In 1996, Intel introduced a new, fourth-generation PCI chipset family for Pentium processors: the 430HX for Pentium processor-based business PCs and the 430VX for Pentium processor-based home and small business PCs. These products signify an important evolution in chipsets: by optimizing two separate chipsets for different market segments, Intel helps OEMs and motherboard manufacturers fine-tune the price-performance of their systems and boards and make specific product designs for their targeted audiences. The Intel430 PCIsets were the first chipset products to support the Universal Serial Bus (USB), a new industry initiative to improve PC performance.

In 1996, Intel also introduced the 440FX PCIset, a highly integrated chip set solution for delivering Pentium Pro processor performance to mainstream business systems. This second-generation PCIset for Pentium Pro processors optimizes system performance for 32-bit application software in 32-bit operating system environments, and supports USB capabilities.

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* Other brands and names are the property of their respective owners.

Embedded Processors and Microcontrollers.
- - ----------------------------------------- Intel provides embedded products such as microprocessors, microcontrollers and memory components to a wide range of manufacturers. Embedded products are used in products such as automobile engine and braking systems, hard disk drives, laser printers, input/output control modules, cellular phones, home appliances, factory automation control products, commercial and military avionics, and medical instrumentation.

Intel's embedded products line consists of 32-bit processors,including the i960 processor family and the embedded Intel386 and Intel486 processor families; the 16-bit 80C186 processor family; 16-bit MCS 96 microcontrollers; and 8-bit microcontrollers, such as the MCS 51 and MCS 251 microcontroller families.

The Company introduced several embedded control products in 1996, including the MCS 96 architecture-based 87C196LB and 83C196LC/LD 16-bit microcontrollers for automotive applications, such as anti-lock braking, traction control and multi-airbag systems; and the new MCS 151 microcontroller, the 8xC151, offering an intermediate performance and price level between the original 80C51 device and the more recent 8xC251 series of microcontrollers. In early 1997, the Company introduced the i960 RD I/O processor which is dedicated to high-performance input/output subsystems for network servers.

Flash Memory Products.
- - ---------------------- Memory components are used to store user data and computer program code. Flash memory retains information when the power is off. Intel was a key player in defining and promoting the Miniature Card specification for low-cost, very small form-factor flash cards to be used in a variety of consumer electronics applications. In 1996, Intel introduced a new family of Smart Voltage flash memory products made on the Company's 0.4 micron process. Available in 4-, 8- and 16-Mbit levels, the new products are used in network servers and digital audio and digital photography systems.

Network and Communications Products.
- - ----------------------------------- These hardware and software products are sold to corporate network administrators and PC users through reseller, retail and original equipment manufacturer channels. The product line enhances the capabilities of PC systems and networks and makes them easier to use and manage. Intel's networking products are designed to help reduce the total cost of networked business computing by providing high-bandwidth communications to PC desktop and server systems, and making it easier for local area network (LAN) administrators to install and manage their systems.

Intel's networking products consist of network management products, including the LANDesk Management Group of products, and LAN hardware products, such as the EtherExpress family of adapters and Express Switching Hubs and Stackable

Hubs.

New LANDesk Management Group products in 1996 included: LANDesk Virus Protect for Windows NT and NetWare* servers as well as client and stand-alone PCs; LANDesk Network Manager software for easier, cost-effective management of Intel's workgroup hubs and switches; and the latest LANDesk Management Technology, enabling administrators to configure new PCs without having to install software manually at each user workstation.

Also in 1996, Intel introduced several new or upgraded LAN products: 100BASE-T4 models of the EtherExpress PRO/100 adapter and Express Stackable Hubs; the NetportExpress PRO/100 print server, allowing workgroups to connect and manage printers at 10Mbps or 100Mbps; and the Intel Express 100BASE-TX Switching Hub, providing 100Mbps networking performance with workgroups of up to hundreds of client PCs. In 1996, the EtherExpress PRO/100 was found by LANQuest Labs to outperform other Fast Ethernet LAN adapters in both Windows NT and Novell NetWare environments.

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From time to time, Intel invests in various companies. In February 1997, Intel announced it had acquired Case Technology, based in Copenhagen, Denmark. Case Technology is an innovator in Fast Ethernet networking technology and its products are expected to become elements of Intel's strategy for providing customers with a cost-effective range of networking solutions. Case Technology has expertise and products in the 10 and 100Mbps Ethernet switching and small business and branch office routing areas.

Conferencing Products.
- - ---------------------- The Intel ProShare conferencing technology is used in a PC-based video-conferencing system that offers full application and document sharing and is certified for use in over 25 countries. It gives users powerful, real-time information-sharing capabilities and an innovative way to convey ideas. The technology supports video and data conferences over ISDN or corporate LAN networks. It also supports industry standards, such as the H.320 international telecommunications standard, to conduct video conferences with other H.320-compliant products, including room conferencing systems.

The product line includes the ProShare Conferencing Video System 200, one of the industry's leading desktop conferencing solutions, allowing up to 24 people to simultaneously see each other, convey ideas and edit data from their own PCs, and the ProShare TeamStation, a group video conferencing system for meeting rooms, with all the features of the ProShare Conferencing Video System 200.

In 1996, Intel expanded the ProShare technology family to reach home PC users for the first time with the introduction of the Intel Video Phone with ProShare technology. This consumer video conferencing product allows people to see and hear each other on home PCs using ordinary phone lines. The technology is available in PCs from various companies. The Intel Video Phone runs best on systems with an Intel Pentium processor with MMX technology, for smoothest display of compressed video signals.

Manufacturing

A substantial majority of the Company's wafer production, including microprocessor fabrication, and a significant portion of the assembly and final testing of the resulting components is conducted at domestic Intel facilities in Chandler, Arizona; Aloha, Oregon; Santa Clara, California; and Rio Rancho, New Mexico. A significant portion of Intel's production of microprocessor board-level products and systems takes place at facilities in Hillsboro, Oregon; DuPont, Washington; and Las Piedras, Puerto Rico.

Outside the United States, a significant portion of Intel's wafer production is conducted at plants in Jerusalem, Israel and Leixlip, Ireland. A significant portion of Pentium processor production is conducted at the Ireland site. A majority of the Company's component assembly and testing (including Pentium processor assembly and testing) is performed at facilities in Penang, Malaysia and Manila, Philippines. A significant portion of Intel's production of microprocessor board-level products and systems is conducted at its facility in Leixlip, Ireland.

In general, if Intel were unable to fabricate wafers or assemble or test its products abroad, or if air transportation between its foreign facilities and the United States were disrupted, there could be a materially adverse effect upon the Company's operations. In addition to normal manufacturing risks, foreign operations are subject to certain additional exposures, including political instability, currency controls and fluctuations, and tariff and import restrictions. To date, Intel has not experienced significant difficulties related to these foreign business risks.

To augment capacity, Intel uses subcontractors to perform assembly of certain products and wafer fabrication for certain components, primarily flash memory and chipsets, and for production capacity of board-level products. A significant portion of Intel's production of board-level products is conducted through the use of subcontractors in Penang, Malaysia.

The manufacture of integrated circuits is a complex process. Normal manufacturing risks include errors and interruptions in the fabrication process and defects in raw materials, as well as other risks, all of which can affect yields.

## Employees

At December 28, 1996, the Company employed approximately 48,500 people worldwide.

## Sales

Most of Intel's products are sold or licensed through sales offices located near major concentrations of users throughout the United States, Europe, Japan, Asia-Pacific and other parts of the world.

The Company also uses distributors (industrial and retail) and representatives to distribute its products both in the United States and overseas. Typically, distributors handle a wide variety of products, including those competitive with Intel products, and fill orders for many customers. Most of Intel's sales to distributors are made under agreements allowing for price protection and/or the right of return on unsold merchandise. Sales representatives generally do not offer directly competitive products, but may carry complementary items manufactured by others. Representatives do not maintain a product inventory; instead, their customers place large-quantity orders directly with Intel and are referred to distributors for smaller orders. Intel sold products to over one thousand customers worldwide in 1996, none of which represented more than 10% of total revenues.

## Backlog

Intel's sales are made primarily pursuant to standard purchase orders for delivery of standard products. Intel has some agreements that give a customer the right to purchase a specific number of products during a time period. Although not generally obligating the customer to purchase any particular number of such products, some of these agreements do contain billback clauses.

As a matter of industry practice, billback clauses are difficult to enforce. The quantity actually purchased by the customer, as well as the shipment schedules, are frequently revised during the agreement term to reflect changes in the customer's needs. In light of industry practice and experience, Intel does not believe that such agreements are meaningful for determining backlog figures. Intel believes that only a small proportion of its order backlog is noncancellable and that the dollar amount associated with the noncancellable portion is immaterial. Therefore, Intel does not believe that backlog as of any particular date is necessarily indicative of future results.

## Competition

The Company competes in different product lines to various degrees on the basis of price, performance, availability and quality. Intel is engaged in a rapidly advancing field of technology in which its ability to compete depends upon the continuing improvement of its products and processes, continuing cost reductions and the development of new products to meet changing customer requirements. Prices decline rapidly in the semiconductor industry as unit volume grows, as competition develops, and as production experience is accumulated. Many companies compete with Intel and are engaged in the same basic fields of activity, including research and development. Both foreign and domestic, these competitors range in size from large multinationals to smaller companies competing in specialized market segments. In microprocessor board-level and system products, Intel competes with board manufacturers and microprocessor-based computer manufacturers. Some competitors are also Intel customers.

