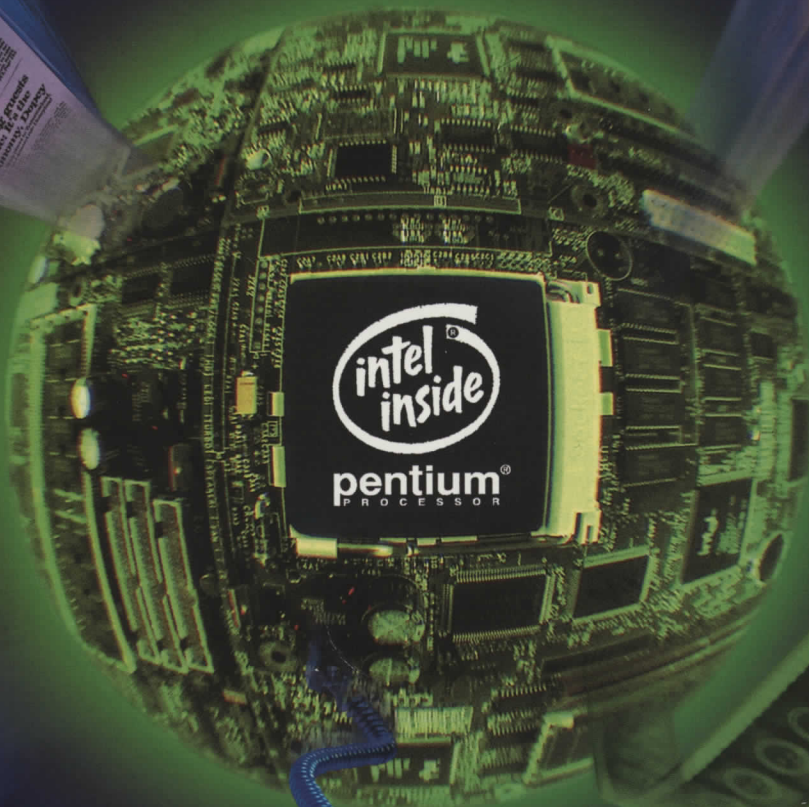


intel®

1995
Annual
Report

It's A
PC
World



Investor Information

Investor Materials. For investor information including additional annual reports, 10Ks, 10Qs or any other financial literature, please contact Harris Trust & Savings Bank in the U.S. at (800) 298-0146. In Europe: (44) 01793 403000; in Hong Kong: (852) 2844-4555; and in Japan: (81) 298-47-8511.

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

Intel on the Internet. Intel's home page on the World Wide Web contains background on the Company and its products, financial information, job listings and our new interactive online annual report, as well as other useful information. Our Web page is located at <http://www.intel.com>

Dividend Reinvestment Program. Intel's Dividend Reinvestment Program allows stockholders to reinvest dividends and contribute additional cash to purchase Intel Common Stock. In 1995, the program was enhanced to allow monthly contributions. For more information, call Intel's transfer agent, Harris Trust & Savings Bank, at (312) 461-5545.

Transfer Agent and Registrar. Harris Trust & Savings Bank, 311 West Monroe, 11th floor, P.O. Box 755, Chicago, IL 60690. Stockholders and warrant holders may call (800) 298-0146 or (312) 461-5545 with any questions regarding transfer of ownership of Intel stock and warrants.

Independent Auditors. Ernst & Young LLP, San Jose, California.

Intel rankings in the 1995 Fortune 500 listing

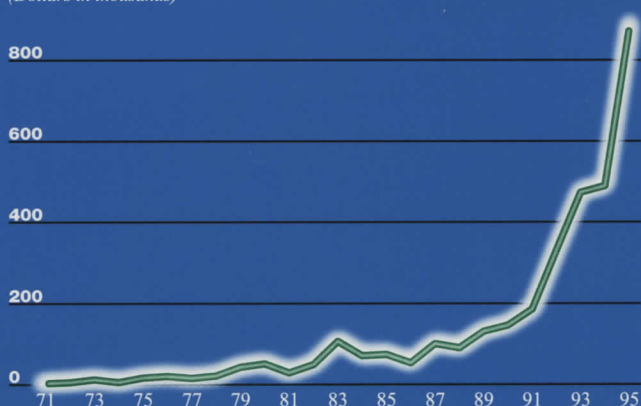
(Dollars in millions)	1994	Rank
Revenues	\$11,521	90
Net Income	\$ 2,288	15
Profit Margin	20%	4
Market Value*	\$35,172	14

*As of March 31, 1995

Fortune magazine named Intel the fifth most admired company in America in 1996, up from sixth in 1995. Approximately 11,000 senior executives, directors and analysts ranked 417 companies to create the list in 1996. Judging criteria included innovativeness, quality of management, products and services, ability to attract and retain talented employees, financial soundness and value as a long-term investment.

Return on investment in Intel stock

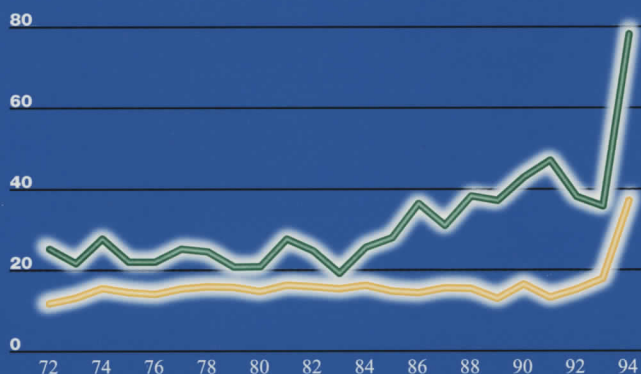
(Dollars in thousands)



Intel stock has split ten times since its initial public offering in 1971. A purchase of 100 shares in 1971 for \$2,350 would have grown to 15,188 shares worth \$861,919 by the end of 1995. (Past performance does not guarantee future results.)

Intel vs the S&P 500

(Compound annual growth rate in percent)



● Intel ● S&P 500

Intel has consistently outperformed the S&P 500. The year-end points on the above chart show an investment's compound annual growth rate (CAGR) percent if you purchased Intel stock on the last trading day of any year since 1971 and held it until the end of 1995. In every case, the CAGR on the purchase of Intel stock would have exceeded a comparable investment in the S&P 500. For example, Intel stock purchased at the end of 1990 and held for five years yielded approximately a 43 percent CAGR, compared to a 17 percent CAGR for the S&P 500 in the same time period. (Past performance does not guarantee future results.)

About Intel

In 1971, Intel introduced the world's first microprocessor and sparked a computer revolution that has changed the world. Today, Intel supplies the computing industry with chips, boards, systems and software. Intel's products are used by industry members as "building blocks" to create advanced computing systems for PC users. Intel's mission is to be the preeminent building block supplier to the new computing industry worldwide.

Principal Products

Processor Products. MICROPROCESSORS, also called central processing units (CPUs), are frequently described as the "brains" of a computer, because they act as the central control for the processing of data in personal computers (PCs) and other computers. CHIPSETS perform logic functions in computers based on Intel processors. MOTHERBOARDS combine Intel microprocessors and chipsets to form the basic subsystem of a PC.

Networking and Communications Products enhance the capabilities and ease of use of PC systems and networks, and are sold through resellers and retail outlets.

Semiconductor Products. FLASH MEMORY provides easily reprogrammable memory for computers, mobile phones and many other products. Flash memory has the advantage of retaining data when the unit's power is turned off. EMBEDDED CONTROL CHIPS are programmed to control specific functions in products such as automobile engines, laser printers, disk drives and home appliances.

Major Customers

Manufacturers of computer systems and computer peripherals. **PC users** who buy Intel's PC enhancements, business communications products and networking products at retail stores. **Other manufacturers**, including makers of automobiles and a wide range of industrial and telecommunications equipment.

Stockholders

We are happy to report our sixth consecutive year of both record revenues and earnings per share.

Revenues totaled \$16.2 billion, up 41 percent from \$11.5 billion in 1994. Earnings per share rose 54 percent over last year, to \$4.03.

Our strong performance in 1995 was rooted in growing demand for PCs based on our Pentium® processors. The PC market continued its remarkable growth, with approximately 60 million PCs sold worldwide this year, up about 25 percent from 1994.

We were pleased to see the increased popularity of the Internet and other communications applications this year. In particular, we are very excited by the opportunities represented by the booming World Wide Web. With more than 180 million units in use worldwide, PCs are the predominant gateway to the World Wide Web. We believe that this easy-to-use, graphically based Internet interface will continue to attract new users and investments in the PC communications world, helping to expand the PC's role as a consumer communications device and driving future PC sales.

At Intel, our most important job is to make high-performance microprocessors for the computing industry. To do this, we follow four basic strategies:

3. Remove barriers to technology flow. We believe that if computers work better, do more and are easier to use, more PCs will be sold and more Intel processors will be needed. We therefore work with other industry leaders to develop new PC technologies, such as the PCI "bus," which has been widely adopted. This technology removes bottlenecks to provide greatly enhanced graphics capabilities. We incorporate our chips into PCI building blocks, such as PC motherboards, to help computer manufacturers bring their products to market faster. We also work closely with software developers to help create rich applications, such as PC video conferencing and animated 3D Web sites, that make the most of the power of Intel processors.

4. Promote the Intel brand. We continue to invest in education and marketing programs that describe the benefits of genuine Intel technology. Our Intel Inside® program expanded in 1995 to include broadcast advertising. Hundreds of OEMs worldwide are participating to let users know that there are genuine Intel microprocessors inside their PCs.

New PC communications applications and emerging markets

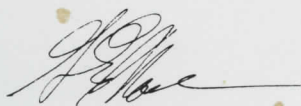
1. Develop products quickly. We try to bring new technology to the market as quickly as possible. In 1995, we introduced the new high-end Pentium® Pro processor. This came less than three years after the introduction of the Pentium processor, which is now the processor of choice in the mainstream PC market. Together, these products provide computer buyers with a wide spectrum of computing choices.

