

Western Digital

1997 Summary Annual Report



“The Western Digital

brand has come to

mean quality, reliability

and exceptional

security for the

information that

people create and

collect in their

professional and

personal lives.”



Western Digital Corporation is a leading manufacturer of hard drives for information storage products. The Company's hard drives form the foundations on which individuals, businesses and institutions build secure information environments.

Western Digital manufactures hard drives for the world's leading makers of desktop and mobile personal computers and for producers of servers, workstations and other networking devices. The Company serves consumer markets for replacement and add-on data storage under its top-selling WD brand.

Established in 1970, Western Digital is the first U.S.-headquartered, multi-national company to have been awarded company-wide ISO 9001 registration, linking all WD organizations with a consistent global standard for quality processes.

Financial Highlights

(in millions, except per share and employee data)	Fiscal Years Ended				
	June 30, 1993	June 30, 1994	July 1, 1995	June 29, 1996	June 28, 1997
Revenues, net	\$ 1,225.2	\$ 1,539.7	\$ 2,130.9	\$ 2,865.2	\$ 4,177.9
Gross profit	\$ 182.0	\$ 317.9	\$ 394.1	\$ 382.1	\$ 650.3
Operating income (loss)	\$ (10.0)	\$ 91.9	\$ 133.0	\$ 77.5	\$ 301.6
Net income (loss)	\$ (25.1)	\$ 73.1	\$ 123.3	\$ 96.9	\$ 267.6
Fully diluted earnings (loss) per share*	\$ (.39)	\$.85	\$ 1.23	\$ 1.00	\$ 2.85
Fully diluted common and common equivalent shares*	63.6	91.4	102.8	96.6	93.9
Working capital	\$ 111.5	\$ 261.7	\$ 360.5	\$ 280.2	\$ 364.2
Total assets	\$ 531.2	\$ 640.5	\$ 858.8	\$ 984.1	\$ 1,307.1
Long-term debt	\$ 182.6	\$ 58.6	\$ —	\$ —	\$ —
Shareholders' equity	\$ 131.0	\$ 288.2	\$ 473.4	\$ 453.9	\$ 620.0
Number of employees	7,322	6,593	7,647	9,628	13,384

* Reflects retroactive recognition of the two-for-one stock split that occurred in June 1997.

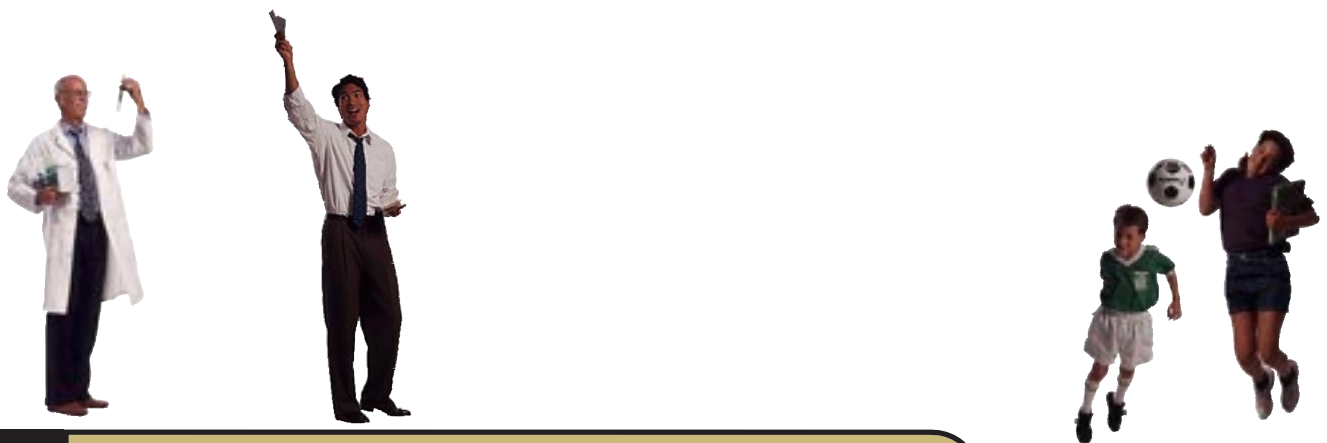


Fiscal 1997 was Western Digital's best year ever. The Company produced record unit volume, revenues, net income and earnings per share as well as record shareholders' equity.