A number of competitors have developed and begun marketing products that are software compatible with some of the Company's key products. In particular, companies have announced plans to ship products in 1997 intended to compete with the Pentium and Pentium Pro microprocessor families. Many of Intel's competitors are licensed to use Intel patents. Furthermore, based on the current case law, Intel's competitors can design microprocessors that are compatible with Intel microprocessors and avoid Intel patent rights through the use of foundry services that have licenses with Intel. Competitors' products may add features, increase performance or sell at lower prices. The

Company also faces significant competition from companies that offer rival microprocessor architectures. The Company cannot predict whether such rival architectures will establish or increase market acceptance or provide increased competition to the Company's products. Future distortion of price maturity curves could occur as software compatible products enter the market in significant volume or alternative architectures gain market acceptance.

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. Intel also is committed to the protection of its intellectual property rights against illegal use. There can be no assurance, however, that competitors will not introduce new products (either software compatible or of rival architectural designs) or reduce prices on existing products. Such developments could have an adverse effect on Intel's revenues and margins.

## Research and Development

The Company's competitive position has developed to a large extent because of its emphasis on research and development. This emphasis has enabled Intel to deliver many products before they have become available from competitors, and thus has permitted Intel's customers to commit to the use of these new products in the development of their own products. Intel's research and development activities are directed toward developing new products, hardware technologies and processes, and improving existing products and lowering their cost. Intel is jointly developing a new 64-bit microprocessor architecture and software optimizations with a third party. New 64-bit processors based on this architecture are expected to be initially targeted at server, workstation and enterprise computing products, probably in the late 1990s. The Company also develops "enabling" software technologies, such as open software specifications and software tools, to enhance the functionality and acceptance of the personal computer platform. Intel's expenditures for research and development were $1,808 million, $1,296 million and $1,111 million in fiscal years 1996, 1995 and 1994, respectively. As of December 28, 1996, Intel had approximately 9,100 employees engaged in research and development. The results of Intel's research and development activities depend upon competitive circumstances and Intel's ability to transfer new products to production in a timely and cost-effective manner.

Most design and development of components and other products is performed at Intel's facilities in Santa Clara and Folsom, California; Aloha and Hillsboro, Oregon; Chandler, Arizona; and Haifa, Israel.

## Intellectual Property and Licensing

Intellectual property rights that apply to various Intel products include patents, copyrights, trade secrets, trademarks and maskwork rights. Because of the rapidly changing technology and a broad distribution of patents in the semiconductor industry, Intel's present intention is not to rely primarily on intellectual property rights to protect or establish its market position. However, Intel has established an active program to protect its investment in technology by enforcing its intellectual property rights. Intel does not intend to broadly license its intellectual property rights unless it can obtain adequate consideration. Reference is also made to the heading "Competition."

Intel has filed and obtained a number of patents in the United States and abroad. Intel has entered into patent cross-license agreements with many of its major competitors and other parties.

Intel protects many of its computer programs by copyrighting them. Intel has registered numerous copyrights with the United States Copyright Office. The ability to protect or to copyright software in some foreign jurisdictions is not clear. However, Intel has a policy of requiring customers to obtain a software license contract before providing a customer with certain computer programs. Certain components have computer programs embedded in them, and Intel has obtained copyright protection for some of these programs as well. Intel has obtained protection for the maskworks for a number of its components under the Chip Protection Act of 1984.

Intel has obtained certain trademarks and trade names for its products to distinguish genuine Intel products from those of its competitors and is currently engaged in a cooperative program with OEMs to identify personal computers that incorporate genuine Intel microprocessors with the Intel Inside logo. Intel maintains certain details about its processes, products and strategies as trade secrets.

As is the case with many companies in the semiconductor industry, Intel has, from time to time, been notified of claims that it may be infringing certain intellectual property rights of others. These claims have been referred to counsel, and they are in various stages of evaluation and negotiation. If it appears necessary or desirable, Intel may seek licenses for these intellectual property rights. Intel can give no assurance that licenses will be offered by all claimants, that the terms of any offered licenses will be acceptable to Intel or that in all cases the dispute will be resolved without litigation.

Compliance with Environmental Regulations

To Intel's present knowledge, compliance with federal, state and local provisions enacted or adopted for protection of the environment has had no material effect upon its operations. However, reference is made to Item 3. Legal Proceedings, of this Form 10-K.

Executive Officers

The following sets forth certain information with regard to executive officers of Intel (ages are as of December 28, 1996):

Craig R. Barrett (age 57) has been Chief Operating Officer since 1993; a director of Intel since 1992; and Executive Vice President since 1990.

Andrew S. Grove (age 60) has been a director of Intel since 1974; President since 1979; and Chief Executive Officer since 1987.

Gordon E. Moore (age 67) has been a director of Intel since 1968 and Chairman of the Board since 1979.

Leslie L. Vadasz (age 60) has been a director of Intel since 1988; and Senior Vice President, Director of Corporate Business Development since 1991.

Frank C. Gill (age 53) has been Executive Vice President and General Manager, Internet and Communications Group since 1996. Prior to that, Mr. Gill was Senior Vice President and General Manager, Intel Products Group from 1991 to 1996.

Paul S. Otellini (age 46) has been Executive Vice President, Director, Sales and Marketing Group since 1996. Prior to that, Mr. Otellini was Senior Vice President, Director, Sales and Marketing Group from 1994 to 1996; Senior Vice President and General Manager, Microprocessor Products Group from 1992 to 1994 and Vice President and General Manager, Microprocessor Products Group from 1991 to 1992.

Gerhard H. Parker (age 53) has been Executive Vice President and General Manager, Technology and Manufacturing Group since 1996. Prior to that, Dr. Parker was Senior Vice President and General Manager, Technology and Manufacturing Group from 1992 to 1996; Vice President and General Manager, Technology and Manufacturing Group from 1990 to 1992.

Ronald J. Whittier (age 60) has been Senior Vice President and General Manager, Content Group since 1995. Prior to that, Mr. Whittier was Senior Vice President and General Manager, Intel Architecture Laboratories from 1993 to 1995 and Vice President and General Manager, Software Technology Group from 1991 to 1992.

Albert Y. C. Yu (age 55) has been Senior Vice President and General Manager, Microprocessor Products Group since 1993. Prior to that, Dr. Yu was Vice President and General Manager, Microprocessor Products Group from 1991 to 1993.

Michael A. Aymar (age 49) has been Vice President and General Manager, Desktop Products Group since 1995. Prior to that, Mr. Aymar was Vice President and General Manager, Intel486 Microprocessor Division from 1994 to 1995 and Vice President and General Manager, Mobile Computing Group from 1991 to 1994.

Andy D. Bryant (age 46) has been Vice President and Chief Financial Officer since 1994. Prior to that, Mr. Bryant was Vice President, Intel Products Group from 1990 to 1994.

F. Thomas Dunlap, Jr. (age 45) has been Vice President, General Counsel and Secretary since 1987.

Executive Officers, continued

Patrick P. Gelsinger (age 35) has been Vice President and General Manager, Desktop Products Group since 1996. Prior to that, Mr. Gelsinger was Vice President, Internet and Communications Group and General Manager ICG Product Development from 1995 to 1996; Vice President, Intel Products Group and General Manager, Personal Conferencing Division from 1993 to 1995; Vice President, Intel Products Group and General Manager, PC Enhancement Division-Business Communications from 1992 to 1993; and General Manager, MD 6, Microprocessor Development from 1991 to 1992.

John H. F. Miner (age 41) has been Vice President and General Manager, Enterprise Server Group since 1996. Prior to that, Mr. Miner was Vice President, Desktop Products Group and General Manager, OEM Products and Services Division from 1995 to 1996; General Manager, OEM Products and Services Division from 1993 to 1995 and General Manager, OEM Modules Operation from 1992 to 1993.

Stephen P. Nachtsheim (age 51) has been Vice President and General Manager, Mobile/Handheld Products Group since 1995. Prior to that, Mr. Nachtsheim was Vice President and General Manager, Mobile and Home Products Group from 1994 to 1995; and General Manager of European Intel Products Group from 1990 to 1994.

Ronald J. Smith (age 46) has been Vice President and General Manager, Computing Enhancement Group since 1996. Prior to that, Mr. Smith was Vice President, Desktop Products Group and General Manager, PCI Components Division from 1995 to 1996; and he served in the positions of General Manager, Programmable Logic Device Operation and before that, General Manager , Gate Array Operation for the period covering 1992 to 1995.

ITEM 2. PROPERTIES

At December 28, 1996, Intel owned the major facilities described below:

<TABLE>

| No. of Bldgs. | Location | Total Sq. Ft. | Use |
|---|---|---|---|
| 61 | United States | 12,385,000 | Executive and administrative offices, wafer fabrication, components assembly and testing, research and development, computer and service functions, board and system assembly, and warehousing. |
| 6 | Ireland | 959,000 | Wafer fabrication, board and system assembly, warehousing and administrative offices. |
| 6 | Malaysia (A) | 531,000 | Components assembly and testing, warehousing and administrative offices. |
| 4 | Israel | 380,000 | Wafer fabrication, design center and administrative offices. |
| 5 | Puerto Rico | 426,000 | Board and system assembly, warehousing and administrative offices. |
| 3 | England | 184,000 | Sales and marketing, warehousing and administrative offices. |
| 3 | Japan | 167,000 | Sales and marketing, warehousing and administrative offices. |
| 1 | Philippines | 431,000 | Components assembly and testing, warehousing and administrative offices. |
| 1 | Germany | 86,000 | Sales and marketing and administrative offices. |

</TABLE>

At December 28, 1996, Intel also leased 22 major facilities in the U.S. totaling approximately 722,000 square feet and 12 facilities in other countries totaling approximately 275,000 square feet. These leases expire at varying dates through 2005 and include renewals at the option of Intel.