2. Invest in manufacturing. We believe Intel's state-of-the-art chip manufacturing facilities are the best in the industry. We spent \$3.6 billion on capital in 1995, up 45 percent from 1994. These heavy investments are paying off: in 1995, we were able to bring our new 0.35-micron manufacturing process into production months earlier than originally planned. Our newest facility, the most advanced in the microprocessor industry, makes our highest speed Pentium and Pentium Pro processors. In the end, these investments benefit PC buyers directly in the form of more powerful, less expensive computing options.

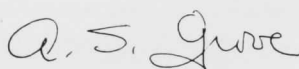
Beyond our primary task of making microprocessors, we invest in a range of computing and communications applications that support our core business. Our supercomputer and network server efforts take advantage of the flexibility and power of the Intel architecture, while our flash memory business supports booming communications applications such as cellular phones. These product areas are detailed on the following pages.

Overall, our focused strategies have kept us on the right track. Of course, we continue to attract competition, both from makers of software-compatible microprocessors and from makers of alternative-architecture chips. We will try to stay nimble to maintain our position in the industry.

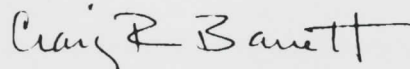
This is a particularly exciting time to be in the computing industry. New applications like the Internet are driving increased demand for computers, and emerging markets around the world are quickly adopting the latest computer technology. We look forward to meeting the challenges of this business as the computer's role continues to expand.



GORDON E. MOORE
Chairman



ANDREW S. GROVE
President and
Chief Executive Officer



CRAIG R. BARRETT
Executive Vice President and
Chief Operating Officer

are driving increased demand for our microprocessors.

We are particularly proud of the dedication and talent of our management team, which we believe is one of the most seasoned and stable groups in the industry. The managers you see pictured here have contributed a total of 443 years of service to Intel since the Company's founding in 1968.

Gordon E. Moore (1)
27 years with Intel

Andrew S. Grove (2)
27 years with Intel

Craig R. Barrett (3)
21 years with Intel

F. Thomas Dunlap, Jr. (4)
21 years with Intel

Leslie L. Vadasz (5)
27 years with Intel

Carlene M. Ellis (6)
15 years with Intel

Albert Y. C. Yu (7)
19 years with Intel

Kirby A. Dyess (8)
16 years with Intel

G. Carl Everett, Jr. (9)
17 years with Intel

Michael A. Aymar (10)
19 years with Intel

Dennis L. Carter (11)
14 years with Intel

Ronald J. Whittier (12)
25 years with Intel

Stephen P. Nachtsheim (13)
14 years with Intel

Paul S. Otellini (14)
21 years with Intel

Robert W. Reed (15)
20 years with Intel

Harold E. Hughes, Jr. (16)
21 years with Intel

Andy D. Bryant (17)
14 years with Intel

Gerhard H. Parker (18)
26 years with Intel

Frank C. Gill (19)
20 years with Intel

David A. Shrigley (20)
17 years with Intel

David L. House (21)
21 years with Intel

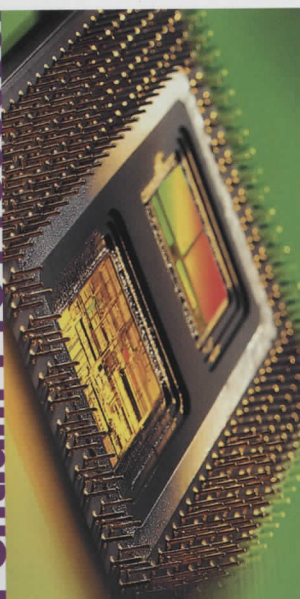
Richard D. Boucher (22)
21 years with Intel

The Year Of The Pentium® Processor

THE YEAR'S BIGGEST SUCCESS STORY is the market demand for the Pentium® processor. The Pentium processor's ability to drive today's most exciting software, such as multimedia and communications applications, has made it the mainstream PC processor of choice. Low system prices, driven in part by Intel's high-volume manufacturing economies, have

helped also. At year's end, entry-level buyers could take home the flexibility of a 75-MHz Pentium processor-based PC for under \$1,500, while power users had a new 133-MHz Pentium processor to run their high-performance systems. Never before has so much processing power been available at such low system prices—and consumers are responding.

Introducing The Pentium® Pro Processor



IN NOVEMBER, we introduced the new high end of our microprocessor line, the Pentium® Pro processor. Running at initial speeds of up to 200 MHz, this powerhouse chip is ideal for demanding 32-bit software. New Pentium Pro processor-based systems from workstation vendors deliver workstation performance at PC prices. The chip also drives network servers.

Innovation On Tour

WE ARE PROUD TO ANNOUNCE that we are co-sponsoring the Smithsonian Institution's 150th anniversary touring exhibit, which will bring nearly 300 of the national museum's **150** most famous artifacts to 12 U.S. cities in 1996 and 1997. From a Wright brothers' plane to an early Edison light bulb to the first Altair computer, the exhibit will showcase the best in American innovation.

Manufacturing Expansion



IN ORDER TO MEET DEMAND and lay the groundwork for the next generation of processors, we continue to invest heavily in manufacturing capacity. In fact, virtually every Intel site around the world was under some kind of construction in 1995.



STARBRIGHT Foundation

INTEL IS SUPPORTING STARBRIGHT's program to let seriously ill children in seven U.S. hospitals communicate and play using virtual reality software and Intel's ProShare™ conferencing technology. Intel's senior vice president Carl Everett (right) joined filmmaker



Steven Spielberg (center), chairman of STARBRIGHT, and retired U.S. General Norman Schwarzkopf (left), chairman of STARBRIGHT's Capital Campaign, to announce the program.

IN SEPTEMBER, astronauts on the Space Shuttle Endeavour conducted the first, real-time PC-based conference from space, using Intel's ProShare conferencing technology. The astronauts shared photographic data and annotated files with NASA ground controllers in Houston. The technology's more down-to-earth applications are taking off, as well; see page 11.

The Communicating PC

IN A MOVE THAT SYMBOLIZES the growing interdependence of the telecommunications and computing industries, Intel president and CEO Andy Grove gave the keynote address at Telecom 95[†] in Geneva, the telecommunications industry's largest conference. He challenged the communications industry to develop inexpensive bandwidth technologies and applications to meet the opportunities generated by today's pervasive, low-cost, powerful PCs. For more on how Intel is supporting the PC's newest role as the emerging communications device of choice, see "It's A PC World," pages 8-13.



Intel In Space

Flash Phones

INTEL IS THE world's leading supplier of flash memory, a critical component in cellular phones like this GSM Handportable 2210[†] from Nokia. With worldwide cellular phone sales nearing 40 million units in 1995 and continuing to boom, Intel has targeted the cellular phone market as a priority area for our memory products and other components.



The Fastest Computer In The World

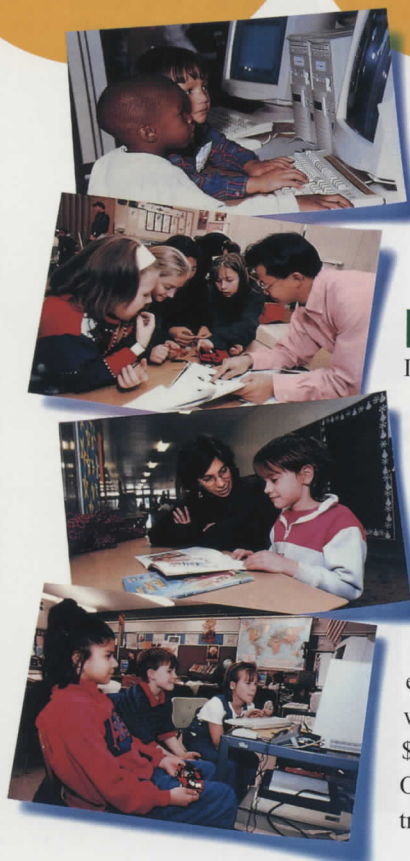
THE U.S. DEPARTMENT of Energy selected Intel to build a new supercomputer that will incorporate more than 10,000 Pentium Pro processors to deliver performance that is about ten times faster than today's fastest systems. This is expected to be the first computer capable of more than one trillion calculations per second. This awesome power is going to be harnessed for a good cause: scientists plan to model nuclear blasts, reducing the need for underground testing.

Breaking Up Bottlenecks

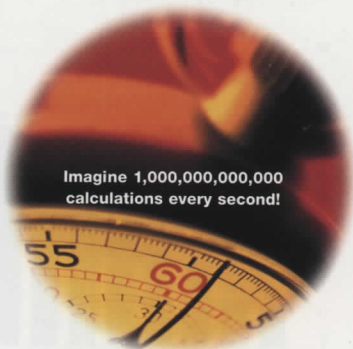
AS SERVERS TAKE OVER the role of mainframes, input/output (I/O) performance becomes critical. Our new i960[®] RP processor is a single-chip, intelligent I/O subsystem for servers, reducing data bottlenecks and enhancing server performance.

Promoting Education

INTEL'S LONG-TERM VIABILITY as a company depends on the availability of well-educated, capable employees and PC users. We are therefore committed to supporting math and science education. We fund undergraduate and graduate fellowships in science and technology, with particular attention to women and minorities in science. In K through 12 education, we contribute technology and resources to increase math, science and technical literacy in the schools in our site communities. Perhaps more importantly, to encourage employee volunteerism, we match employee time in schools with cash donations. In 1995, Intel U.S. employees generated \$73,000 for their local schools by contributing their time. Overall, Intel Corporation and the Intel Foundation contributed nearly \$27 million to improve education in 1995.



Imagine 1,000,000,000,000 calculations every second!