As the 1997 fiscal year marked Western Digital's fifth year with present management, it seems appropriate not only to review the year's results but also to summarize where we have taken the Company since 1992. This has been a time of dramatic change that positioned Western Digital as a major player in the worldwide market for hard drives, earned us a place among the Fortune 500 companies and, in 1996, gained recognition for Western Digital as the number one company on that list in total return to shareholders.

In September of 1992, our Personal Storage Division launched its "platform strategy," which was the precursor of our "asset management strategy" — the fundamental ingredient in our financial success. We succeeded in establishing the Western Digital brand name while shedding assets that were not "core" to our hard drive business. We divested unrelated businesses such as graphics acceleration, battery chargers, SCSI adapter boards and fibre channel products, and in late 1995 we formed our Enterprise Storage Group from scratch.

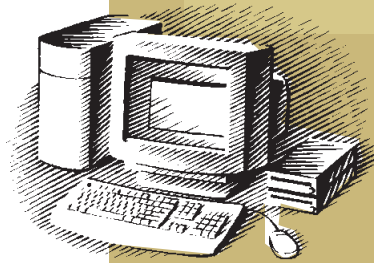
ESG has been a great and early success. This new operation brought its first products to market in a record 21 months, and became profitable in its first quarter of volume operation. This group is now responsible for approximately 1,200 people in its Rochester, Minnesota headquarters and in its Tuas, Singapore production facility.



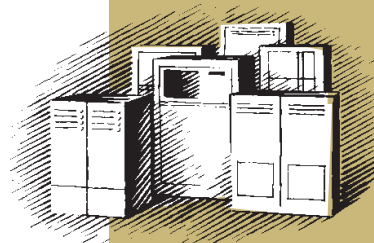
...a full-line hard drive supplier to the world's leading computer makers.

Expanding

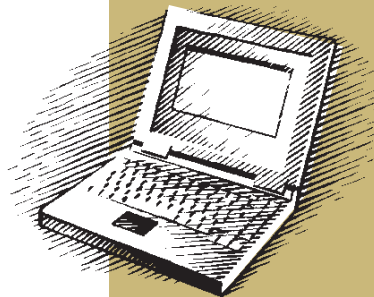
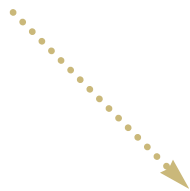
Markets



Desktop Computing



Enterprise Computing



Mobile Computing

Quality

Western Digital ranks among the world's top producers of desktop computer hard drives. WD Caviar EIDE hard drives are used by leading computer makers and are the most often recommended hard drives for replacement and add-on uses.



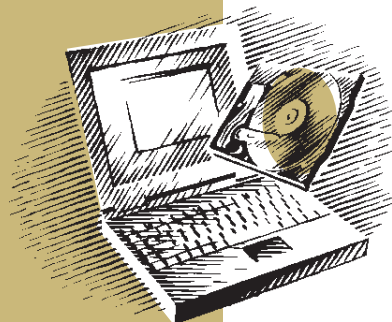
Performance

Western Digital builds WD Enterprise SCSI hard drives for workstations, file servers, multi-user, audio-video and a wide variety of network applications.



Hard Drive

Western Digital manufactures WD Portfolio hard drives for mobile computers in a new, 3-inch format that provides 70 percent more recording area per platter than the 2.5-inch format that has been in use for years.



...record unit volume, revenues, net income and earnings per share as well as record shareholders' equity.

Thus, the Western Digital of today is quite unlike the company we knew in 1992. We have become a full-line hard drive supplier to the world's leading computer makers. Hard drive revenues have grown more than sixfold and, with financial disciplines in place, the Company is now solidly profitable. Long-term debt has been reduced from \$243 million to zero, and cash reserves have grown from \$34 million to more than \$200 million. In recognition of these accomplishments, the Company's market value grew from \$142 million in 1992 to more than \$2.7 billion by the end of fiscal 1997.

