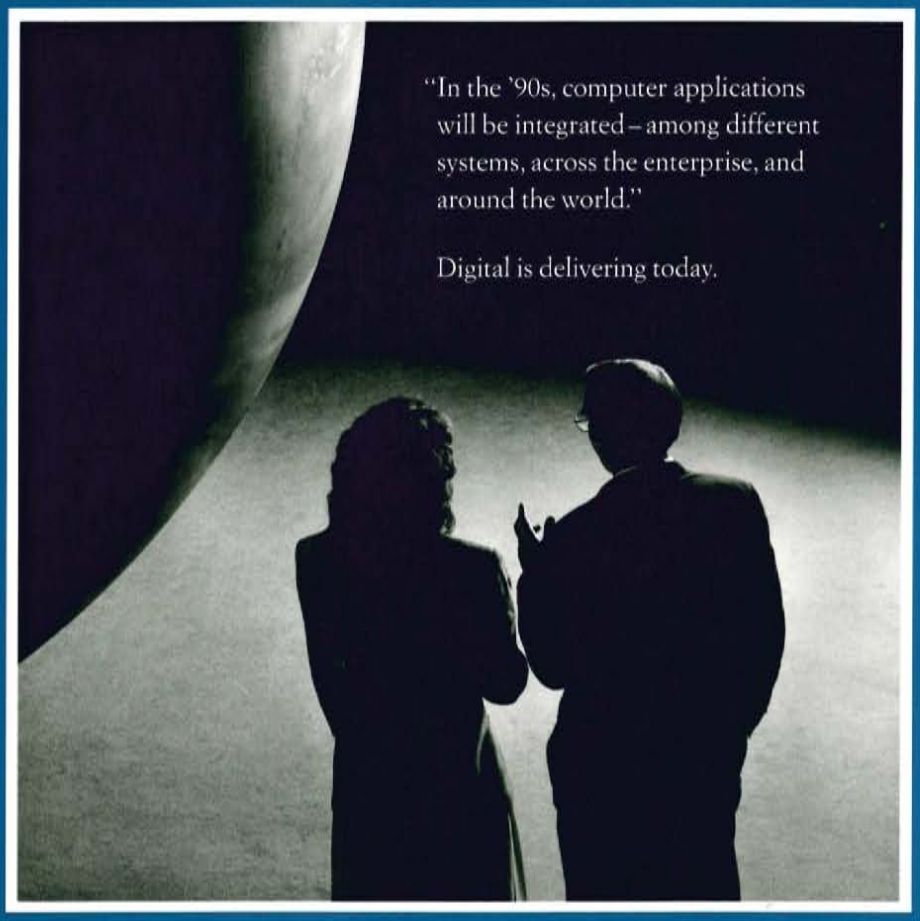
digital


"In the '90s, computer applications will be integrated – among different systems, across the enterprise, and around the world."
Digital is delivering today.

Corporate Profile

Digital Equipment Corporation is one of the world's largest suppliers of networked computer systems, software, and services, and a leader in multivendor systems integration. ▮ An international company, Digital does more than half its business outside the United States, developing and manufacturing products and providing customer services in the Americas, Europe, and the Pacific Rim. ▮ Digital builds a full range of desktop, client/server, production, and mainframe systems for multivendor computing environments. Applications include transaction processing, data management, telecommunications, finance, realtime data acquisition and control, vector processing, education, publishing, manufacturing, software development, and health care. ▮

Cover

DECWORLD '90 provided an opportunity for customers to meet with Digital engineers and industry specialists one-on-one and in small groups to discuss multivendor integration and other information technology issues facing organizations worldwide. ▮

Financial Highlights

Fiscal Year	**1990**	1989	% *Change*
Total operating revenues	**$12,942,523,000**	$12,741,956,000	+2
Net income	**$ 74,393,000**	$ 1,072,610,000	(93)
Net income per share	**$.59**	$8.45	(93)
Total stockholders' equity	**$ 8,181,914,000**	$ 8,035,673,000	+2
Number of stockholders	**92,934**	99,084	
Stockholders' equity per share	**$66.76**	$66.12	+1

Annual Meeting

The Annual Meeting of Stockholders will be held at 11:00 a.m. Thursday, November 1, 1990, at the World Trade Center, Commonwealth Pier, 164 Northern Avenue, Boston, Massachusetts 02210. Stockholders of record on September 7, 1990, will be entitled to vote at this meeting. ▮

Contents

President's Letter

To Our Stockholders, Employees, and Customers:
The continued slowdown in the computer systems business in the United States and some international markets has meant slow growth and low profits for Digital.