Intel Facts and Figures

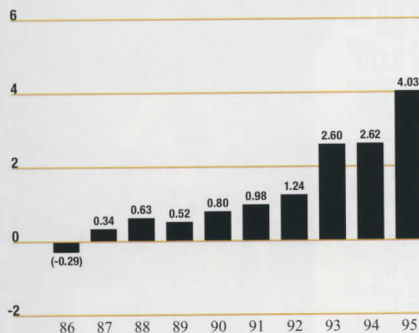
Driven by strong sales of the Pentium® processor, Intel's 1995 revenues and earnings set new Company records. This was the sixth consecutive

Compared to 1994,
earnings per share grew

54%

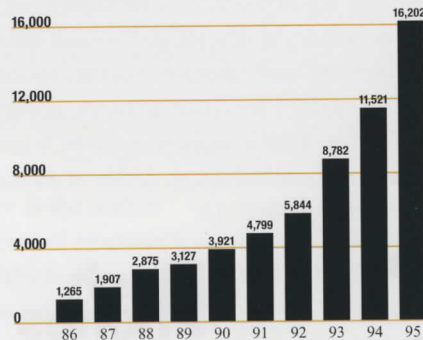
Earnings (loss) per share

(Dollars, adjusted for stock splits)



Net revenues

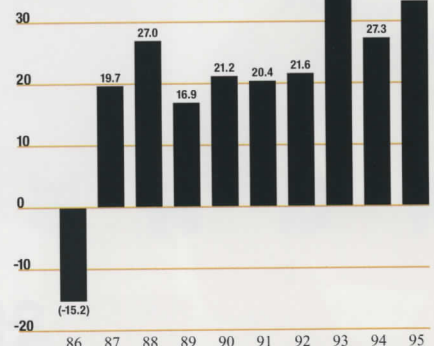
(Dollars in millions)



Return on equity
(net income divided by
average equity) is a
measure of the value of
stockholders' investment.

Return on average stockholders' equity

(Percent)

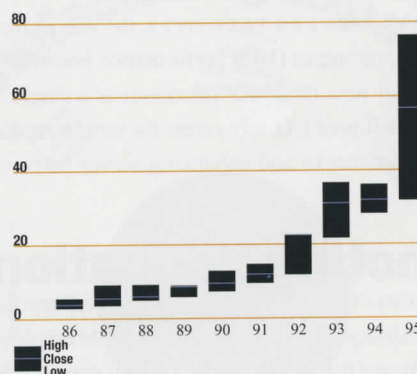


In the last ten years,
net revenues have increased
at a compound annual
growth rate of

33%

Stock price trading ranges by fiscal year

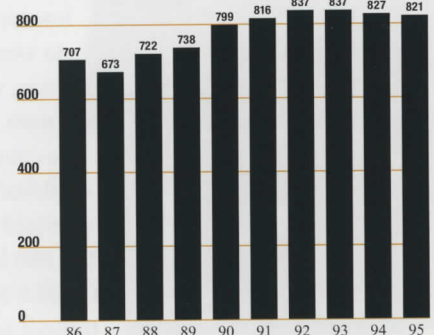
(Dollars, adjusted for stock splits)



Intel has repurchased
68 million shares since 1990,
helping to stabilize the number
of shares outstanding.

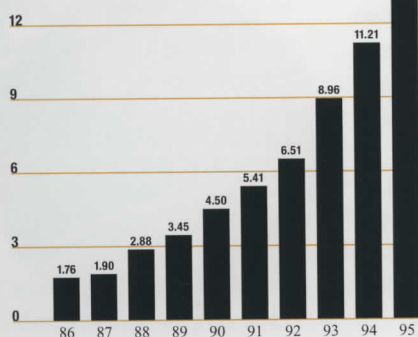
Shares outstanding at year-end

(In millions, adjusted for stock splits)



Book value per share at year-end

(Dollars, adjusted for stock splits)



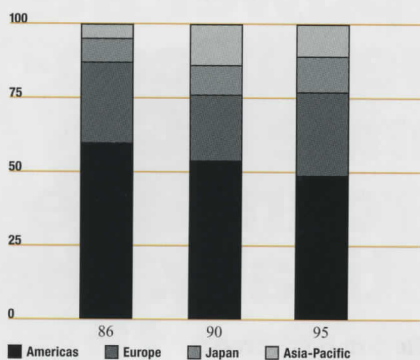
Growth in book
value per share
reflects primarily
the reinvestment
of profits into the
business and
new infusions
of capital.



In the last ten years, the
year-end closing price of Intel
stock has risen at a 36%
compound annual growth rate.

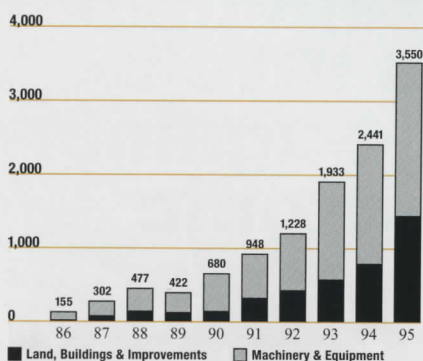
year of both record revenues and earnings for the Company. Worldwide PC unit sales were up about 25% from 1994, fueling Intel's growth.

Geographic breakdown of revenues (Percent)



Over the past five years, Intel has invested nearly \$15 billion in capital and R&D to fuel a 313% increase in revenues.

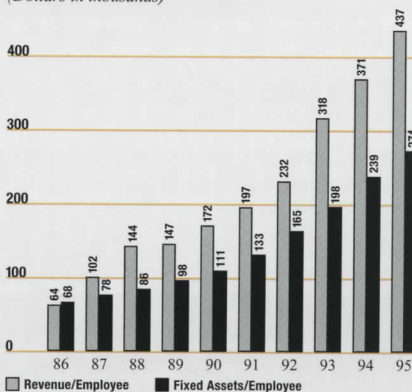
Capital additions to property, plant and equipment (Dollars in millions)



In the last ten years, R&D spending has increased at a compound annual growth rate of

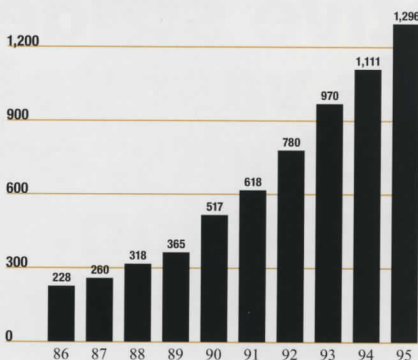
21%

Revenue and gross fixed assets per employee (Dollars in thousands)

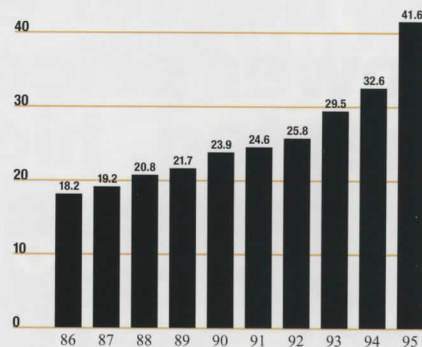


On a per employee basis, revenues have grown at a faster rate than fixed assets, reflecting productivity gains.

Research and development (Dollars in millions)

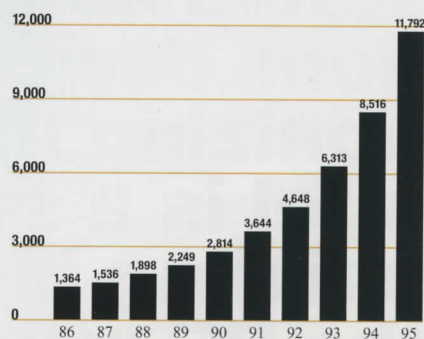


Employees at year-end (Thousands)



We hired 9,000 employees in 1995, approximately two-thirds of whom staff our manufacturing facilities.

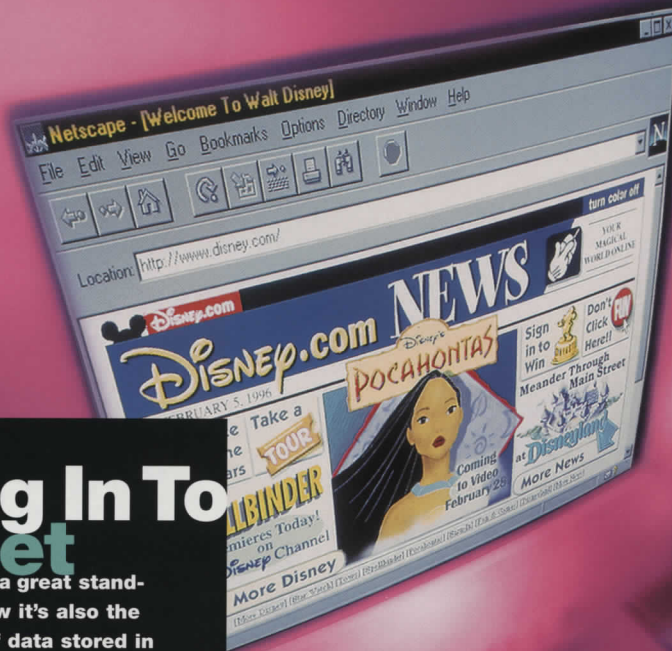
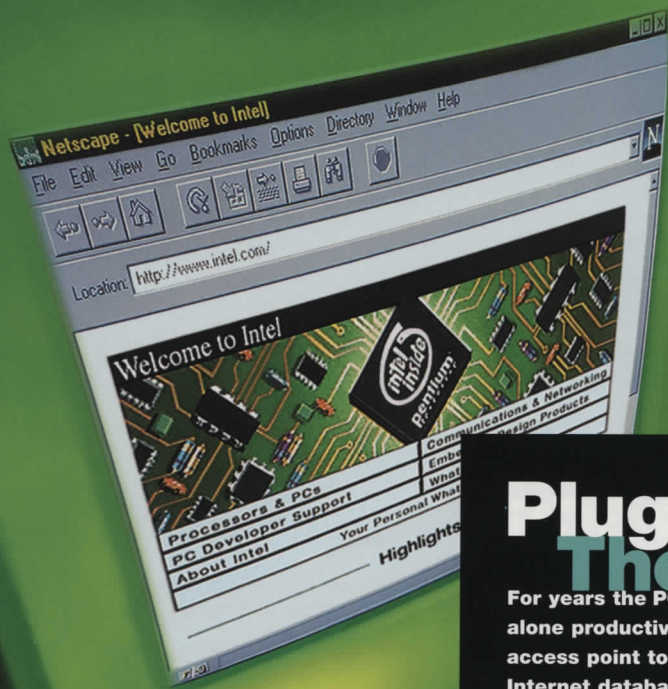
Gross fixed assets at year-end (Dollars in millions)



Intel has led the semiconductor industry in new capital investment for the last five years.