A point of pride for the people of Western Digital is the attainment of special recognition for the Company's brand name. The Western Digital brand has come to mean quality, reliability and exceptional security for the information that people create and collect in their professional and personal lives.

Western Digital's success over these five years could not have been accomplished without the able leadership of Kathy Braun, President and Chief Operating Officer of our Personal Storage Division, Marc Nussbaum, Senior Vice President of Engineering for Personal Storage, Matt Massengill, Senior Vice President and General Manager of our Enterprise Storage Group, David Schafer, Senior Vice President of Worldwide Sales, and Duston Williams, Senior Vice President and Chief Financial Officer. These leaders and the more than 13,000 associates we have at Western Digital are dedicated to increasing shareholder value. That's our true measure.

We look forward to bringing you a \$10 billion company within the next five years.

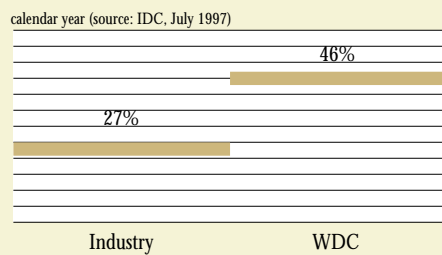
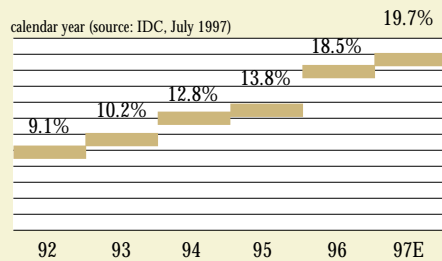
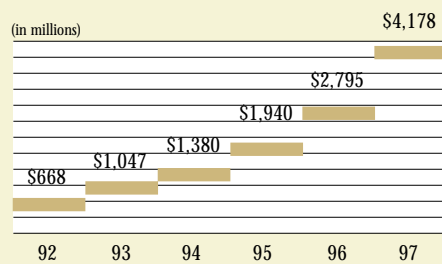
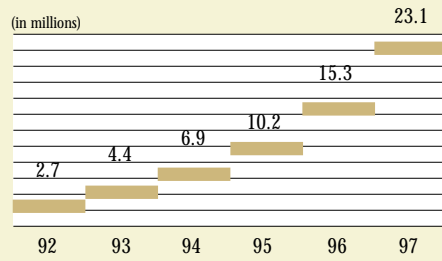
Sincerely,



Charles A. Haggerty
Chairman, President and
Chief Executive Officer
September 12, 1997



Western Digital Growth



Graph information is based on fiscal years unless otherwise noted.

Hard Drive Units Shipped

Hard drive unit volume grew 51 percent in fiscal year 1997. Analysts foresee a compounded annual growth rate of 19 percent for the hard drive industry through the year 2001.

Hard Drive Revenues

Net hard drive revenues grew 49 percent in fiscal year 1997, and at a compounded annual rate of 44 percent over the past five years.

Worldwide Market Share

Western Digital has gained market share in a very competitive environment by growing customer relationships, producing quality products, deploying technology, executing manufacturing efficiently, improving time-to-market and adding enterprise storage products.

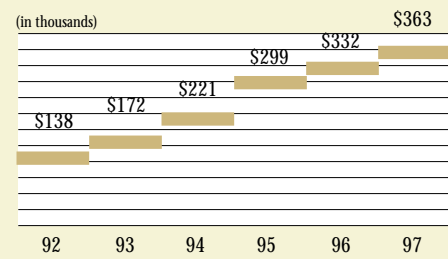
Western Digital vs. Industry Growth Rate

Since 1992, Western Digital's unit volume has grown at a compounded annual rate of 46 percent, far in excess of the hard drive industry growth rate of 27 percent.

Efficient Use of Resources

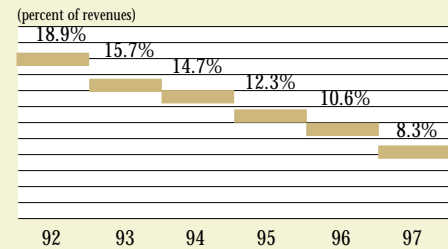
Revenues Per Employee

Employee productivity as measured in revenues has grown at a compounded annual rate of 21 percent over the past five years.