Intel believes that its existing facilities are suitable and adequate for its present purposes, and the productive capacity in such facilities is in general being utilized. Intel also has 3.5 million square feet of building space under various stages of construction in the United States and abroad for manufacturing and administrative purposes.

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(A) The lease on a portion of the land used for these facilities expires in

2032.

ITEM 3. LEGAL PROCEEDINGS

A. Litigation

EMI Group, NA vs. Intel, DEL (C95-199)

On March 29, 1995, the plaintiff brought suit in Federal Court in Delaware alleging infringement of a U.S. patent relating to processes for manufacturing semiconductors. The plaintiff sought injunctive relief and damages of one and one-quarter percent (1 1/4%) royalties from the sale of microprocessors manufactured using the allegedly infringing processes. 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 the plaintiff on the claims in the complaint. EMI has appealed this decision. Although the ultimate outcome of this lawsuit cannot be determined at this time, management, including internal counsel, does not believe that the ultimate outcome will have a material adverse effect on Intel's financial position or overall trends in results of operations.

B. Environmental Proceedings

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.

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

None.

PART II **

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

(a) Reference is made to the information regarding market, market price range and dividend information appearing under "Financial Information by Quarter (Unaudited)" on page 37 of the Registrant's 1996 Annual Report to Stockholders which information is hereby incorporated by reference.

(b) As of February 28, 1997, there were approximately 124,000 registered folders of record of the Registrant's Common Stock.

ITEM 6. SELECTED FINANCIAL DATA

Reference is made to the information regarding selected financial data for the fiscal years 1992 through 1996, under the heading "Financial Summary" on page 33 of the Registrant's 1996 Annual Report to Stockholders, which information is hereby incorporated by reference.

In addition, the ratios of earnings to fixed charges for each of the five years in the period ended December 28, 1996 are as follows:

| Fiscal Year | | | | |
|---|---|---|---|---|
| 1992 | 1993 | 1994 | 1995 | 1996 |
| 20.7x | 54.4x | 39.5x | 67.6x | 107.8x |

Fixed charges consist of interest expense and the estimated interest component of rent expense.

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** Page references to the 1996 Annual Report to Stockholders or to the Registrant's Proxy Statement related to the 1997 Annual Meeting of Stockholders under Items 5, 6, 7 and 8 in Part II; 10, 11 and 12 in Part III and 14 in Part IV relate to the bound, printed versions of such Report and Proxy Statement, not to the electronic versions appearing at the Intel Internet site (www.intel.com). However, all data referred to also appears in the electronic versions.

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

Reference is made to the information appearing under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 34 through 36 of the Registrant's 1996 Annual Report to Stockholders, which information is hereby incorporated by reference.

Between December 28, 1996 and March 26, 1997, Intel repurchased 7.7 million shares of Common Stock under the Company's authorized stock repurchase program at a cost of $1.2 billion. The Company also sold 6 million put warrants, receiving proceeds of $88 million, while 3 million previously outstanding put warrants expired unexercised. As of March 26, 1997, the Company had the potential obligation to repurchase 7.5 million shares of Common Stock at an aggregate price of $1.0 billion under outstanding put warrants. The 7.5 million put warrants outstanding at March 26, 1997 expire on various dates between April 1997 and February 1998 and have exercise prices ranging from $66 to $162 per share, with an average exercise price of $136. In March 1997, Intel's Board of Directors approved an increase of up to 30 million shares in the stock repurchase program. With the additional authorization, after reserving shares to cover outstanding put warrants, 39.9 million shares remain available for repurchase under the authorization as of March 26, 1997.

In line with the Company's strategy to introduce ever higher performance microprocessors, Intel plans to introduce the Pentium(R) Pro processor with MMX(TM) media enhancement technology, named the Pentium(R) II, in the first half of 1997.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Consolidated financial statements of Intel Corporation at December 28, 1996 and December 30, 1995 and for each of the three years in the period ended December 28, 1996 and the Report of Independent Auditors thereon and Intel Corporation's unaudited quarterly financial data for the two-year period ended December 28, 1996 are incorporated by reference from the Registrant's 1996 Annual Report to Stockholders, on pages 18 through 33 and page 37.

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

Not applicable.

# PART III

## ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Reference is made to the information regarding Directors and Executive Officers appearing under the heading "Election of Directors" on pages 2 through 5 of the Registrant's Proxy Statement related to the 1997 Annual Meeting of Stockholders (the "1997 Proxy Statement") , which information is hereby incorporated by reference, and to the information under the heading "Executive Officers" in Part I hereof.

## ITEM 11. EXECUTIVE COMPENSATION

Reference is made to the information appearing under the headings "Directors' Compensation," "Compensation Committee Interlocks and Insider Participation," and "Executive Compensation," on pages 6 and 7, 11 and 13, respectively, of the 1997 Proxy Statement, which information is hereby incorporated by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Reference is made to information appearing in the 1997 Proxy Statement, under the heading "Security Ownership of Certain Beneficial Owners and Management," on pages 16 and 17, which information is hereby incorporated by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) 1. Financial Statements

The financial statements listed in the accompanying index to financial statements and financial statement schedules are filed or incorporated by reference as part of this annual report.

2. Financial Statement Schedule

The financial statement schedule listed in the accompanying index to financial statements and financial statement schedules is filed as part of this annual report.

3. Exhibits

The exhibits listed in the accompanying index to exhibits are filed or incorporated by reference as part of this annual report.

(b) Reports on Form 8-K

None.

INDEX TO FINANCIAL STATEMENTS
AND FINANCIAL STATEMENT SCHEDULES
(Item 14 (a))

<TABLE>

</TABLE>

Schedules other than the one listed above are omitted for the reason that they are not required or are not applicable, or the required information is shown in the financial statements or notes thereto.

The consolidated financial statements listed in the above index, which are included in the Company's 1996 Annual Report to Stockholders, are hereby incorporated by reference. With the exception of the pages listed in the above index and the portions of such report referred to in Items 5, 6, 7 and 8 of this Form 10-K, the 1996 Annual Report to Stockholders is not to be deemed filed as part of this report.

INTEL CORPORATION

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

December 31, 1994, December 30, 1995 and December 28,1996
(In Millions)

<TABLE>

| | Balance at Beginning of Year | Additions Charged to Costs and Expenses | Deductions(A) | Balance at End of Year |
|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> |
| 1994 | | | | |
| Allowance for Doubtful Receivables | $22 | $10 | $-- | $32 |
| 1995 | | | | |
| Allowance for Doubtful Receivables | $32 | $28 | $ 3 | $57 |
| 1996 | | | | |
| Allowance for Doubtful Receivables | $57 | $25 | $14 | $68 |

(A) Uncollectible accounts written off, net of recoveries.
</TABLE>

INDEX TO EXHIBITS

(Item 14(a))
Description

3.1 Intel Corporation Certificate of Incorporation (incorporated by reference to Exhibit 3.1 of Registrant's Form 10-Q for the quarter ended June 26, 1993 as filed on August 10, 1993).

3.2 Intel Corporation Bylaws as amended (incorporated by reference to exhibit 4.2 of Registrant's Registration Statement on Form S-8 as filed on February 3, 1997).

4.1 Agreement to Provide Instruments Defining the Rights of Security Holders (incorporated by reference to Exhibit 4.1 of Registrant's Form 10-K as filed on March 28, 1986).

4.2 Warrant Agreement dated as of March 1, 1993, as amended between the Registrant and Harris Trust and Savings Bank (as successor Warrant Agent) related to the issuance of 1998 Step-Up Warrants to purchase Common Stock of Intel Corporation (incorporated by reference to Exhibit 4.6 of Registrant's Form 10-K as filed on March 25, 1993), together with the First Amendment to Warrant Agreement dated as of October 18, 1993 and the Second Amendment to Warrant Agreement dated as of January 17, 1994 (incorporated by reference to Exhibit 4.4 of the Registrant's Form 10-K as filed on March 25, 1994) and the Third Amendment to Warrant Agreement dated as of May 1, 1995 (incorporated by reference to Exhibit 4.2 of the Registrant's Form 10-K as filed on March 29, 1996).

10.1* Intel Corporation 1984 Stock Option Plan as amended and restated, effective March 26, 1997.

10.2* Intel Corporation 1988 Executive Long Term Stock Option Plan as amended and restated, effective March 26, 1997.

10.3* Intel Corporation Executive Officer Bonus Plan as amended and restated effective January 1, 1995 (incorporated by reference to Exhibit 10.7 of Registrant's Form 10-Q for the quarter ended April 5, 1995 as filed on May 15, 1995).

10.4* Intel Corporation Sheltered Employee Retirement Plan Plus, as amended and restated effective July 15, 1996 (incorporated by reference to Exhibit 4.1.1 of Registrant's Registration Statement on Form S-8 as filed on July 17, 1996).

11. Computation of Per Share Earnings.

12. Statement Setting Forth the Computation of Ratios of Earnings to Fixed Charges.

13. Portions of the Annual Report to Stockholders for fiscal year ended December 28, 1996 expressly incorporated by reference herein.

21. Intel Subsidiaries.

23. Consent of Ernst & Young LLP, Independent Auditors.

27. Financial Data Schedule.

- - -------------------------
* Compensation plans or arrangements in which directors and executive officers are eligible to participate.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized.