We continue to increase productivity through automation and the use of our own computer network. This means that when we don't have significant growth, we have a surplus of people. During the past year, about 3,000 employees voluntarily accepted a financial support package and left the Company. We absorbed a charge to operations to cover the costs of current and future changes.

We continue to make our traditional investments in technology because we believe that Digital is positioned for future growth. We are now very efficient in producing new technology and new products, and we feel that we are a leader in mainframe and client/server computing, and in multivendor systems integration.

Mainframe-Style Computing

Many customers run business management applications on our VAX systems because they need a robust, thoroughly tested, highly functional, fully supported, mainframe-style computing environment.

At times, industry pundits predicted that PCs and workstations would put mainframe-style systems out to pasture. This never happened. The reason is simple. There are certain applications that are critical to the existence of a business. You have to be totally reliable in putting your payroll out, tracking your inventories, and processing orders, or you will not remain a viable operation.

The key characteristic of a mainframe system is availability, the assurance that the system will be running when you need it. Several years ago we developed clustering, a technology to address this need.

High-Availability Systems. Today, Digital is the largest supplier of high-availability systems in the world. More than 100,000 VAX computers are running in cluster systems. The computers in a cluster work as a single system, sharing a common workload and a common database. Clusters are used for high-speed processing, maintaining large databases where many computers need to access the same information, and for never-fail applications. If one system goes off-line, the software switches the workload to another.

Fault-Tolerant Systems. This year, Digital introduced its first fault-tolerant computer, the VAXft 3000 system. In this system, every component is redundant. Today Digital is the only computer manufacturer to offer a full range of high-availability systems based on both hardware and software technology.

Transaction Processing. When these high-availability systems are coupled with the transaction processing capabilities built into Digital's VMS operating system this year, customers can build fault-tolerant transaction processing networks to support distributed applications in which continuous computing is a must.

New VAX Systems. To keep up with the demand for more powerful commercial and scientific processors, Digital introduced the VAX 9000 mainframe this year. We are shipping this new computer as fast as we can build it. Customers are happy with it. We see it as an important part of our product line.

We also introduced the VAX 4000 system and vector processing capabilities for the VAX 9000 and the VAX 6000 systems. We now have an entire line of new VAX systems from top to bottom.

Client/Server Computing

While mainframe-style systems focus on organizational productivity, client/server computing focuses on individual productivity.

Historically, timesharing represented our largest market. In a traditional timesharing system, each user had a simple terminal on the desk and shared the services of a Digital minicomputer.

As PCs and workstations became popular, the role of the minicomputer changed. As customers tied PCs and workstations together in active networks, the demand grew for common services to do filing, printing, computation, and networking.

Networked minicomputer servers provide these functions. But client/server computing involves more than calling a minicomputer a server; it requires highly specialized software. During the past eighteen months, Digital introduced new desktop integration and local-area networking software, a complete range of VAX and RISC workstations and servers, including the VAXserver 4000 and DECsystem 5000 servers, and new industry-standard PCs.

RISC and the UNIX Operating System. RISC, Reduced Instruction Set Computing, is becoming increasingly important in client/server computing because RISC systems are very fast and relatively inexpensive.

Digital is committed to RISC computing. In fact, we are a leader in the integration of RISC systems into corporate computing environments. Our RISC family now includes ten workstations and systems and more than 1,500 applications, including over 300 that implement the X Window standard. The DECstation 5000 system, introduced in April, generates standard X Window displays three-and-a-half times faster than its two nearest competitors.

Workstations, Personal Computers, and Terminals. Digital has become a major factor in the desktop computer market. In addition to offering a complete line of PCs, Digital is the largest supplier of Ethernet local area networks in the industry. The VAXstation 3100 series is the world's largest-selling workstation family.

And, during the past year we sold over 560,000 terminals. This demonstrates the continued strength of the timesharing market. Customers are looking for ways to reduce training and support costs in environments where users neither need nor want the specialized capabilities of a personal computer or workstation.

Systems Integration

Our customers are asking for standards. They want to be able to take an application written for one system and run it on another. And they want that application to be able to share data and interact with other applications on the network.

At the same time, customers are asking Digital to help them plan, design, implement, and maintain their systems and networks. This systems integration work passed the billion-dollar mark in revenues for Digital this past year.