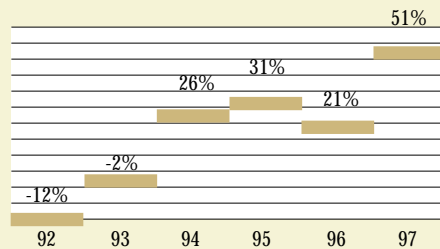
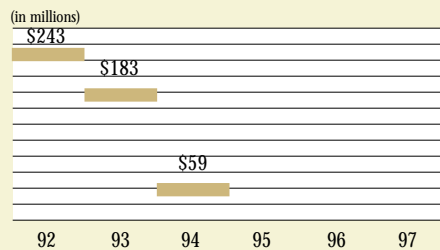
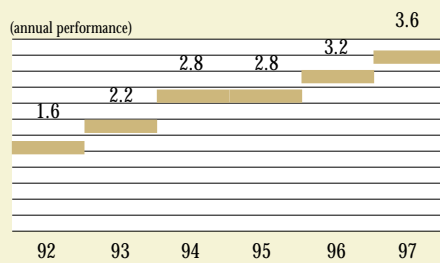
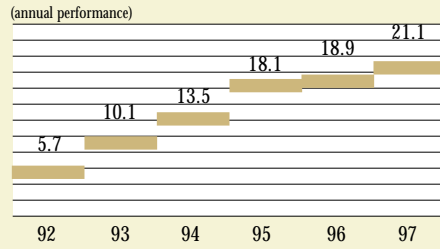


Operating Expenses to Revenues

Western Digital employs aggressive cost controls that result in an expense structure regarded as the most competitive in the hard drive industry.



Superior Balance Sheet Management



Inventory Turns

The fastest inventory turns in its industry reduce Western Digital's inventory risk and minimize working capital outlays.

Asset Turns

Western Digital has become a leader in asset management.

Long-Term Debt

Superior asset management and sustained profitability have led to the elimination of the Company's long-term debt.

Return on Invested Capital

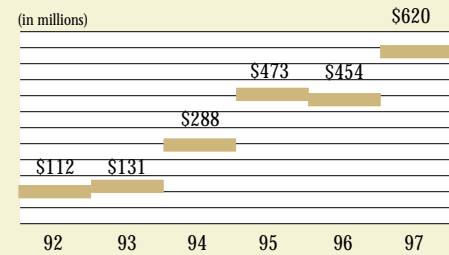
Western Digital has focused exclusively on the hard drive business, divested itself of unrelated business lines and increased its investment in the enterprise storage product line. This focus and close attention to asset management have produced superior returns on invested capital.



Shareholder Value

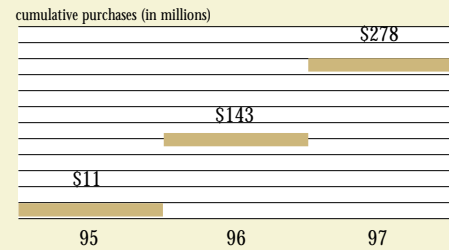
Shareholders' Equity

Western Digital's shareholders' equity has increased over 450 percent since 1992, during which time the Company also has carried on an aggressive stock repurchase program.



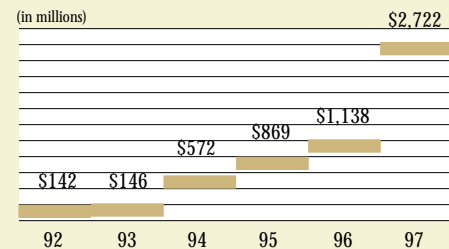
Stock Repurchase Program

Since the inception of its stock repurchase program, the Company has repurchased a total of 22.2 million shares at an average price of \$12.53 for a total of \$278 million. The continuing stock buyback program reflects an outstanding investment opportunity which the Company believes to be in the best interest of its shareholders.