INTEL CORPORATION
- - -----------------
Registrant

By /s/ F. Thomas Dunlap, Jr.
- - ----------------------------
F. Thomas Dunlap, Jr.
Vice President and Secretary
March 26, 1997

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| | |
|---|---|
| /s/ Craig R. Barrett<br>Craig R. Barrett<br>Director<br>March 26, 1997 | /s/ Gordon E. Moore<br>Gordon E. Moore<br>Chairman of the Board<br>March 26, 1997 |
| John Browne<br>Director<br>March 26, 1997 | /s/ Max Palevsky<br>Max Palevsky<br>Director<br>March 26, 1997 |
| /s/ Andy D. Bryant<br>Andy D. Bryant<br>Vice President,<br>Chief Financial Officer,<br>Principal Accounting<br>and Financial Officer<br>March 26, 1997 | /s/ Arthur Rock<br>Arthur Rock<br>Director<br>March 26, 1997 |
| /s/ Winston H. Chen<br>Winston H. Chen<br>Director | /s/ Jane E. Shaw<br>Jane E. Shaw<br>Director<br>March 26, 1997 |

March 26, 1997

/s/ Andrew S. Grove
- - -------------------
Andrew S. Grove
President and Director,
Principal Executive Officer
March 26, 1997

/s/ D. James Guzy
- - -----------------
D. James Guzy
Director
March 26, 1997

/s/ Leslie L. Vadasz
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Leslie L. Vadasz
Director
March 26, 1997

/s/ David B. Yoffie
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David B. Yoffie
Director
March 26, 1997

----------------
Charles E. Young
Director
March 26, 1997

# INTEL CORPORATION
# 1988 EXECUTIVE LONG TERM
# STOCK OPTION PLAN
(Amended and Restated Effective as of March 26, 1997)

## 1. PURPOSE

The purpose of this amended and restated Intel Corporation 1988 Executive Long Term Stock Option Plan (the "Plan") is to advance the interests of Intel Corporation, a Delaware corporation and its subsidiaries (hereinafter collectively "Intel" or the "Corporation"), by stimulating the efforts of certain key employees employed by Intel and heightening the desire of such key employees to continue in employment with Intel. The stock options granted pursuant to this Plan are non-qualified stock options and shall not be incentive stock options, as defined in Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"). This amended and restated Plan includes the individual grant limitations required by Section 162(m) of the Code for the option income of certain individuals to be tax deductible by the Corporation.

## 2. DEFINITIONS

(a) "Board of Directors" means the Board of Directors of the Corporation.

(b) "Committee" means the Compensation Committee appointed by the Board of Directors in accordance with Section 11.

(c) "Disablement" shall have the meaning specified by the Committee in the terms of an option grant or, in the absence of any such term, shall mean a physical condition arising from an illness or injury which renders an individual incapable of performing work. The determination of the Committee as to an individual's Disablement shall be conclusive on all of the parties.

(d) "Plan" means the Intel Corporation 1988 Executive Long Term Stock Option Plan, as amended and restated herein.

(e) "Retirement" shall have the meaning specified by the Committee in the terms of an option grant or, in the absence of any such term, shall mean retirement from active employment with Intel (i) at or after age 55 and with the approval of the Committee or (ii) at or after age 65. The determination of the Committee as to an individual's Retirement shall be conclusive on all parties.

(f) "Subsidiary" means any corporation in an unbroken chain of corporations beginning with Intel Corporation where each of the corporations in the unbroken chain other than the last corporation owns stock possessing 50 percent or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

## 3. PARTICIPANTS

"Participants" in the Plan shall be those key employees who have been employed by Intel for at least two years and to whom options may be granted from time to time by the Committee.

No option shall be granted to any employee if immediately after the grant of such option such employee would own stock, including stock subject to outstanding options held by him or her, amounting to more than five percent (5%) of the total combined voting power or value of all classes of stock of the Corporation or any Subsidiary. Options may not be granted to non-employee directors or members of the Committee.

## 4. EFFECTIVE DATE AND TERMINATION OF PLAN

This Plan was last approved by the Corporation's stockholders on May 4, 1994. The Plan was amended and restated by the Board of Directors in certain non-material respects on March 26, 1997.

The Plan shall remain available for the grant of options until all shares of stock available for grant under this Plan shall have been acquired through exercise of options or until September 19, 1998 whichever is earlier. The Plan may be terminated at such earlier time as the Board of Directors may determine. Termination of the Plan will not affect the rights and obligations arising under options theretofore granted and then in effect.

5. SHARES SUBJECT TO THE PLAN AND TO OPTIONS

The stock subject to options authorized to be granted under the Plan shall consist of 20,000,000 shares of the Corporation's common stock, par value $.001 ("Common Stock"), or the number and kind of shares of stock or other securities which shall be substituted or adjusted for such shares as provided in Section 8. Such shares may be authorized and unissued shares of the Corporation's Common Stock. All or any shares of stock subject to an option which for any reason terminates unexercised may again be made subject to an option under the Plan.

6. GRANT, TERMS AND CONDITIONS OF OPTIONS

Options may be granted at any time and from time to time prior to the termination of the Plan, to certain key employees of Intel selected by the Committee. However, no Participant shall be granted options in any year, to purchase shares of common stock in excess of one percent (1%) of the number of shares of the Corporation's Common Stock outstanding on January 1, 1994. In addition, no Participant or optionholder shall have any rights as a stockholder with respect to any shares of stock subject to option hereunder until said shares have been issued. Each option may be evidenced by a written stock option agreement and/or such other written arrangements as may be approved from time to time by the Committee. Options granted pursuant to the Plan need not be identical but each option much contain and be subject to the following terms and conditions:

(a) Price: The purchase price under each option shall be established by the Committee. In no event will the option price be less than the fair market value of the stock on the date of grant. The option price must be paid in full at the time of exercise. The price may be paid in cash or, as acceptable to the Committee, by loan (as described in Section 7), by arrangement with a broker where payment of the option price is made pursuant to an irrevocable direction to the broker to deliver all or part of the proceeds from the sale of the option shares to the Corporation, by the surrender of shares of Common Stock of the Corporation owned by the Participant exercising the option and having a fair market value on the date of exercise equal to the option price or in any combination of the foregoing.

(b) Duration and Exercise or Termination of Option: Each option shall be exercisable in such manner and at such times as the Committee shall determine. However, each option granted must expire within a period of not more than ten (10) years from the grant date.

(c) Suspension or Termination of Option: If at any time (including after a notice of exercise has been delivered) the Chief Executive Officer, President, Chief Operating Officer, Vice President for Human Resources, General Counsel or any of their designees (any such person, an "Authorized Officer") reasonably believes that a Participant or optionholder has committed an act of misconduct as described in this Section, the Authorized Officer may suspend the Participant's or optionholder's rights to exercise any option pending a determination of whether an act of misconduct has been committed.

If the Board of Directors or an Authorized Officer determines a Participant or optionholder has committed an act of embezzlement, fraud, dishonesty, nonpayment of any obligation owed to Intel, breach of fiduciary duty or deliberate disregard of Intel rules resulting in loss, damage or injury to Intel, or if a Participant or optionholder makes an unauthorized disclosure of any Intel trade secret or confidential information, engages in any conduct constituting unfair competition, induces any Intel customer to breach a contract with Intel or induces any principal for whom Intel acts as agent to terminate such agency relationship, neither the Participant nor optionholder nor his or her estate shall be entitled to exercise any option whatsoever. In making such determination, the Board of Directors or an Authorized Officer shall act fairly and shall give the Participant an opportunity to appear and present evidence on his or her behalf at a hearing before a committee of the Board of Directors. For any Participant who is an "executive officer" for purposes of Section 16 of the Securities Exchange Act of 1934 (the "Exchange Act"), the determination of the Board of Directors or of the Authorized Officer shall be subject to the approval of the Committee.

(d) Termination of Employment: Subject to Section 6(b), unless the Committee specifies otherwise, upon the termination of the Participant's employment, his or her rights to exercise an option then held shall be only as follows:

(1) Death. Upon the death of a Participant while in employ of Intel, the Participant's rights will be exercisable by his or her estate or beneficiary at any time during the twelve (12) months next succeeding the date of death.

If the Participant's option has been held by the Participant for a minimum of four (4) years at the time of death, then the number of shares exercisable by the estate or beneficiary of the deceased Participant will be the total number of unexercised shares, whether or not exercisable, under such option on the date of the Participant's death. If the Participant's option has been held for a period of less than four (4) years at the time of death, then the number of shares exercisable by the estate or beneficiary of the deceased Participant will be the total number of shares which were exercisable under such option on the date of the Participant's death.

If a Participant should die within thirty (30) days of his or her termination of employment with Intel, an option will be exercisable by his or her estate or beneficiary at any time during the twelve (12) months succeeding the date of termination, but only to the extent of the number of shares as to which such option was exercisable as of the date of such termination. A Participant's estate shall mean his or her legal representative or other person who so acquires the right to exercise the option.

(2) Disablement. Upon the Disablement of any Participant, the Participant's rights to options may be exercised for a period of twelve (12) months after termination. If the Participant's option has been held for a minimum of four (4) years, then the number of shares exercisable by the Participant will be the total number of unexercised shares, whether or not exercisable, under such option on the date of the Participant's termination. If the Participant's option has been held for a period of less than four (4) years, then the number of shares exercisable by the Participant will be the total number of shares which were exercisable under such option on the date of the Participant's termination.