It's A PC World

The PC, it seems, is everywhere. As microprocessors continue to deliver ever greater power at lower prices, the number of connected, high-performance PCs in homes and offices around the world has grown dramatically. The PC's vast potential captures the spirit much as the automobile did early in this century. Just as cars changed completely the way we live—giving us suburbs and shopping centers, autobahns and roadtrips—the PC's emerging status as the linked communications device of choice is revolutionizing modern life yet again. Intel is a source of electronic building blocks—the “fuel” for the PC revolution. The Company is taking active strides to maximize the PC's vast potential as a tool of productivity, connectivity and communication.

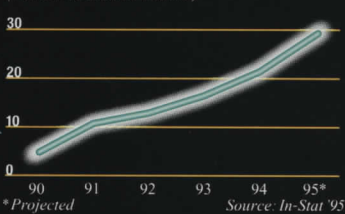


Plugging In To The 'Net

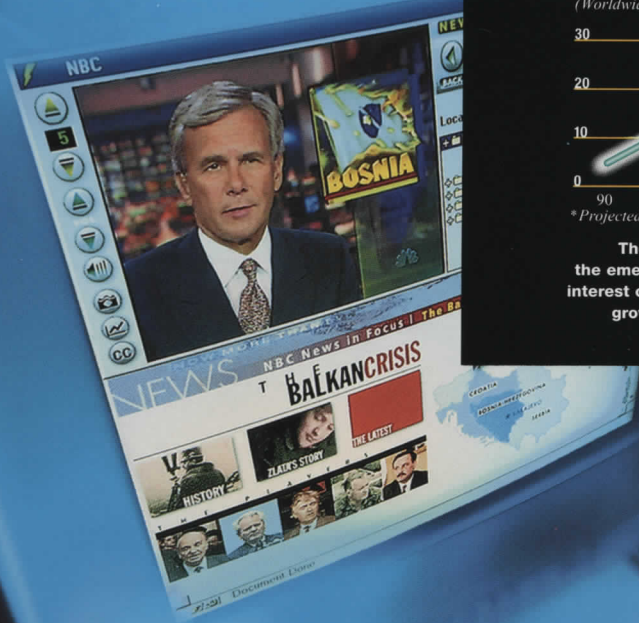
For years the PC has been a great stand-alone productivity tool. Now it's also the access point to a wealth of data stored in Internet databases around the world. PC users are logging on in record numbers. We believe that these users will need far more PC processing capability to surf the 'Net comfortably—which should make Intel a significant beneficiary of the online trend. And the 'Net is evolving, with a boom in increasingly graphics-intensive World Wide Web sites. Now Intel is working with other industry leaders to make it easier to access and use the Internet. This is the aim of InterCast,[™] Intel's new technology that pairs TV broadcast programming with the rich resources of the Web, all on a desktop PC.

Internet growth

(Worldwide users in millions)



The wealth of information and the emergence of virtual communities of interest on the 'Net have spurred dramatic growth in Internet connections.



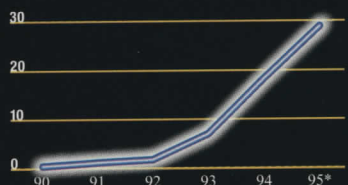


The PC Springs To Life

We have already seen a dramatic shift in the ways people are using their PCs. Today, \$2,000 will buy a Pentium® processor-based multimedia system, complete with CD-ROM drive, powerful sound and graphics capabilities, and built-in network connection ability. Such systems open the door to worlds of excitement and exploration in applications such as Microsoft's Encarta® CD-ROM encyclopedia and other dynamic educational software. The PC may soon be the video game machine of choice as well. Recognizing the multimedia quality of today's PCs, Sega Corporation recently announced that Sonic the Hedgehog® and other Sega games will be ported to the PC in addition to running on its own proprietary game machines.

CD-ROM boom

(Worldwide shipments in millions)



*Projected

Source: Dataquest 6/95

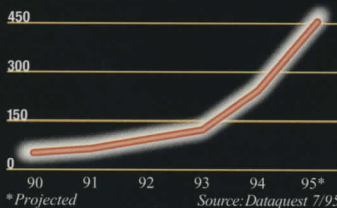
CD-ROM unit sales are projected to grow by 160 percent CAGR from 1990 to 1995, indicating the popularity of multimedia PCs in the home market.

Face To Face Via PC

In an innovative application of PC communications technology, Flagstar Bank and its partners around the U.S. are making it easier for prospective homeowners to qualify for loans. Using Intel's ProShare™ conferencing technology, mortgage brokers and home loan applicants can connect to Flagstar's underwriters for application interviews. Customers using the interactive sessions get loans approved in as little as 15 minutes, compared to days or even weeks using the old approval system. Flagstar Bank credits the ProShare technology-based systems with making the bank the fourth largest wholesale lender in the U.S. The bank is only one of many businesses adopting PC-based communications technology to make customer service more efficient.

Demand for ISDN connections

(Lines installed, in thousands)



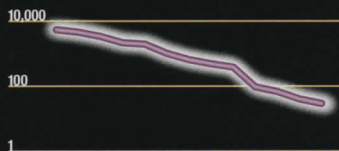
The booming popularity of the graphics-rich World Wide Web and multimedia applications is driving demand for ISDN, a growing digital communications technology.

Workstation Power

Home users aren't the only ones getting more out of their PCs. The low cost of today's PC microprocessing power is putting new worlds on the desktop in business as well. Just one example: Intergraph's TDZ¹ interactive 3D graphics workstation, based on up to four Pentium[®] Pro processors, outperforms traditional engineering workstations, while costing far less. The Intergraph Pentium Pro processor-based workstation won *BYTE* magazine's Best of COMDEX award at the November 1995 computing trade show. The system was recognized not only for its unsurpassed 3D engineering performance but for its compatibility with popular Windows[®] based desktop tools, eliminating the need for users to have both a PC and a workstation for different tasks.

Affordable processing power

(Dollars per MIPS—millions of instructions per second)



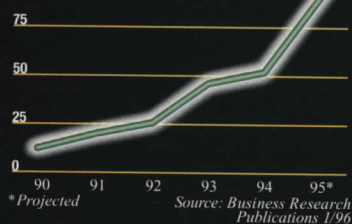
Based on prices in published ads for fully configured systems. Source: Intel 2/96

Increasingly affordable processing power is the driving force behind the growth in dynamic PC-based communications and productivity applications.

Smart Connections

The PC's emerging role as the center of business communications is changing the world's concept of the "workplace." With more powerful PCs in homes and more high-bandwidth network connections come the potential for more efficient telecommuting. ProShare™ technology lets users at different sites meet and share files in online conferences. And Intel is working with telecommunications industry leaders to develop a range of technologies that let remote PC users dial in to office databases with fewer bottlenecks. PC and communications technologies will continue to evolve together, giving users increasingly productive, powerful and rich ways to reach out and connect around the world.

Growth of e-mail worldwide
(E-mail boxes in millions)



One of the factors driving the growth of connected PCs has been the emergence of e-mail as an efficient form of communication.

Consolidated Statements Of Income

Three years ended December 30, 1995

(In millions—except per share amounts)

	1995	1994	1993
Net revenues	\$ 16,202	\$ 11,521	\$ 8,782
Cost of sales	7,811	5,576	3,252
Research and development	1,296	1,111	970
Marketing, general and administrative	1,843	1,447	1,168
Operating costs and expenses	10,950	8,134	5,390
Operating income	5,252	3,387	3,392
Interest expense	(29)	(57)	(50)
Interest income and other, net	415	273	188
Income before taxes	5,638	3,603	3,530
Provision for taxes	2,072	1,315	1,235
Net income	\$ 3,566	\$ 2,288	\$ 2,295
Earnings per common and common equivalent share	\$ 4.03	\$ 2.62	\$ 2.60
Weighted average common and common equivalent shares outstanding	884	874	882

See accompanying notes.

Consolidated Balance Sheets

December 30, 1995 and December 31, 1994

(In millions—except per share amounts)

	1995	1994
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,463	\$ 1,180
Short-term investments	995	1,230
Accounts receivable, net of allowance for doubtful accounts of \$57 (\$32 in 1994)	3,116	1,978
Inventories	2,004	1,169
Deferred tax assets	408	552
Other current assets	111	58
Total current assets	8,097	6,167
Property, plant and equipment:		
Land and buildings	3,145	2,292
Machinery and equipment	7,099	5,374
Construction in progress	1,548	850
	11,792	8,516
Less accumulated depreciation	4,321	3,149
Property, plant and equipment, net	7,471	5,367
Long-term investments	1,653	2,127
Other assets	283	155
Total assets	\$ 17,504	\$ 13,816
Liabilities and stockholders' equity		
Current liabilities:		
Short-term debt	\$ 346	\$ 517
Accounts payable	864	575
Deferred income on shipments to distributors	304	269
Accrued compensation and benefits	758	588
Accrued advertising	218	108
Other accrued liabilities	328	538
Income taxes payable	801	429
Total current liabilities	3,619	3,024
Long-term debt	400	392
Deferred tax liabilities	620	389
Put warrants	725	744
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 1995 (827 in 1994) and capital in excess of par value	2,583	2,306
Retained earnings	9,557	6,961
Total stockholders' equity	12,140	9,267
Total liabilities and stockholders' equity	\$ 17,504	\$ 13,816

See accompanying notes.