Market Capitalization

Western Digital's total market value has grown as the Company improved its product quality, manufacturing efficiency and asset management.



Condensed Consolidated Statements of Income

(in thousands, except per share data)	Fiscal Years Ended		
	July 1, 1995	June 29, 1996	June 28, 1997
Revenues, net	\$2,130,867	\$2,865,219	\$4,177,857
Cost of revenues	1,736,761	2,483,155	3,527,574
Research and development expense	130,789	150,112	150,157
Selling, general and administrative expense	130,286	154,497	198,530
Operating income	133,031	77,455	301,596
Net interest and other income	12,002	30,409*	13,223
Income before income taxes	145,033	107,864	314,819
Provision for income taxes	21,731	10,970	47,223
Net income	\$ 123,302	\$ 96,894	\$ 267,596
Fully diluted earnings per common and common equivalent share	\$ 1.23	\$ 1.00	\$ 2.85

*Includes \$17.3 million gain on sale of multimedia business

Condensed Consolidated Statements of Cash Flows

(in thousands)	Fiscal Years Ended		
	July 1, 1995	June 29, 1996	June 28, 1997
Net income	\$ 123,302	\$ 96,894	\$ 267,596
Adjustments to net income	(1,985)	(38,613)	(13,437)
Net cash provided by operating activities	121,317	58,281	254,159
Cash flows from investing activities:			
Capital expenditures, net	(54,774)	(108,696)	(155,958)
Proceeds from sale of businesses	—	85,486	—
Change in short-term investments and other assets	(96,464)	46,391	29,011
Net cash provided by (used for) investing activities	(151,238)	23,181	(126,947)
Cash flows from financing activities:			
Repurchase of common stock	(10,822)	(132,114)	(144,574)
Other financing activities	14,790	15,686	43,073
Net cash provided by (used for) financing activities	3,968	(116,428)	(101,501)
Net increase (decrease) in cash and cash equivalents	(25,953)	(34,966)	25,711
Cash and cash equivalents at beginning of year	243,484	217,531	182,565
Cash and cash equivalents at end of year	\$ 217,531	\$ 182,565	\$ 208,276

Condensed Consolidated Balance Sheets

(in thousands)	Fiscal Years Ended	
	June 29, 1996	June 28, 1997
Assets		
Current assets:		
Cash and cash equivalents	\$ 182,565	\$ 208,276
Short-term investments	36,598	—
Accounts receivable, net	409,473	545,552
Inventories	142,622	224,474
Prepaid expenses and other assets	23,006	39,593
Total current assets	794,264	1,017,895
Property and equipment at cost, net	148,258	247,895
Intangible and other assets, net	41,621	41,332
Total assets	\$ 984,143	\$1,307,122
Liabilities and Shareholders' Equity		
Current liabilities		
Deferred income taxes	\$ 514,022	\$ 653,705
Shareholders' equity:	16,229	33,430
Common stock and paid-in capital, net of treasury stock	233,422	131,921
Retained earnings	220,470	488,066
Total shareholders' equity	453,892	619,987
Total liabilities and shareholders' equity	\$ 984,143	\$1,307,122

Independent Auditors' Report

The Board of Directors
Western Digital Corporation:

We have audited, in accordance with generally accepted auditing standards, the consolidated balance sheets of Western Digital Corporation and subsidiaries as of June 29, 1996 and June 28, 1997, and the related consolidated statements of income, shareholders' equity and cash flows for the three years ended June 28, 1997, and in our report dated July 16, 1997, we expressed an unqualified opinion on those consolidated financial statements.

In our opinion, the information set forth in the accompanying condensed consolidated financial statements is fairly stated, in all material respects, in relation to the consolidated financial statements from which it has been derived.