(3) Retirement. Upon Retirement of a Participant, the Participant's rights to options may be exercised for a period of twelve (12) months after Retirement. The number of shares exercisable will be the total number of shares which were exercisable under the Participant's option on the date of his or her Retirement.

(4) Other Reasons. Upon termination of a Participant's employment for any reason other than those stated above, a Participant may, within thirty (30) days following such termination exercise the option to the extent such option was exercisable on the date of termination.

For purposes of this Section 6(d), unless the Committee specifies otherwise, a Participant's employment shall not be deemed terminated (i) if, within sixty (60) days such Participant is rehired by Intel, (ii) if

Participant is transferred from the Corporation to any Subsidiary or from any one Subsidiary to another or from a Subsidiary to the Corporation, or (iii) at the discretion of the Committee, during any period of a Participant's leave of absence, provided that the Committee may delay the Participant's rights to exercise options as a result of such leave of absence. In addition, a Participant's employment with any partnership, joint venture or corporation not meeting the requirements of a Subsidiary in which the Corporation or a Subsidiary is a party and which is designated by the Committee as subject to this provision, shall be considered employment for purposes of this Section 6(d).

(e) Transferability of Option: Unless the Committee specifies otherwise, each option shall be transferable only by will or the laws of descent and distribution and shall only be exercisable by the Participant during his or her lifetime.

(f) Cancellation: The Committee may, at any time prior to exercise and subject to consent of the Participant, cancel any options previously granted and may or may not substitute in their place options at a different price and different type under different terms or in different amounts.

(g) Conditions and Restrictions Upon Securities Subject to Options: Subject to the express provisions of the Plan, the Committee may provide that the shares of Common Stock issued upon exercise of an option shall be subject to such further conditions or agreements as the Committee in its discretion may specify prior to the exercise of such option, including without limitation, conditions on vesting or transferability, forfeiture or repurchase provisions and method of payment for the shares issued upon exercise (including the actual or constructive

surrender of Common Stock already owned by the Participant or optionholder). The Committee may establish rules for the deferred delivery of Common Stock upon exercise of an option with the deferral evidenced by use of "Stock Units" equal in number to the number of shares of Common Stock whose delivery is so deferred. A "Stock Unit" is a bookkeeping entry representing an amount equivalent to the fair market value of one share of Common Stock. Unless the Committee specifies otherwise, Stock Units represent an unfunded and unsecured obligation of the Corporation. Settlement of Stock Units upon expiration of the deferral period shall be made in Common Stock or otherwise as determined by the Committee. The amount of Common Stock, or other settlement medium, to be so distributed may be increased by an interest factor or by dividend equivalents. Until a Stock Unit is so settled, the number of shares of Common Stock represented by a Stock Unit shall be subject to adjustment pursuant to Section 8. Any Stock Units that are settled after the holder's death shall be distributed to the holder's designated beneficiary(ies) or, if none was designated, the holder's estate.

(h) Other Terms and Conditions: Options may also contain such other provisions, which shall not be inconsistent with any of the foregoing terms, as the Committee shall deem appropriate. No option, however, nor anything contained in the Plan shall confer upon any Participant any right to continue in Intel's employ or service nor limit in any way Intel's right to terminate his or her employment at any time.

7. LOANS

The Corporation may make loans, at the request of the Participant and in the sole discretion of the Board or its Committee, for the purpose of enabling the Participant to exercise options granted under the Plan and to pay the tax liability resulting from an option exercise under the Plan. The Board or its Committee shall have full authority to determine the terms and conditions of such loans. Such loans may be secured by the shares received upon exercise of such option.

8. ADJUSTMENT OF AND CHANGES IN THE STOCK

In the event that the number of shares of Common Stock of the Corporation shall be increased or decreased through reclassification, combination of shares, a stock split or the payment of a stock dividend, or otherwise, then each share of common stock of the Corporation which has been authorized for issuance under the Plan, whether such share is then currently subject to or may become subject to an option under the Plan, shall be proportionately adjusted to reflect such increase or decrease. Outstanding options shall also be amended as to price and other terms if necessary to reflect the foregoing events.

In the event there shall be any other change in the number or kind of the outstanding shares of Common Stock of the Corporation, or any stock or other securities into which such Common Stock shall have been changed, or for which it shall have been exchanged, whether by reason of merger, consolidation or otherwise, then if the Committee shall, in

its sole discretion, determine that such change equitably requires an adjustment to shares currently subject to options or which may become subject to options under the Plan, or to prices or terms of outstanding options, such adjustment shall be made in accordance with such determination. In addition, in the event of such change described in this paragraph, the Board of Directors may accelerate the time or times at which any option may be exercised and may provide for cancellation of such accelerated options which are not exercised within a time prescribed by the Board of Directors in its sole discretion.

No right to purchase fractional shares shall result from any adjustment in options pursuant to this Section. In case of any such adjustment, the shares subject to the option shall be rounded down to the nearest whole share. Notice of any adjustment shall be given by the Corporation to each Participant or optionholder which shall have been so adjusted and such adjustment (whether or not notice is given) shall be effective and binding for all purposes of the Plan.

9. LISTING OR QUALIFICATION OF STOCK

In the event that the Board of Directors determines in its discretion that the listing or qualification of the Plan shares on any securities exchange or quotation or trading system or under any applicable law or governmental regulation is necessary as a condition to the issuance of such shares under the option, the option may not be exercised in whole or in part unless such listing, qualification, consent or approval has been unconditionally obtained.

10. WITHHOLDING

To the extent required by applicable federal, state, local or foreign law, a Participant or optionholder shall make arrangements satisfactory to the Corporation for the satisfaction of any withholding tax obligations that arise by reason of an option exercise. The Corporation shall not be required to issue shares or to recognize the disposition of such shares until such obligations are satisfied. The Committee may permit these obligations to be satisfied by having the Corporation withhold a portion of the shares of stock that otherwise would be issued to him or her upon exercise of the option, or to the extent permitted, by tendering shares previously acquired.

11. ADMINISTRATION AND AMENDMENT OF THE PLAN

The Plan shall be administered by the Committee which shall consist of at least two persons appointed by the Board of Directors. The Board of Directors shall fill vacancies and may from time to time remove or add members. All members of the Committee will be "non-employee directors" as defined in Rule 16b-3 under the Exchange Act and "outside directors" as defined under Section 162(m) of the Code, but in each case only when required to exempt any grant intended to qualify for an exemption under such provisions. Notwithstanding the foregoing, unless otherwise restricted by the Board of Directors, the Committee may appoint one or more separate committees (any such committee, a "Subcommittee") composed of one or more directors of Intel (who may but need not be

members of the Committee) and may delegate to any such Subcommittee(s) the authority to grant options under the Plan to Participants, to determine all terms of such options, and/or to administer the Plan or any aspect of it.

Any action by any such Subcommittee within the scope of such delegation shall be deemed for all purposes to have been taken by the Committee. The Committee shall act pursuant to a majority vote or majority written consent.

Subject to the express provisions of this Plan, the Committee shall be authorized and empowered to do all things necessary or desirable in connection with the administration of this Plan, including, without limitation: (a) to prescribe, amend and rescind rules and regulations relating to this Plan and to define terms not otherwise defined herein; (b) to determine which persons are Participants (as defined in Section 3 hereof), to which of such Participants, if any, an option shall be granted hereunder and the timing of any such option grants; (c) to determine the number of shares of Common Stock subject to an option and the exercise or purchase price of such shares; (d) to establish and verify the extent of satisfaction of any conditions to exercisability applicable to an option; (e) to waive conditions to and/or accelerate exercisability of an option, either automatically upon the occurrence of specified events (including in connection with a change of control of the Corporation) or otherwise in its discretion; (f) to prescribe and amend the terms of option grants made under this Plan (which need not be identical); (g) to determine whether, and the extent to which, adjustments are required pursuant to Section 8 hereof; and (h) to interpret and construe this Plan, any rules and regulations under the Plan and the terms and conditions of any option granted hereunder, and to make exceptions to any such provisions in good faith and for the benefit of the Corporation.

All decisions, determinations and interpretations by the Committee regarding the Plan, any rules and regulations under the Plan and the terms and conditions of any option granted hereunder, shall be final and binding on all Participants and optionholders. The Committee shall consider such factors as it deems relevant, in its sole and absolute discretion, to making such decisions, determinations and interpretations including, without limitation, the recommendations or advice of any officer or other employee of the Corporation and such attorneys, consultants and accountants as it may select.

The interpretation and construction of any provision of the Plan by the Board of Directors shall be final and conclusive. The Board of Directors may periodically adopt rules and regulations for carrying out the Plan, and amend the Plan as desired, without further action by the Corporation's stockholders except to the extent required by applicable law.

12. TIME OF GRANTING OPTIONS

The effective date of such option shall be the date on which the grant was made. Within a reasonable time thereafter, Intel will deliver the option to the Participant.

# INTEL CORPORATION
# 1988 EXECUTIVE LONG TERM
# STOCK OPTION PLAN
(Amended and Restated Effective as of March 26, 1997)

## 1. PURPOSE

The purpose of this amended and restated Intel Corporation 1988 Executive Long Term Stock Option Plan (the "Plan") is to advance the interests of Intel Corporation, a Delaware corporation and its subsidiaries (hereinafter collectively "Intel" or the "Corporation"), by stimulating the efforts of certain key employees employed by Intel and heightening the desire of such key employees to continue in employment with Intel. The stock options granted pursuant to this Plan are non-qualified stock options and shall not be incentive stock options, as defined in Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"). This amended and restated Plan includes the individual grant limitations required by Section 162(m) of the Code for the option income of certain individuals to be tax deductible by the Corporation.