Consolidated Statements Of Cash Flows

Three years ended December 30, 1995

(In millions)

	1995	1994	1993
Cash and cash equivalents, beginning of year	\$ 1,180	\$ 1,659	\$ 1,843
Cash flows provided by (used for) operating activities:			
Net income	3,566	2,288	2,295
Adjustments to reconcile net income to net cash provided by (used for) operating activities:			
Depreciation	1,371	1,028	717
Net loss on retirements of property, plant and equipment	75	42	36
Amortization of debt discount	8	19	17
Change in deferred tax assets and liabilities	346	(150)	12
Changes in assets and liabilities:			
(Increase) in accounts receivable	(1,138)	(530)	(379)
(Increase) in inventories	(835)	(331)	(303)
(Increase) in other assets	(241)	(13)	(68)
Increase in accounts payable	289	148	146
Tax benefit from employee stock plans	116	61	68
Increase in income taxes payable	372	38	32
Increase in accrued compensation and benefits	170	44	109
(Decrease) increase in other liabilities	(73)	337	119
Total adjustments	460	693	506
Net cash provided by operating activities	4,026	2,981	2,801
Cash flows provided by (used for) investing activities:			
Additions to property, plant and equipment	(3,550)	(2,441)	(1,933)
Purchases of long-term, available-for-sale investments	(129)	(975)	(1,165)
Sales of long-term, available-for-sale investments	114	10	5
Maturities and other changes in available-for-sale investments, net	878	503	(244)
Net cash (used for) investing activities	(2,687)	(2,903)	(3,337)
Cash flows provided by (used for) financing activities:			
(Decrease) increase in short-term debt, net	(179)	(63)	197
Additions to long-term debt	—	128	148
Retirement of long-term debt	(4)	(98)	—
Proceeds from sales of shares through employee stock plans and other	192	150	133
Proceeds from sale of Step-Up Warrants, net	—	—	287
Proceeds from sales of put warrants, net of repurchases	85	76	62
Repurchase and retirement of Common Stock	(1,034)	(658)	(391)
Payment of dividends to stockholders	(116)	(92)	(84)
Net cash (used for) provided by financing activities	(1,056)	(557)	352
Net increase (decrease) in cash and cash equivalents	283	(479)	(184)
Cash and cash equivalents, end of year	\$ 1,463	\$ 1,180	\$ 1,659
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	\$ 182	\$ 76	\$ 39
Income taxes	\$ 1,209	\$ 1,366	\$ 1,123

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

See accompanying notes.

Consolidated Statements Of Stockholders' Equity

Three years ended December 30, 1995

(In millions)

	Common Stock and capital in excess of par value		Retained earnings	Total
	Number of shares	Amount		
Balance at December 26, 1992	837	\$ 1,776	\$ 3,669	\$ 5,445
Proceeds from sales of shares through employee stock plans, tax benefit of \$68 and other	14	201	—	201
Proceeds from sales of put warrants	—	62	—	62
Reclassification of put warrant obligation, net	—	(37)	(278)	(315)
Proceeds from sale of Step-Up Warrants	—	287	—	287
Repurchase and retirement of Common Stock	(14)	(95)	(296)	(391)
Cash dividends declared (\$.10 per share)	—	—	(84)	(84)
Net income	—	—	2,295	2,295
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

See accompanying notes.

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 1995 and 1993, each 52-week years, ended on December 30 and 25, 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," effective as of the beginning of fiscal 1994. 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. All 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.

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

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 its 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 options hedging investments in non-marketable instruments are deferred and recognized in income in the same period as the hedges mature or when the underlying transaction is sold, whichever comes first. Income or expense on swaps is accrued as an adjustment to the yield of the related investments or debt they hedge.

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

<i>(In millions)</i>	1995	1994
Materials and purchased parts	\$ 674	\$ 345
Work in process	707	528
Finished goods	623	296
Total	\$ 2,004	\$ 1,169

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 \$654 million, \$459 million and \$325 million in 1995, 1994 and 1993, 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 \$46 million, \$27 million and \$8 million for 1995, 1994 and 1993, respectively.

Earnings per common and common equivalent share. Earnings per common and common equivalent share are computed using the weighted average number of outstanding 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 distribution. On June 16, 1995, the Company effected a stock distribution in the form of a two-for-one stock split 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.

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 30, 1995, approximately 40 million Warrants were exercisable at a price of \$38.75 and expire on March 14, 1998 if not previously exercised. For 1995, the Warrants had a dilutive effect on earnings per share and represented approximately 11 million common equivalent shares. The Warrants did not have a dilutive effect on earnings per share in 1994 or 1993.

Stock repurchase program. In 1990, the Board of Directors authorized the repurchase of up to 80 million shares of Intel's Common Stock in open market or negotiated transactions. The Board increased this authorization to a maximum of 110 million shares in July 1994. As of December 30, 1995, the Company had repurchased and retired approximately 68 million shares for the program to date at a cost of \$2.19 billion. As of December 30, 1995, after reserving shares to cover outstanding put warrants, 29.9 million shares remained available under the repurchase authorization.

Put warrants

In a series of private placements from 1991 through 1995, the Company sold put warrants that entitle the holder of each warrant to sell one share of Common Stock to the Company at a specified price. Activity during the past three years is summarized as follows:

(In millions)	Cumulative premium received	Put warrants outstanding	
		Number of warrants	Potential obligation
December 26, 1992	\$ 56	28.0	\$ 373
Sales	62	21.6	561
Expirations	—	(20.0)	(246)
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

The amount related to Intel's potential repurchase obligation has been reclassified from stockholders' equity to put warrants. The 12 million put warrants outstanding at December 30, 1995 expire on various dates between February 1996 and November 1996 and have exercise prices ranging from \$38 to \$68 per share, with an average exercise price of \$60 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)	1995		1994	
	Balance	Weighted average interest rate	Balance	Weighted average interest rate
Borrowed under lines of credit	\$ 57	3.2%	\$ 68	3.2%
Reverse repurchase agreements payable in non-U.S. currencies	124	9.2%	99	8.0%
Notes payable	2	4.7%	5	4.7%
Short-term portion of long-term debt	—	—	179	11.8%
Drafts payable	163	N/A	166	N/A
Total	\$ 346		\$ 517	

At December 30, 1995, the Company had established foreign and domestic lines of credit of approximately \$1.16 billion. The Company generally renegotiates these lines annually. Compensating balance requirements are not material.

The Company also borrows under commercial paper programs. Maximum borrowings reached \$700 million during both 1995 and 1994. 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.

Notes To Consolidated Financial Statements

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

<i>(In millions)</i>	1995	1994
Payable in U.S. dollars:		
AFICA Bonds due 2013 at 4%	\$ 110	\$ 110
Zero Coupon Notes due 1995 at 11.8%, net of unamortized discount of \$8 in 1994	—	179
Other U.S. dollar debt	4	4
Payable in other currencies:		
Irish punt due 2008–2024 at 6%–12%	240	228
Greek drachma due 2001	46	46
Other foreign currency debt	—	4
(Less short-term portion)	—	(179)
Total	\$ 400	\$ 392

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 Zero Coupon Notes matured during 1995. 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.

In 1994, the Company filed a shelf registration statement with the Securities and Exchange Commission (SEC) that became effective in 1995. When combined with previous shelf registration statements, this filing gave Intel 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 30, 1995, aggregate debt maturities were as follows: 1996—none; 1997—none; 1998—\$110 million; 1999—none; 2000—none; and thereafter—\$290 million.

Investments

The stated return 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/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 30, 1995, investments were placed with approximately 100 different counterparties.

Investments at December 30, 1995 were as follows:

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

Investments at December 31, 1994 were as follows:

(In millions)	Cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Commercial paper	\$ 544	\$ —	\$ —	\$ 544
Repurchase agreements	194	—	—	194
Securities of foreign governments	518	2	(7)	513
Corporate bonds	440	12	(14)	438
Bank time deposits	406	—	—	406
Loan participations	266	6	(2)	270
Fixed rate notes	167	1	(2)	166
Collateralized mortgage obligations	170	—	(4)	166
Floating rate notes	488	1	(1)	488
Other debt securities	293	—	(5)	288
Total debt securities	3,486	22	(35)	3,473
Hedged equity	431	—	(58)	373
Preferred stock and other equity	368	20	(16)	372
Total equity securities	799	20	(74)	745
Swaps hedging investments in debt securities	—	22	(14)	8
Swaps hedging investments in equity securities	—	60	—	60
Currency forward contracts hedging investments in debt securities	—	1	—	1
Total available-for- sale securities	4,285	125	(123)	4,287
Less amounts classified as cash equivalents	(930)	—	—	(930)
Total investments	\$ 3,355	\$ 125	\$ (123)	\$ 3,357

Note: Certain 1994 amounts have been restated to conform to the 1995 presentation.

During the year ended December 30, 1995, debt and marketable securities with a fair value at the date of sale of \$114 million were sold. The gross realized gains on such sales totaled \$60 million. There were no material proceeds or gross realized gains or losses from sales of securities during 1994.

The amortized cost and estimated fair value of investments in debt securities at December 30, 1995, by contractual maturity, were as follows:

(In millions)	Cost	Estimated fair value
Due in 1 year or less	\$ 2,172	\$ 2,172
Due in 1–2 years	486	489
Due in 2–5 years	214	214
Due after 5 years	278	278
Total investments in debt securities	\$ 3,150	\$ 3,153

Derivative financial instruments

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

(In millions)	1995	1994
Swaps hedging investments in debt securities	\$ 824	\$1,080
Swaps hedging investments in equity securities	\$ 567	\$ 567
Swaps hedging debt	\$ 156	\$ 156
Currency forward contracts	\$1,310	\$ 784
Currency options	\$ 28	10
Options hedging investments in non-marketable instruments	\$ 82	\$ —

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

Swap agreements. The Company utilizes swap agreements to exchange the foreign currency, equity, and interest rate returns of its investment and debt portfolios for a floating U.S. dollar interest rate based return. The floating rates on swaps are based primarily on U.S. dollar LIBOR and reset on a monthly, quarterly or semiannual basis.