KPMG Peat Marwick LLP

Orange County, California
September 12, 1997

Board of Directors

Charles A. Haggerty
Chairman of the Board,
President and
Chief Executive Officer

James A. Abrahamson
Chairman and Chief Executive Officer
International Air Safety, L.L.C.,
Air Traffic Control Products and Services

Peter D. Behrendt
Chairman
Exabyte Corporation
Computer Tape Storage Products

I.M. Booth
Retired. Former Chairman, President
and Chief Executive Officer
Polaroid Corporation
Photographic Equipment

Irwin Federman
General Partner
U.S. Venture Partners
Venture Capital Investments

André R. Horn
Retired. Chairman Emeritus, Needham & Co.,
Investment Banking
Former Chairman of the Board
Joy Manufacturing Company
Capital Equipment for the Energy Industry

Dr. Anne O. Krueger
Professor of Economics
Department of Economics
Stanford University

Thomas E. Pardun
President and Chief Executive Officer
U S WEST International, Asia-Pacific,
Subsidiary of U S WEST, Inc.
Diversified Communications

Corporate Officers

Charles A. Haggerty
Chairman of the Board,
President and
Chief Executive Officer

Kathryn A. Braun
President and Chief Operating Officer,
Personal Storage Division

Matthew Massengill
Senior Vice President and General Manager,
Enterprise Storage Group

Marc H. Nussbaum
Senior Vice President, Engineering,
Personal Storage Division

David W. Schafer
Senior Vice President, Worldwide Sales

Duston M. Williams
Senior Vice President,
Chief Financial Officer

Michael A. Cornelius
Vice President, Law & Administration
and Secretary

Steven M. Slavin
Vice President, Taxes and Treasurer

Jack Van Berkel
Vice President, Human Resources



Research and Development Centers

Irvine, California
San Jose, California
Rochester, Minnesota

Manufacturing Facilities

Santa Clara, California
Malaysia
Singapore

Domestic Sales Offices

Irvine, California
San Jose, California
Hingham, Massachusetts
Chicago, Illinois
Baltimore, Maryland
Burlington, Massachusetts
Wayzata, Minnesota
Princeton, New Jersey
Raleigh, North Carolina
North Sioux City, South Dakota
Austin, Texas
Dallas, Texas
Houston, Texas

International Sales Offices

Western Digital Canada Corporation
Mississauga, Ontario, Canada

Western Digital Deutschland GmbH
Munich, Germany
Muenster, Germany
Gaerbringen, Germany

Western Digital (France) SARL
Orsay, France

Western Digital Hong Kong Limited
Tsimshatsui, Kowloon, Hong Kong

Western Digital (I.S.) Limited
Dublin, Ireland

Western Digital Japan Ltd.
Tokyo, Japan

Western Digital (S.E. Asia) Pte Ltd
Singapore

Western Digital Taiwan Co., Ltd.
Taipei, Taiwan R.O.C.

Western Digital (U.K.) Limited
Leatherhead, Surrey, England
Glasgow, Scotland
Prague, Czech Republic

Transfer Agent and Registrar

American Stock Transfer & Trust Company
40 Wall Street
New York, NY 10005
Telephone: (718) 921-8200

Certified Public Accountants

KPMG Peat Marwick LLP

Certain Forward-Looking Statements

This Summary Annual Report contains forward-looking statements, including statements concerning the Company's anticipated future revenues and projected growth in the hard drive industry. Actual results could differ materially as a result of several factors, including business conditions and growth in the personal and enterprise computing markets; the success of the Company's entrance into the enterprise computing market; changes in customer order patterns; competitive factors; the transition to new head technology; credit risk; continued success in the design and manufacturing ramp; and other factors listed in the Company's Form 10-K for the year ended June 28, 1997 and its other SEC filings. The Company undertakes no obligation to update forward-looking statements to reflect events or circumstances occurring after the date hereof.

A copy of the Company's Form 10-K, without exhibits, is available to shareholders without charge upon request to Mr. Michael A. Cornelius, Vice President, Law & Administration and Secretary, at the Company's headquarters located at 8105 Irvine Center Drive, Irvine, California 92618. Copies of the Company's Form 10-Q will be furnished without charge to any shareholder upon written request to the same address. For additional information about the Company, contact Investor Relations at (800) 695-6399.

Stock Exchange Listing

Western Digital common stock is listed on the New York Stock Exchange and trades under the symbol WDC.

Worldwide Web Site

For current information on Western Digital Corporation, visit its worldwide web site at www.wdc.com.

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