## 2. DEFINITIONS

(a) "Board of Directors" means the Board of Directors of the Corporation.

(b) "Committee" means the Compensation Committee appointed by the Board of Directors in accordance with Section 11.

(c) "Disablement" shall have the meaning specified by the Committee in the terms of an option grant or, in the absence of any such term, shall mean a physical condition arising from an illness or injury which renders an individual incapable of performing work. The determination of the Committee as to an individual's Disablement shall be conclusive on all of the parties.

(d) "Plan" means the Intel Corporation 1988 Executive Long Term Stock Option Plan, as amended and restated herein.

(e) "Retirement" shall have the meaning specified by the Committee in the terms of an option grant or, in the absence of any such term, shall mean retirement from active employment with Intel (i) at or after age 55 and with the approval of the Committee or (ii) at or after age 65. The determination of the Committee as to an individual's Retirement shall be conclusive on all parties.

(f) "Subsidiary" means any corporation in an unbroken chain of corporations beginning with Intel Corporation where each of the corporations in the unbroken chain other than the last corporation owns stock possessing 50 percent or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

## 3. PARTICIPANTS

"Participants" in the Plan shall be those key employees who have been employed by Intel for at least two years and to whom options may be granted from time to time by the Committee.

No option shall be granted to any employee if immediately after the grant of such option such employee would own stock, including stock subject to outstanding options held by him or her, amounting to more than five percent (5%) of the total combined voting power or value of all classes of stock of the Corporation or any Subsidiary. Options may not be granted to non-employee directors or members of the Committee.

## 4. EFFECTIVE DATE AND TERMINATION OF PLAN

This Plan was last approved by the Corporation's stockholders on May 4, 1994. The Plan was amended and restated by the Board of Directors in certain non-material respects on March 26, 1997.

The Plan shall remain available for the grant of options until all shares of stock available for grant under this Plan shall have been acquired through exercise of options or until September 19, 1998 whichever is earlier. The Plan may be terminated at such earlier time as the Board of Directors may determine. Termination of the Plan will not affect the rights and obligations arising under options theretofore granted and then in effect.

5. SHARES SUBJECT TO THE PLAN AND TO OPTIONS

The stock subject to options authorized to be granted under the Plan shall consist of 20,000,000 shares of the Corporation's common stock, par value $.001 ("Common Stock"), or the number and kind of shares of stock or other securities which shall be substituted or adjusted for such shares as provided in Section 8. Such shares may be authorized and unissued shares of the Corporation's Common Stock. All or any shares of stock subject to an option which for any reason terminates unexercised may again be made subject to an option under the Plan.

6. GRANT, TERMS AND CONDITIONS OF OPTIONS

Options may be granted at any time and from time to time prior to the termination of the Plan, to certain key employees of Intel selected by the Committee. However, no Participant shall be granted options in any year, to purchase shares of common stock in excess of one percent (1%) of the number of shares of the Corporation's Common Stock outstanding on January 1, 1994. In addition, no Participant or optionholder shall have any rights as a stockholder with respect to any shares of stock subject to option hereunder until said shares have been issued. Each option may be evidenced by a written stock option agreement and/or such other written arrangements as may be approved from time to time by the Committee. Options granted pursuant to the Plan need not be identical but each option much contain and be subject to the following terms and conditions:

(a) Price: The purchase price under each option shall be established by the Committee. In no event will the option price be less than the fair market value of the stock on the date of grant. The option price must be paid in full at the time of exercise. The price may be paid in cash or, as acceptable to the Committee, by loan (as described in Section 7), by arrangement with a broker where payment of the option price is made pursuant to an irrevocable direction to the broker to deliver all or part of the proceeds from the sale of the option shares to the Corporation, by the surrender of shares of Common Stock of the Corporation owned by the Participant exercising the option and having a fair market value on the date of exercise equal to the option price or in any combination of the foregoing.

(b) Duration and Exercise or Termination of Option: Each option shall be exercisable in such manner and at such times as the Committee shall determine. However, each option granted must expire within a period of not more than ten (10) years from the grant date.

(c) Suspension or Termination of Option: If at any time (including after a notice of exercise has been delivered) the Chief Executive Officer, President, Chief Operating Officer, Vice President for Human Resources, General Counsel or any of their designees (any such person, an "Authorized Officer") reasonably believes that a Participant or optionholder has committed an act of misconduct as described in this Section, the Authorized Officer may suspend the Participant's or optionholder's rights to exercise any option pending a determination of whether an act of misconduct has been committed.

If the Board of Directors or an Authorized Officer determines a Participant or optionholder has committed an act of embezzlement, fraud, dishonesty, nonpayment of any obligation owed to Intel, breach of fiduciary duty or deliberate disregard of Intel rules resulting in loss, damage or injury to Intel, or if a Participant or optionholder makes an unauthorized disclosure of any Intel trade secret or confidential information, engages in any conduct constituting unfair competition, induces any Intel customer to breach a contract with Intel or induces any principal for whom Intel acts as agent to terminate such agency relationship, neither the Participant nor optionholder nor his or her estate shall be entitled to exercise any option whatsoever. In making such determination, the Board of Directors or an Authorized Officer shall act fairly and shall give the Participant an opportunity to appear and present evidence on his or her behalf at a hearing before a committee of the Board of Directors. For any Participant who is an "executive officer" for purposes of Section 16 of the Securities Exchange Act of 1934 (the "Exchange Act"), the determination of the Board of Directors or of the Authorized Officer shall be subject to the approval of the Committee.

(d) Termination of Employment: Subject to Section 6(b), unless the Committee specifies otherwise, upon the termination of the Participant's employment, his or her rights to exercise an option then held shall be only as follows:

(1) Death. Upon the death of a Participant while in employ of Intel, the Participant's rights will be exercisable by his or her estate or beneficiary at any time during the twelve (12) months next succeeding the date of death.

If the Participant's option has been held by the Participant for a minimum of four (4) years at the time of death, then the number of shares exercisable by the estate or beneficiary of the deceased Participant will be the total number of unexercised shares, whether or not exercisable, under such option on the date of the Participant's death. If the Participant's option has been held for a period of less than four (4) years at the time of death, then the number of shares exercisable by the estate or beneficiary of the deceased Participant will be the total number of shares which were exercisable under such option on the date of the Participant's death.

If a Participant should die within thirty (30) days of his or her termination of employment with Intel, an option will be exercisable by his or her estate or beneficiary at any time during the twelve (12) months succeeding the date of termination, but only to the extent of the number of shares as to which such option was exercisable as of the date of such termination. A Participant's estate shall mean his or her legal representative or other person who so acquires the right to exercise the option.

(2) Disablement. Upon the Disablement of any Participant, the Participant's rights to options may be exercised for a period of twelve (12) months after termination. If the Participant's option has been held for a minimum of four (4) years, then the number of shares exercisable by the Participant will be the total number of unexercised shares, whether or not exercisable, under such option on the date of the Participant's termination. If the Participant's option has been held for a period of less than four (4) years, then the number of shares exercisable by the Participant will be the total number of shares which were exercisable under such option on the date of the Participant's termination.

(3) Retirement. Upon Retirement of a Participant, the Participant's rights to options may be exercised for a period of twelve (12) months after Retirement. The number of shares exercisable will be the total number of shares which were exercisable under the Participant's option on the date of his or her Retirement.

(4) Other Reasons. Upon termination of a Participant's employment for any reason other than those stated above, a Participant may, within thirty (30) days following such termination exercise the option to the extent such option was exercisable on the date of termination.

For purposes of this Section 6(d), unless the Committee specifies otherwise, a Participant's employment shall not be deemed terminated (i) if, within sixty (60) days such Participant is rehired by Intel, (ii) if

Participant is transferred from the Corporation to any Subsidiary or from any one Subsidiary to another or from a Subsidiary to the Corporation, or (iii) at the discretion of the Committee, during any period of a Participant's leave of absence, provided that the Committee may delay the Participant's rights to exercise options as a result of such leave of absence. In addition, a Participant's employment with any partnership, joint venture or corporation not meeting the requirements of a Subsidiary in which the Corporation or a Subsidiary is a party and which is designated by the Committee as subject to this provision, shall be considered employment for purposes of this Section 6(d).

(e) Transferability of Option: Unless the Committee specifies otherwise, each option shall be transferable only by will or the laws of descent and distribution and shall only be exercisable by the Participant during his or her lifetime.

(f) Cancellation: The Committee may, at any time prior to exercise and subject to consent of the Participant, cancel any options previously granted and may or may not substitute in their place options at a different price and different type under different terms or in different amounts.

(g) Conditions and Restrictions Upon Securities Subject to Options: Subject to the express provisions of the Plan, the Committee may provide that the shares of Common Stock issued upon exercise of an option shall be subject to such further conditions or agreements as the Committee in its discretion may specify prior to the exercise of such option, including without limitation, conditions on vesting or transferability, forfeiture or repurchase provisions and method of payment for the shares issued upon exercise (including the actual or constructive

surrender of Common Stock already owned by the Participant or optionholder). The Committee may establish rules for the deferred delivery of Common Stock upon exercise of an option with the deferral evidenced by use of "Stock Units" equal in number to the number of shares of Common Stock whose delivery is so deferred. A "Stock Unit" is a bookkeeping entry representing an amount equivalent to the fair market value of one share of Common Stock. Unless the Committee specifies otherwise, Stock Units represent an unfunded and unsecured obligation of the Corporation. Settlement of Stock Units upon expiration of the deferral period shall be made in Common Stock or otherwise as determined by the Committee. The amount of Common Stock, or other settlement medium, to be so distributed may be increased by an interest factor or by dividend equivalents. Until a Stock Unit is so settled, the number of shares of Common Stock represented by a Stock Unit shall be subject to adjustment pursuant to Section 8. Any Stock Units that are settled after the holder's death shall be distributed to the holder's designated beneficiary(ies) or, if none was designated, the holder's estate.