Weighted average pay and receive rates, average maturities and range of maturities on swaps at December 30, 1995 were as follows:

	Weighted average pay rate	Weighted average receive rate	Weighted average maturity	Range of maturities
Swaps hedging investments in U.S. dollar debt securities	6.5%	6.2%	1.1 years	0–3 years
Swaps hedging investments in foreign currency debt securities	10.4%	9.1%	1.1 years	0–3 years
Swaps hedging investments in equity securities	N/A	5.4%	1.2 years	0–2 years
Swaps hedging debt	5.9%	5.2%	3.6 years	3–6 years

Note: Pay and receive rates are based on the reset rates that were in effect at December 30, 1995.

Pay rates on swaps hedging investments in debt securities generally match the yields on the underlying investments they hedge. Payments on swaps hedging investments in equity securities generally match the equity returns on the underlying investments they hedge. Receive rates on swaps hedging debt generally match the expense on the underlying debt they hedge. Maturity dates of swaps generally match those of the underlying investment or the debt they hedge. There is approximately a one-to-one matching of investments and debt to swaps. Swap agreements generally remain in effect until expiration. Income or expense on swaps is accrued as an adjustment to the yield of the related investments or debt they hedge.

Other foreign currency instruments. Intel transacts business in various foreign currencies, primarily Japanese yen and certain European currencies. The maturities on most of these foreign currency instruments are less than 12 months. Deferred gains or losses attributable to foreign currency instruments are not material.

Notes To Consolidated Financial Statements

Fair values of financial instruments

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

(In millions)	1995		1994	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Cash and cash equivalents	\$ 1,463	\$ 1,463	\$ 1,180	\$ 1,180
Short-term investments	\$ 995	\$ 995	\$ 1,230	\$ 1,230
Long-term investments	\$ 1,699	\$ 1,699	\$ 2,058	\$ 2,058
Non-marketable instruments	\$ 239	\$ 259	\$ 59	\$ 144
Swaps hedging investments in debt securities	\$ (7)	\$ (7)	\$ 8	\$ 8
Swaps hedging investments in equity securities	\$ (42)	\$ (42)	\$ 60	\$ 60
Options hedging investments in non-marketable instruments	\$ (9)	\$ (13)	\$ —	\$ —
Short-term debt	\$ (346)	\$ (346)	\$ (517)	\$ (517)
Long-term debt	\$ (400)	\$ (399)	\$ (392)	\$ (384)
Swaps hedging debt	\$ —	\$ (1)	\$ —	\$ (12)
Currency forward contracts	\$ 3	\$ 4	\$ 1	\$ 5
Currency options	\$ —	\$ —	\$ —	\$ —

Concentrations of credit risk

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

During 1995, the Company experienced an increase in its concentration of credit risk due to increasing trade receivables from sales to manufacturers of microcomputer systems. The Company's five largest customers accounted for approximately 33% of net revenues for 1995. At December 30, 1995, these customers accounted for approximately 34% of net accounts receivable. A portion of the receivable balance from one of the Company's five largest customers has been converted into a loan. The total amount receivable from this customer was approximately \$400 million at December 30, 1995.

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

Interest income and other

(In millions)	1995	1994	1993
Interest income	\$ 272	\$ 235	\$ 155
Foreign currency gains	29	15	—
Other income	114	23	33
Total	\$ 415	\$ 273	\$ 188

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. Other income for 1993 included non-recurring gains from the sale of certain benefits related to the Company's Irish expansion and dividend income earned on equity investments.

Provision for taxes

The provision for taxes consisted of the following:

(In millions)	1995	1994	1993
Income before taxes:			
U.S.	\$ 3,427	\$ 2,460	\$ 2,587
Foreign	2,211	1,143	943
Total income before taxes	\$ 5,638	\$ 3,603	\$ 3,530
Provision for taxes:			
Federal:			
Current	\$ 1,169	\$ 1,169	\$ 946
Deferred	307	(178)	35
	1,476	991	981
State:			
Current	203	162	150
Foreign:			
Current	354	134	127
Deferred	39	28	(23)
	393	162	104
Total provision for taxes	\$ 2,072	\$ 1,315	\$ 1,235
Effective tax rate	36.8%	36.5%	35.0%

The tax benefit associated with dispositions from employee stock plans reduced taxes currently payable for 1995 by \$116 million (\$61 million and \$68 million for 1994 and 1993, respectively).

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

(In millions)	1995	1994	1993
Computed expected tax	\$ 1,973	\$ 1,261	\$ 1,235
State taxes, net of federal benefits	132	105	98
Other	(33)	(51)	(98)
Provision for taxes	\$ 2,072	\$ 1,315	\$ 1,235

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:

<i>(In millions)</i>	1995	1994
Deferred tax assets		
Accrued compensation and benefits	\$ 61	\$ 49
Deferred income	127	127
Inventory valuation and related reserves	104	255
Interest and taxes	61	54
Other, net	55	67
	408	552
Deferred tax liabilities		
Depreciation	(475)	(338)
Unremitted earnings of certain subsidiaries	(116)	(51)
Other, net	(29)	—
	(620)	(389)
Net deferred tax (liability) asset	\$ (212)	\$ 163

U.S. income taxes were not provided for on a cumulative total of approximately \$615 million of undistributed earnings for certain non-U.S. subsidiaries. The Company intends to reinvest these earnings indefinitely in operations outside the United States.

The Company's U.S. income tax returns for the years 1978 through 1987 have been examined by the Internal Revenue Service (IRS). In 1989, the Company received a notice of proposed deficiencies from the IRS totaling \$36 million, exclusive of penalties and interest, for the years 1978 through 1982. These proposed deficiencies relate primarily to operations in Puerto Rico. In 1989, the Company filed a petition in the U.S. Tax Court contesting these proposed deficiencies and subsequently reached settlement of certain issues with the IRS. In 1993, the U.S. Tax Court ruled in favor of the Company on an export source issue and for the IRS on another, smaller issue. The IRS appealed the decision to the United States Court of Appeals for the Ninth Circuit, and the Company filed a cross-appeal of the decision. In 1995, the Court of Appeals affirmed the decision of the Tax Court. The IRS has subsequently requested a re-hearing.

The Company has also received an examination report for the years 1983 through 1987. Intel has lodged a protest, which relates solely to the export source issue referenced above, to the IRS Appeals Office, but no decisions have been reached.

The Company's U.S. income tax returns for the years 1988 through 1990 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 from unsettled portions of the 1978-1987 cases or the years now 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 key executive officers may be granted options to purchase shares of the Company's autho-

rized but unissued Common Stock. Under all plans, the option purchase price is not less than fair market value at the date of grant. The Company accounts for stock options in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees." In accordance with SFAS No. 123, "Accounting for Stock-Based Compensation," the Company intends to continue to apply APB No. 25 for purposes of determining net income and to adopt the pro forma disclosure requirements for fiscal 1996.

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

<i>(In millions)</i>	<i>Shares available for options</i>	<i>Outstanding options</i>	
		<i>Number of shares</i>	<i>Aggregate price</i>
December 26, 1992	65.4	73.6	\$ 669
Grants	(15.2)	15.2	357
Exercises	—	(9.0)	(56)
Cancellations	1.8	(1.8)	(24)
December 25, 1993	52.0	78.0	946
Grants	(12.0)	12.0	397
Exercises	—	(8.2)	(54)
Cancellations	1.6	(1.6)	(33)
December 31, 1994	41.6	80.2	1,256
Grants	(13.5)	13.5	645
Exercises	—	(9.8)	(81)
Cancellations	3.0	(3.0)	(77)
December 30, 1995	31.1	80.9	\$ 1,743
Options exercisable at:			
December 25, 1993		20.4	\$ 135
December 31, 1994		26.2	\$ 198
December 30, 1995		25.3	\$ 236

The range of exercise prices for options outstanding under the EOP Plan at December 30, 1995 was \$3.13 to \$69.43. These options will expire if not exercised at specific dates ranging from January 1996 to December 2005. Prices for options exercised during the three-year period ended December 30, 1995 ranged from \$3.04 to \$36.13.

Activity for the ELTSOP Plan is summarized below:

<i>(In millions)</i>	<i>Shares available for options</i>	<i>Outstanding options</i>	
		<i>Number of shares</i>	<i>Aggregate price</i>
December 26, 1992	13.2	6.0	\$ 44
Grants	(0.4)	0.4	11
Exercises	—	(0.8)	(6)
December 25, 1993	12.8	5.6	49
Exercises	—	(0.6)	(4)
December 31, 1994	12.8	5.0	45
Grants	(0.5)	0.5	30
Exercises	—	(0.9)	(6)
December 30, 1995	12.3	4.6	\$ 69
Options exercisable at:			
December 25, 1993		1.4	\$ 11
December 31, 1994		2.6	\$ 19
December 30, 1995		3.8	\$ 29

The range of exercise prices for options outstanding under the ELTSOP Plan at December 30, 1995 was \$7.31 to \$60.48.

Notes To Consolidated Financial Statements

These options will expire if not exercised at specific dates ranging from April 1999 to September 2005. Prices for options exercised during the three-year period ended December 30, 1995 ranged from \$7.31 to \$7.34.

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 59.0 million shares authorized to be issued under the plan, 11.9 million shares were available for issuance at December 30, 1995. Employees purchased 3.5 million shares in 1995 (4.0 million and 4.4 million in 1994 and 1993, respectively) for \$110 million (\$94 million and \$71 million in 1994 and 1993, respectively).

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. 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 \$188 million for the Qualified Plans and the Non-Qualified Plan in 1995 (\$152 million in 1994 and \$103 million in 1993). Of the \$188 million accrued in 1995, the Company expects to fund approximately \$145 million for the 1995 contribution to the Qualified Plans and to allocate approximately \$6 million for the Non-Qualified Plan. The remainder, plus approximately \$140 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 balance in the participant's 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 1995, 1994 and 1993 for the U.S. and Puerto Rico plans was less than \$1 million per year, and no component of expense exceeded \$2 million.

The funded status of these plans as of December 30, 1995 and December 31, 1994 was as follows:

<i>(In millions)</i>	1995	1994
Vested benefit obligation	\$ (3)	\$ (3)
Accumulated benefit obligation	\$ (4)	\$ (3)
Projected benefit obligation	\$ (6)	\$ (5)
Fair market value of plan assets	8	6
Projected benefit obligation less than plan assets	2	1
Unrecognized net (gain)	(12)	(12)
Unrecognized prior service cost	3	4
Accrued pension costs	\$ (7)	\$ (7)

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

	1995	1994	1993
Discount rate	7.0%	8.5%	7.0%
Rate of increase in compensation levels	5.0%	5.5%	5.0%
Expected long-term return on assets	8.5%	8.5%	8.5%

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

The Company provides defined-benefit pension plans in certain foreign countries where required by statute. The Company's funding policy for foreign defined-benefit plans is consistent with the local requirements in each country. Pension expense for 1995, 1994 and 1993 for the foreign plans included the following:

<i>(In millions)</i>	1995	1994	1993
Service cost-benefits earned during the year	\$ 9	\$ 5	\$ 5
Interest cost of projected benefit obligation	6	5	6
Actual investment (return) on plan assets	(4)	(8)	(7)
Net amortization and deferral	(2)	3	2
Net pension expense	\$ 9	\$ 5	\$ 6

The funded status of the foreign defined-benefit plans as of December 30, 1995 and December 31, 1994 is summarized below:

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

1994 (In millions)	Assets exceed accu- mulated benefits	Accu- mulated benefits exceed assets
Vested benefit obligation	\$ (32)	\$ (4)
Accumulated benefit obligation	\$ (34)	\$ (9)
Projected benefit obligation	\$ (49)	\$ (16)
Fair market value of plan assets	51	3
Projected benefit obligation less than (in excess of) plan assets	2	(13)
Unrecognized net loss	2	2
Unrecognized net transition obligation	—	1
Prepaid (accrued) pension costs	\$ 4	\$ (10)

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:

	1995	1994	1993
Discount rate	5.5%–14%	5.5%–14%	5.5%–14%
Rate of increase in compensation levels	4.5%–11%	4.5%–11%	4.5%–11%
Expected long-term return on assets	5.5%–14%	5.5%–14%	5.5%–14%

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

Other postemployment benefits. The Company has adopted SFAS No. 106, "Employers' Accounting for Post-retirement 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 \$38 million in 1995, \$38 million in 1994 and \$35 million in 1993. Minimum rental commitments under all non-cancelable leases with an initial term in excess of one year are payable as follows: 1996–\$25 million; 1997–\$20 million; 1998–\$15 million; 1999–\$12 million; 2000–\$10 million; 2001 and beyond–\$23 million. Commitments for construction or purchase of property, plant and equipment approximated \$1.47 billion at December 30, 1995. In connection with certain manufacturing arrangements, Intel had minimum purchase commitments of approximately \$1.12 billion at December 30, 1995 for flash memories and other memory components and for production capacity of board-level products.

Contingencies

On March 29, 1995, Thorn EMI North America Inc. brought suit in Federal Court in Delaware against Intel and Advanced Micro Devices, Inc. (AMD) alleging infringement of a U.S. patent relating to processes for manufacturing semiconductors, certain of which processes are utilized in the manufacture of the Company's Pentium® and Pentium® Pro microprocessors. The plaintiff is seeking injunctive relief and unspecified damages. On September 8, 1995, Intel was granted a motion to

sever its case from the AMD case. Trial of the plaintiff's claims against Intel is presently set for June 1996. The Company believes this lawsuit to be without merit and intends to defend the lawsuit vigorously. 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

The Company 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 1995 or 1994. One significant customer accounted for 10% of revenues in 1993. Summary balance

Notes To Consolidated Financial Statements

sheet information for operations outside the United States at fiscal year-ends is as follows:

(In millions)	1995	1994
Total assets	\$4,404	\$2,940
Total liabilities	\$1,661	\$ 962
Net property, plant and equipment	\$1,414	\$1,238

Geographic information for the three years ended December 30, 1995 is presented in the following table. Transfers between geographic areas are accounted for at amounts that are general-

ly 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, deferred tax assets, other current assets, long-term investments and certain other assets.

(In millions)	Sales to unaffiliated customers	Transfers between geographic areas	Net revenues	Operating income	Identifiable assets
1995					
United States	\$ 7,922	\$ 6,339	\$ 14,261	\$ 3,315	\$ 12,603
Europe	4,560	1,190	5,750	1,383	2,517
Japan	1,737	28	1,765	353	665
Asia-Pacific	1,983	1,566	3,549	271	893
Other	—	684	684	410	329
Eliminations	—	(9,807)	(9,807)	124	(3,651)
Corporate	—	—	—	(604)	4,148
Consolidated	\$16,202	\$ —	\$16,202	\$ 5,252	\$17,504
1994					
United States	\$ 5,826	\$ 4,561	\$ 10,387	\$ 2,742	\$ 7,771
Europe	3,158	380	3,538	418	1,733
Japan	944	61	1,005	125	343
Asia-Pacific	1,593	1,021	2,614	154	540
Other	—	639	639	378	324
Eliminations	—	(6,662)	(6,662)	179	(1,878)
Corporate	—	—	—	(609)	4,983
Consolidated	\$11,521	\$ —	\$11,521	\$ 3,387	\$13,816
1993					
United States	\$ 4,416	\$ 3,406	\$ 7,822	\$ 2,896	\$ 5,379
Europe	2,476	51	2,527	309	1,214
Japan	678	119	797	108	351
Asia-Pacific	1,212	745	1,957	132	420
Other	—	566	566	348	207
Eliminations	—	(4,887)	(4,887)	85	(1,123)
Corporate	—	—	—	(486)	4,896
Consolidated	\$ 8,782	\$ —	\$ 8,782	\$ 3,392	\$11,344

Supplemental information (unaudited)

Quarterly information for the two years ended December 30, 1995 is presented on page 31.

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 30, 1995 and December 31, 1994, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 30, 1995. 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 30, 1995 and December 31, 1994, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 30, 1995, in conformity with generally accepted accounting principles.

Ernst & Young LLP

San Jose, California

January 15, 1996

Financial Summary

Ten Years Ended December 30, 1995

(In millions)

	Net investment in property, plant & equip.	Total assets	Long-term debt & put warrants	Stock- holders' equity	Additions to property, plant & equipment
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
1986	\$ 779	\$ 1,977	\$ 287	\$ 1,245	\$ 155

(In millions—except per share amounts)

	Net revenues	Cost of sales	Research & devel- opment	Operating income (loss)	Net income (loss)	Earnings (loss) per share	Dividends declared per share
1995	\$16,202	\$ 7,811	\$ 1,296	\$ 5,252	\$ 3,566	\$ 4.03	\$ 0.15
1994	\$11,521	\$ 5,576	\$ 1,111	\$ 3,387	\$ 2,288	\$ 2.62	\$ 0.115
1993	\$ 8,782	\$ 3,252	\$ 970	\$ 3,392	\$ 2,295	\$ 2.60	\$ 0.10
1992	\$ 5,844	\$ 2,557	\$ 780	\$ 1,490	\$ 1,067	\$ 1.24	\$ 0.05
1991	\$ 4,779	\$ 2,316	\$ 618	\$ 1,080	\$ 819	\$ 0.98	—
1990	\$ 3,921	\$ 1,930	\$ 517	\$ 858	\$ 650	\$ 0.80	—
1989	\$ 3,127	\$ 1,721	\$ 365	\$ 557	\$ 391	\$ 0.52	—
1988	\$ 2,875	\$ 1,506	\$ 318	\$ 594	\$ 453	\$ 0.63	—
1987	\$ 1,907	\$ 1,044	\$ 260	\$ 246	\$ 248	\$ 0.34	—
1986	\$ 1,265	\$ 861	\$ 228	\$ (195)	\$ (203)	\$ (0.29)	—

Management's Discussion And Analysis Of Financial Condition And Results Of Operations

Results of operations. Intel posted record net revenues in 1995, for the ninth consecutive year, rising by 41% from 1994 to 1995 and by 31% from 1993 to 1994. Higher volumes of the rapidly ramping Pentium® microprocessor family, partially offset by lower prices, and increased sales of related board-level products were responsible for most of the growth in revenues in 1994 and 1995. Revenues from the Intel486™ microprocessor family declined substantially in 1995 due to a shift in market demand toward the Company's Pentium microprocessors and lower Intel486 microprocessor prices.

Higher volumes of flash memory and chipset products also contributed toward the increase in revenues from 1993 to 1995 and also helped enable the successful Pentium microprocessor ramp. Sales of system platforms, embedded control products, and networking and communications products also grew.

Cost of sales increased by 40% from 1994 to 1995 and by 71% from 1993 to 1994. The growth in cost of sales from 1993 to 1995 was driven by Pentium microprocessor and board-level unit volume growth, new factories coming into production, shifts in process and product mix, and in the fourth quarter of 1995, by costs associated with unusually high reserves related to inventories of certain purchased components. Gross margin for the fourth quarter of 1994 included the impact of a \$475 million charge, primarily to cost of sales, to cover replacement costs, replacement material and an inventory writedown related to a divide problem in the floating point unit of the Pentium microprocessor. As a result of the above factors, the gross margin percentage was 52% in 1995 and 1994, compared to 63% in 1993.