(h) Other Terms and Conditions: Options may also contain such other provisions, which shall not be inconsistent with any of the foregoing terms, as the Committee shall deem appropriate. No option, however, nor anything contained in the Plan shall confer upon any Participant any right to continue in Intel's employ or service nor limit in any way Intel's right to terminate his or her employment at any time.

7. LOANS

The Corporation may make loans, at the request of the Participant and in the sole discretion of the Board or its Committee, for the purpose of enabling the Participant to exercise options granted under the Plan and to pay the tax liability resulting from an option exercise under the Plan. The Board or its Committee shall have full authority to determine the terms and conditions of such loans. Such loans may be secured by the shares received upon exercise of such option.

8. ADJUSTMENT OF AND CHANGES IN THE STOCK

In the event that the number of shares of Common Stock of the Corporation shall be increased or decreased through reclassification, combination of shares, a stock split or the payment of a stock dividend, or otherwise, then each share of common stock of the Corporation which has been authorized for issuance under the Plan, whether such share is then currently subject to or may become subject to an option under the Plan, shall be proportionately adjusted to reflect such increase or decrease. Outstanding options shall also be amended as to price and other terms if necessary to reflect the foregoing events.

In the event there shall be any other change in the number or kind of the outstanding shares of Common Stock of the Corporation, or any stock or other securities into which such Common Stock shall have been changed, or for which it shall have been exchanged, whether by reason of merger, consolidation or otherwise, then if the Committee shall, in

its sole discretion, determine that such change equitably requires an adjustment to shares currently subject to options or which may become subject to options under the Plan, or to prices or terms of outstanding options, such adjustment shall be made in accordance with such determination. In addition, in the event of such change described in this paragraph, the Board of Directors may accelerate the time or times at which any option may be exercised and may provide for cancellation of such accelerated options which are not exercised within a time prescribed by the Board of Directors in its sole discretion.

No right to purchase fractional shares shall result from any adjustment in options pursuant to this Section. In case of any such adjustment, the shares subject to the option shall be rounded down to the nearest whole share. Notice of any adjustment shall be given by the Corporation to each Participant or optionholder which shall have been so adjusted and such adjustment (whether or not notice is given) shall be effective and binding for all purposes of the Plan.

9. LISTING OR QUALIFICATION OF STOCK

In the event that the Board of Directors determines in its discretion that the listing or qualification of the Plan shares on any securities exchange or quotation or trading system or under any applicable law or governmental regulation is necessary as a condition to the issuance of such shares under the option, the option may not be exercised in whole or in part unless such listing, qualification, consent or approval has been unconditionally obtained.

10. WITHHOLDING

To the extent required by applicable federal, state, local or foreign law, a Participant or optionholder shall make arrangements satisfactory to the Corporation for the satisfaction of any withholding tax obligations that arise by reason of an option exercise. The Corporation shall not be required to issue shares or to recognize the disposition of such shares until such obligations are satisfied. The Committee may permit these obligations to be satisfied by having the Corporation withhold a portion of the shares of stock that otherwise would be issued to him or her upon exercise of the option, or to the extent permitted, by tendering shares previously acquired.

11. ADMINISTRATION AND AMENDMENT OF THE PLAN

The Plan shall be administered by the Committee which shall consist of at least two persons appointed by the Board of Directors. The Board of Directors shall fill vacancies and may from time to time remove or add members. All members of the Committee will be "non-employee directors" as defined in Rule 16b-3 under the Exchange Act and "outside directors" as defined under Section 162(m) of the Code, but in each case only when required to exempt any grant intended to qualify for an exemption under such provisions. Notwithstanding the foregoing, unless otherwise restricted by the Board of Directors, the Committee may appoint one or more separate committees (any such committee, a "Subcommittee") composed of one or more directors of Intel (who may but need not be

members of the Committee) and may delegate to any such Subcommittee(s) the authority to grant options under the Plan to Participants, to determine all terms of such options, and/or to administer the Plan or any aspect of it.

Any action by any such Subcommittee within the scope of such delegation shall be deemed for all purposes to have been taken by the Committee. The Committee shall act pursuant to a majority vote or majority written consent.

Subject to the express provisions of this Plan, the Committee shall be authorized and empowered to do all things necessary or desirable in connection with the administration of this Plan, including, without limitation: (a) to prescribe, amend and rescind rules and regulations relating to this Plan and to define terms not otherwise defined herein; (b) to determine which persons are Participants (as defined in Section 3 hereof), to which of such Participants, if any, an option shall be granted hereunder and the timing of any such option grants; (c) to determine the number of shares of Common Stock subject to an option and the exercise or purchase price of such shares; (d) to establish and verify the extent of satisfaction of any conditions to exercisability applicable to an option; (e) to waive conditions to and/or accelerate exercisability of an option, either automatically upon the occurrence of specified events (including in connection with a change of control of the Corporation) or otherwise in its discretion; (f) to prescribe and amend the terms of option grants made under this Plan (which need not be identical); (g) to determine whether, and the extent to which, adjustments are required pursuant to Section 8 hereof; and (h) to interpret and construe this Plan, any rules and regulations under the Plan and the terms and conditions of any option granted hereunder, and to make exceptions to any such provisions in good faith and for the benefit of the Corporation.

All decisions, determinations and interpretations by the Committee regarding the Plan, any rules and regulations under the Plan and the terms and conditions of any option granted hereunder, shall be final and binding on all Participants and optionholders. The Committee shall consider such factors as it deems relevant, in its sole and absolute discretion, to making such decisions, determinations and interpretations including, without limitation, the recommendations or advice of any officer or other employee of the Corporation and such attorneys, consultants and accountants as it may select.

The interpretation and construction of any provision of the Plan by the Board of Directors shall be final and conclusive. The Board of Directors may periodically adopt rules and regulations for carrying out the Plan, and amend the Plan as desired, without further action by the Corporation's stockholders except to the extent required by applicable law.

12. TIME OF GRANTING OPTIONS

The effective date of such option shall be the date on which the grant was made. Within a reasonable time thereafter, Intel will deliver the option to the Participant.

INTEL CORPORATION
COMPUTATION OF PER SHARE EARNINGS
(In millions, except per share amounts)

<TABLE>

PRIMARY SHARES CALCULATION

| | Year Ended Dec. 31, 1994 | Year Ended Dec. 30, 1995 | Year Ended Dec. 28, 1996 |
|---|---|---|---|
| Reconciliation of weighted average number of shares outstanding to amount used in primary earnings per share computation: | | | |
| <S> | <C> | <C> | <C> |
| Weighted average number of shares outstanding | 830 | 825 | 823 |
| Add-shares issuable from assumed exercise of options and warrants | 44 | 59 | 65 |
| Weighted average number of shares outstanding as adjusted | 874 | 884 | 888 |

</TABLE>

FULLY DILUTED SHARES CALCULATION

<TABLE>

| | | | |
|---|---|---|---|
| Reconciliation of weighted average number of shares outstanding to amount used in fully diluted earnings per share computation: | | | |
| <S> | <C> | <C> | <C> |
| Weighted average number of shares outstanding | 830 | 825 | 823 |
| Add-shares issuable from assumed exercise of options and warrants | 44 | 65 | 79 |
| Weighted average number of shares outstanding as adjusted | 874 | 890 | 902 |
| NET INCOME | $2,288 | $3,566 | $5,157 |
| PRIMARY EARNINGS PER SHARE | $ 2.62 | $ 4.03 | $ 5.81 |
| FULLY DILUTED EARNINGS PER SHARE(1) | $ 2.62 | $ 4.01 | $ 5.72 |

</TABLE>

(1) Earnings per common and common equivalent share presented on the face of the income statement represent primary earnings per share. Dual presentation of primary and fully diluted earnings per share has not been made on the face of the income statement because the differences are insignificant. This exhibit is presented because common stock equivalents represent more than 3% of weighted average common shares outstanding.

INTEL CORPORATION

STATEMENT SETTING FORTH THE COMPUTATION
OF RATIOS OF EARNINGS TO FIXED CHARGES FOR INTEL CORPORATION

(In millions, except ratios)

| | Years Ended | | | | |
|---|---|---|---|---|---|
| | Dec. 26, 1992 | Dec. 25, 1993 | Dec. 31, 1994 | Dec. 30, 1995 | Dec. 28, 1996 |
| Income before taxes | $1,569 | $3,530 | $3,603 | $5,638 | $7,934 |
| Add - Fixed charges net of capitalized interest | 68 | 58 | 66 | 38 | 41 |
| Income before taxes and fixed charges (net of capitalized interest) | $1,637 | $3,588 | $3,669 | $5,676 | $7,975 |
| Fixed charges: | | | | | |
| Interest* | $ 54 | $ 50 | $ 57 | $ 29 | $ 25 |
| Capitalized interest | 11 | 8 | 27 | 46 | 33 |
| Estimated interest component of rental expense | 14 | 8 | 9 | 9 | 16 |
| Total | $ 79 | $ 66 | $ 93 | $ 84 | $ 74 |
| Ratio of earnings before taxes and fixed charges, to fixed charges | 20.7x | 54.4x | 39.5x | 67.6x | 107.8x |

* Interest expense includes the amortization of underwriting fees for the relevant periods outstanding.