Quarterly unit shipments of the Pentium microprocessor family surpassed those of the Intel486 microprocessor family during the third quarter of 1995. The Company helped accelerate this transition by offering chipsets and motherboards to enable computer manufacturers to bring their products to market faster. Sales of the Pentium microprocessor family comprised a majority of the Company's revenues and a substantial majority of its gross margin during 1995. During 1995, the Intel486 microprocessor family represented a significant but rapidly declining portion of the Company's revenues and gross margins. The Intel486 microprocessor family comprised a majority of the Company's revenues and a substantial majority of its gross margin during 1993 and 1994.

Research and development spending grew by 17% from 1994 to 1995, as the Company continued to invest in strategic programs, particularly for the internal development of microprocessor products and related manufacturing technology. Increased spending for marketing programs, including media merchandising and the Company's Intel Inside® cooperative advertising program, drove the 27% increase in marketing, general and administrative expenses from 1994 to 1995.

The \$28 million decrease in interest expense from 1994 to

1995 was mainly due to lower average borrowing balances in addition to higher interest capitalization resulting from increased facility construction programs. The increase in interest expense from 1993 to 1994 was primarily due to higher average interest rates on borrowings, partially offset by higher interest capitalization.

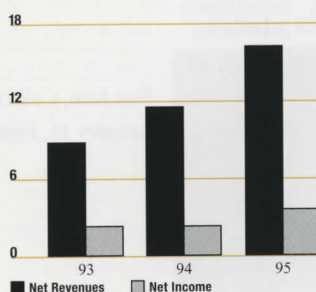
Interest and other income increased by \$142 million from 1994 to 1995, primarily due to higher average interest rates on investments in 1995, gains of \$58 million related to the settlement of litigation and gains of \$60 million from the sale of a portion of the Company's investment in marketable equity securities. Interest and other income increased by \$85 million from 1993 to 1994, mainly due to higher average interest rates on investments in 1994, gains related to the settlement of various insurance claims in 1994, and higher foreign exchange gains and investment balances in 1994. Interest and other income in 1993 included gains of \$27 million from the sale of certain foreign benefits related to

a plant expansion in Ireland during 1993.

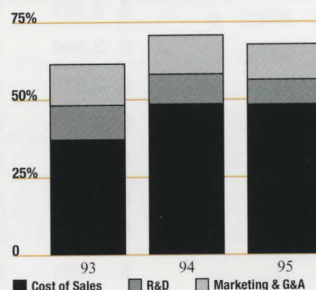
The Company utilizes investments and corresponding interest rate swaps to preserve principal while enhancing the yield on its investment portfolio without significantly increasing risk, and uses forward contracts, options and swaps to hedge currency, market and interest rate exposures. Gains and losses 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 1993-1995 period.

The Company's effective income tax rate increased to 36.8% in 1995 compared to 36.5% and 35.0% in 1994 and 1993, respectively. The increases in rate from 1993 to 1995 resulted from the fact that tax credits have not grown as rapidly as overall pretax income.

Revenues and income
(Dollars in billions)



Costs and expenses
(Percent of revenues)



Financial condition. The Company's financial condition remains very strong. As of December 30, 1995, total cash and short- and long-term investments totaled \$4.11 billion, down from \$4.54 billion at December 31, 1994. Cash generated from operating activities rose to \$4.03 billion in 1995, compared to \$2.98 billion and \$2.80 billion in 1994 and 1993, respectively.

Investing activities consumed \$2.69 billion in cash during 1995, compared to \$2.90 billion during 1994 and \$3.34 billion during 1993. Capital expenditures increased substantially in both 1994 and 1995, as the Company continued to invest in the property, plant and equipment needed for future business requirements, including manufacturing capacity. The Company expects to spend approximately \$4.1 billion for capital additions in 1996 and had committed approximately \$1.47 billion for the construction or purchase of property, plant and equipment as of December 30, 1995.

Inventory levels, particularly raw materials and finished goods, increased significantly in 1995. This increase was primarily attributable to the increased level of business and, to a lesser extent, to an unusually low level of inventory at the end of 1994 because of a writedown of inventories in the fourth quarter of 1994 in connection with the divide problem in the floating point unit of the Pentium processor. The increase in accounts receivable in 1995 was mainly due to revenue growth, including the growth of non-domestic sales that have longer payment terms. 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. The Company's five largest customers accounted for approximately 33% of net revenues for 1995. At December 30, 1995, these customers accounted for approximately 34% of net accounts receivable. A portion of the receivable balance from one of its five largest customers has been converted into a loan. The total amount receivable from this customer was approximately \$400 million at December 30, 1995.

The Company used \$1.06 billion and \$557 million for financing activities in 1995 and 1994, respectively, while \$352 million was provided in 1993. The major financing application of cash in 1995 was for stock repurchases totaling \$1.03 billion. Financing applications of cash in 1994 included stock repurchases of \$658 million and the early retirement of the Company's 8 1/8% debt. Sources of financing in 1993 included the Company's public offering of the 1998 Step-Up Warrants, which resulted in proceeds of \$287 million.

As part of its authorized stock repurchase program, the Company had outstanding put warrants at the end of 1995, with the potential obligation to buy back 12 million shares of its Common Stock at an aggregate price of \$725 million. The exercise price of these warrants ranges from \$38 to \$68 per share, with an average exercise price of \$60 per share.

Other sources of liquidity include combined credit lines and authorized commercial paper borrowings of \$1.86 billion, \$57 million of which was outstanding at December 30, 1995. 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 recently announced expansion of international manufacturing sites, working capital requirements, the potential put warrant obligation and the dividend program.

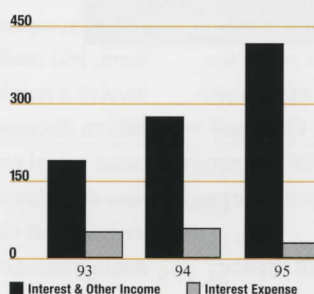
Outlook. The statements contained in this Outlook are based on current expectations. These statements are forward looking, and actual results may differ materially.

Intel expects that the total number of personal computers using Intel's Pentium microprocessors and other semiconductor components sold worldwide will continue to grow in 1996. Intel has expanded manufacturing capacity over the last few years and continues to expand capacity to be able to meet the potential increase in demand. Intel's financial results are to a large extent dependent on this market segment. Revenue is also a function of the distribution of

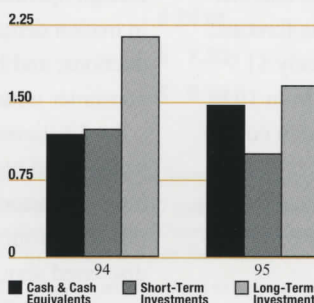
microprocessor speed and performance levels, which is difficult to forecast. Because of the large price difference between components for the highest and lowest performance computers, this distribution affects the average price Intel will realize and has a large impact on Intel's revenues.

Intel's strategy has been, and continues to be, to introduce ever higher performance microprocessors and work with the software industry to develop compelling applications that can take advantage of this higher performance, thus driving demand toward the newer products. Capacity has been planned based on the assumed continued success of the Company's strategy. In line with this strategy, the Company has recently announced higher speed members of the Pentium® Pro microprocessor family. If the market demand does not continue to grow and move rapidly toward higher performance products, revenue

Other income and expense
(Dollars in millions)



Cash and investments
(Dollars in billions)



Management's Discussion And Analysis Of Financial Condition And Results Of Operations

growth 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 mix sold in any period. Because the percentage of motherboards that Intel's customers purchase changes with 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. Various other factors, including unit volumes and costs and yield issues associated with initiating production at new factories or on new processes, also will continue to affect the amount of cost of sales and the variability of gross margin percentages in future quarters. From time to time the Company may forecast a range of gross margin percentages for the coming quarter. Actual results may differ. Longer term gross margin percentages are even more difficult to predict.

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 \$4.1 billion in 1996. This spending plan is dependent upon delivery times of various machines and construction schedules for new facilities. Based on this forecast, depreciation for 1996 is expected to be approximately \$1.9 billion, an increase of approximately \$500 million from 1995. Most of this increased depreciation will 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 main-

tain a strong research and development program to continue to succeed. Accordingly, research and development spending is expected to grow in 1996 to approximately \$1.6 billion. 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 1996.

The Company expects its tax rate to decrease to 36.5% for 1996. This estimate is based on current tax law 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, 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 the general economy; competitive factors, such as rival chip architectures, competing software compatible microprocessors, acceptance of new products and price pressures; availability of third-party component products at reasonable prices; risk of nonpayment of accounts receivable or customer loans; manufacturing ramp and capacity; risks associated with foreign operations; risk of inventory obsolescence due to shifts in market demand; timing of software industry product introductions; 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, product mix and profits are all influenced by a number of factors, as discussed above.

Financial Information By Quarter (Unaudited)

(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

(In millions—except per share data)

1994 for quarter ended

	December 31	October 1	July 2	April 2
Net revenues.....	\$ 3,228	\$ 2,863	\$ 2,770	\$ 2,660
Cost of sales.....	\$ 2,023	\$ 1,273	\$ 1,156	\$ 1,124
Net income.....	\$ 372 ^(C)	\$ 659	\$ 640	\$ 617
Earnings per share.....	\$.43	\$.76	\$.73	\$.70
Dividends per share ^(A) Declared.....	\$.03	\$.03	\$.03	\$.025
Paid.....	\$.03	\$.03	\$.025	\$.025
Market price range Common Stock ^(B) High.....	\$ 33.06	\$ 33.63	\$ 35.31	\$ 36.13
Low.....	\$ 28.91	\$ 28.25	\$ 28.75	\$ 30.63
Market price range Step-Up Warrants ^(B) High.....	\$ 7.50	\$ 8.00	\$ 9.22	\$ 9.75
Low.....	\$ 6.16	\$ 6.50	\$ 6.50	\$ 7.56

^(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 30, 1995, there were approximately 69,400 holders of Common Stock. All stock and warrant prices are closing prices per The Nasdaq Stock Market.

^(C) Net income for the fourth quarter of 1994 was impacted by a \$475 million pretax charge to revenue and cost of sales to cover replacement and other costs associated with a divide problem in the floating point unit of the Company's Pentium processor.

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