Consolidated statements of income
Three years ended December 28, 1996
<TABLE>

| <S> (In millions -except per share amounts) | <C> 1996 | <C> 1995 | <C> 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.
</TABLE>

Consolidated balance sheets
December 28, 1996 and December 30, 1995
<TABLE>

| <S> (In millions- except per share amounts) | <C> 1996 | <C> 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.
</TABLE>

Consolidated statements of cash flows
Three years ended December 28, 1996
<TABLE>

| <S> (In millions) | <C> 1996 | <C> 1995 | <C> 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.
</TABLE>

Consolidated statements of stockholders' equity
<TABLE>

| Three years ended December 28, 1996 (In millions) | Common Stock and capital in excess of par value: Number of shares | Amount | Retained earnings | Total |
|---|---|---|---|---|
| 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.
</TABLE>

## Notes to consolidated financial statements

### 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:

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

======= =======
</TABLE>

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 | Put warrants outstanding: 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 Balance | 1996 Weighted average interest rate | 1995 Balance | 1995 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 |

</TABLE>

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:

<TABLE>

| (In millions) | Cost | Gross unrealized gains | Gross unrealized losses | Estimated fair value |
|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> |
| 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 |

</TABLE>

Investments at December 30, 1995 were as follows:

<TABLE>

| (In millions) | Cost | Gross Unrealized gains | Gross unrealized losses | Estimated fair value |
|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> |
| 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 |

</TABLE>

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:

<TABLE>

| (In millions) | Cost | Estimated fair value |
|---|---|---|
| <S> | <C> | <C> |

| | | |
|---|---|---|
| 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 |

</TABLE>

Derivative financial instruments

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

<TABLE>

| (In millions) | 1996 | 1995 |
|---|---|---|
| <S> | <C> | <C> |
| 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 |

</TABLE>

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:

<TABLE>

| | Weighted average pay rate | Weighted average receive rate | Weighted average maturity | Range of maturities |
|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> |
| 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 |

</TABLE>

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:

<TABLE>

| | 1996 | | 1995 | |
|---|---|---|---|---|
| (In millions) | Carrying amount | Estimated fair value | Carrying amount | Estimated fair value |
| <S> | <C> | <C> | <C> | <C> |
| 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 | $ -- | $ -- | $ -- | $ -- |

</TABLE>

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

<TABLE>

| <S> | <C> | <C> | <C> |
|---|---|---|---|
| (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 |

</TABLE>

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:

<TABLE>

| (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% |

</TABLE>

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:

<TABLE>

| (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 |

</TABLE>

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:

<TABLE>

| (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) |

</TABLE>

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 purchase 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:

<TABLE>

| | | Outstanding options | |
|---|---|---|---|
| (In millions) | Shares available for options | Number of shares | Weighted average exercise price |
| <S> | <C> | <C> | <C> |
| 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 |

</TABLE>

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:

<TABLE>

| Range of exercise prices | Outstanding options: Number of shares (in millions) | Outstanding options: Weighted average contractual life (in years) | Outstanding options: Weighted average exercise price |
|---|---|---|---|
| <S> | <C> | <C> | <C> |
| $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 |

</TABLE>

<TABLE>

| Range of exercise prices | Exercisable options: Number of shares (in millions) | Exercisable options: Weighted average exercise price |
|---|---|---|
| <S> | <C> | <C> |
| $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 |

</TABLE>

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:

<TABLE>

| | Employee stock options | | Stock Participation Plan shares | |
|---|---|---|---|---|
| | 1996 | 1995 | 1996 | 1995 |
| <S> | <C> | <C> | <C> | <C> |
| 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% |

</TABLE>

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) |

</TABLE>

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:

<TABLE>

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| <S> | <C> | <C> | <C> |
| 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% |

</TABLE>

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:

<TABLE>

| (In millions) | 1996 | 1995 | 1994 |
|---|---|---|---|
| <S> | <C> | <C> | <C> |
| 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 |

</TABLE>

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

<TABLE>

| 1996 (In millions) | Assets exceed accu-mulated benefits | Accu-mulated benefits exceed assets |
|---|---|---|
| <S> | <C> | <C> |
| 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) |

</TABLE>

<TABLE>

| 1995 (In millions) | Assets exceed accu-mulated benefits | Accu-mulated benefits exceed assets |
|---|---|---|
| <S> | <C> | <C> |
| 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) pan assets | 5 | (18) |
| Unrecognized net loss | 4 | 5 |
| Unrecognized net transition obligation | 2 | -- |
| Prepaid (accrued) pension costs | $ 11 | $ (13) |

</TABLE>

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:

<TABLE>

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| <S> | <C> | <C> | <C> |
| 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% |

</TABLE>

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 microcomputer 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:

<TABLE>

| (In millions) | 1996 | 1995 |
|---|---|---|
| Assets | $4,784 | $4,404 |
| Total liabilities | $1,694 | $1,661 |
| Net property, plant and equipment | $1,615 | $1,414 |

</TABLE>

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.

<TABLE>

| (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 |

</TABLE>

<TABLE>

| 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 |

</TABLE>

<TABLE>

1994

| | | | | | |
|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> |
| 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 |

</TABLE>

Supplemental information (unaudited)

Quarterly information for the two years ended December 28, 1996 is presented on page 37 of the printed annual report (page 20 of this exhibit).

Report of Ernst & Young LLP, independent auditors
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.

/s/Ernst & Young LLP

San Jose, California
January 13, 1997

Financial summary

Ten Years Ended December 28, 1996
<TABLE>

| (In millions) | Net investment in property, plant & equipment | Total assets | Long-term debt & put warrants | Stock-holders' equity | Additions to property, plant & equipment |
|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> |
| 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 |

</TABLE>

<TABLE>

| | Net revenues | Cost of sales | Research & devel-opment | Operating income | Net income | Earnings per share | Dividends declared per share |
|---|---|---|---|---|---|---|---|

(In millions -- except per share amounts)

| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
|---|---|---|---|---|---|---|---|
| 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 | -- |

</TABLE>

## Management's discussion and analysis of financial condition and results of operations

### 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(R) 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(R) 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(TM) 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(R) 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.

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 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 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(TM) 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)

(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.

GRAPHICS APPENDIX LIST*

* In this Appendix, the following descriptions of graphs on pages 34 and 35 of the Company's 1996 Annual Report to Stockholders that are omitted from the EDGAR text are more specific with respect to the actual amounts and percentages than can be determined from the graphs themselves.

The Company submits such more specific descriptions only for the purpose of complying with EDGAR requirements for transmitting this Annual Report on Form 10-K; such more specific descriptions are not intended in any way to provide information that is additional to that otherwise provided in the 1996 Annual Report to Stockholders.

| REVENUES AND INCOME (Dollars in billions) | 1994 | 1995 | 1996 |
|---|---|---|---|
| Net revenues | 11.5 | 16.2 | 20.8 |
| Net income | 2.3 | 3.6 | 5.2 |

| COSTS AND EXPENSES (Percent of revenues) | 1994 | 1995 | 1996 |
|---|---|---|---|
| Cost of sales | 48% | 48% | 44% |
| R&D | 10% | 8% | 9% |
| Marketing and G&A | 13% | 12% | 11% |

| OTHER INCOME AND EXPENSE (Dollars in millions) | 1994 | 1995 | 1996 |
|---|---|---|---|
| Interest and other income | 273 | 415 | 406 |
| Interest expense | 57 | 29 | 25 |

| CASH AND INVESTMENTS (Dollars in billions) | 1995 | 1996 |
|---|---|---|
| Cash and cash equivalents | 1.5 | 4.2 |
| Short-term investments | 1.0 | 3.7 |
| Long-term investments | 1.7 | 1.4 |

INTEL CORPORATION

SUBSIDIARIES

(All 100% Owned)

Intel International
(Incorporated in California)

Intel Overseas Corp.
(Incorporated in California)

Synchroquartz (U.S.) Corp.
(Incorporated in California)

Intel Malaysia SDN. BHD.
(Incorporated in Malaysia)

CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Intel Corporation of our report dated January 13, 1997, included in the 1996 Annual Report to Stockholders of Intel Corporation.

Our audits also include the financial statement schedule of Intel Corporation listed in Item 14(a). This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also consent to the incorporation by reference in the Registration Statements (Form S-8 Nos. 33-10392, 2-73464, 2-56648, 33-33983, 2-90217, 33-29672, 33-41771, 33-63489, and 333-20951; and Form S-3 Nos. 33-20117, 33-54220, 33-58964, 33-49827, 33-50971 and 33-56107) of our report dated January 13, 1997, with respect to the financial statements incorporated herein by reference, and our report included in the preceding paragraph with respect to the financial statement schedule included in this Annual Report (Form 10-K) of Intel Corporation.

/s/Ernst & Young LLP

San Jose, California
March 26, 1997

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This schedule contains summary information extracted from Intel Corporation's CONSOLIDATED STATEMENTS OF INCOME AND CONSOLIDATED BALANCE SHEETS and is qualified in its entirety by reference to such financial statements.
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<FN>
<F1>Item consists of put warrants.
<F2>Item consists of research and development
<F3>Item not reported on face of income statement
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