Digital's Strategy. Digital's strategy is to provide the products and services our customers need to integrate a multivendor computing environment. This strategy will ensure that:

1. All computers and operating systems that follow industry standards for language, human interface, and communications will be able to share applications. Software will be transportable from one system to another. This transportability is made possible by standards, not computer architecture or operating system.
2. Computer systems that follow the same standards will work on the same network. Digital's VAX and RISC-based DECsystem computers and workstations work interchangeably on the same network.
3. All popular desktop devices – simple terminals and windowing terminals; MS-DOS, OS/2, and Macintosh PCs; and workstations using the VMS and UNIX operating systems – are fully integrated into the Digital network.

Worldwide Operations

Digital's strategy is being implemented worldwide. We derive 56 percent of our revenues from the 81 countries outside the U.S. where Digital does business.

During the year we opened our most advanced semiconductor manufacturing plant, in Scotland. We established a joint venture in Hungary to kick off what will be a growing presence for Digital in the emerging markets of Eastern Europe, and business is already exceeding expectations.

Manufacturing. Our worldwide manufacturing operations have become more efficient. Six years ago we had 32,000 manufacturing employees; today, with more than double the revenues, we have 29,300. Inventory turns have doubled, and we have dramatically reduced the cycle time for creating and introducing new products.

Sales and Marketing. We've cut overhead in our sales organization. We took steps to increase accountability, establishing over twenty business units. Each is responsible for planning and developing the products and services needed in a particular industry or application area and for balancing investments with return.

Revenue Growth and Cost Reduction. Increasing profits is a major challenge. We recognize the need to improve financial performance and enhance shareholder value. We are working to increase revenue growth and reduce costs. Digital has a sound financial base to build on with a strong balance sheet, positive cash flow, very little debt, and ample cash reserves.

DECWORLD '90

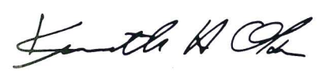
DECWORLD '90 provided an opportunity to demonstrate how we have implemented our product and business strategies.

A worldwide event, DECWORLD '90 opened this past summer in Boston. It then moved on to Canberra, Australia, in August; it will move to Cannes, France, in September, and Tokyo in November. Total attendance is expected to exceed 50,000 prospects and customers.

The DECWORLD program includes seminars, workshops, demonstrations, and laboratories where customers work with Digital and third-party specialists to explore ways computer applications can address their critical business needs.

I talked with many customers at DECWORLD in Boston. Their enthusiasm about our team, our products, and the Company's direction is extremely gratifying.

DECWORLD demonstrated to me why Digital can look forward to the future with confidence.

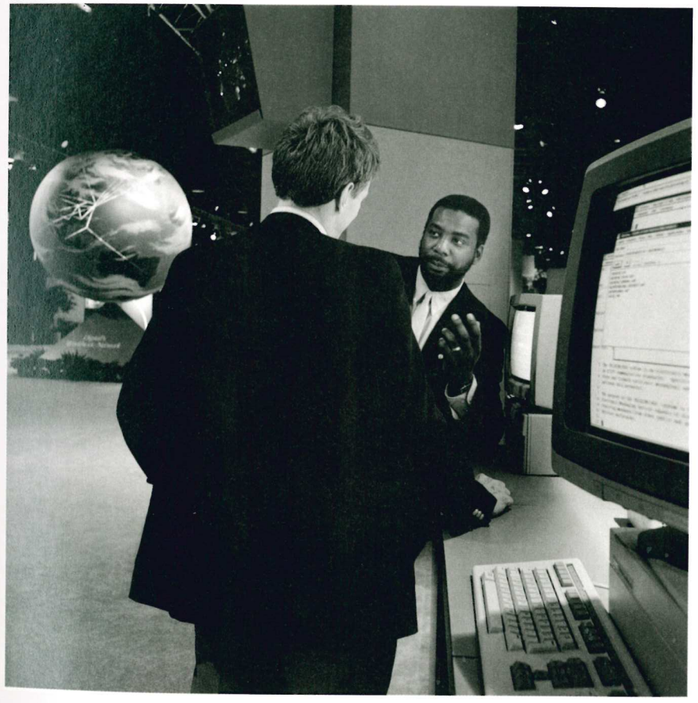


Kenneth H. Olsen
President
September 1, 1990

Integrating Applications in a Multivendor Environment

Customers are shifting their information technology focus from automating discrete functions to addressing mission-critical business issues. Where, in the past, a customer asked for help in automating a warehouse, today that same customer is looking for help in reducing inventory. ▮ Digital anticipated this shift. We recognized that working with customers to implement business strategies would, as often as not, require the ability to distribute and integrate applications across multivendor computing environments. Without this capability, business issues can only be approached in a piecemeal, patch-things-together-for-the-moment manner. The ability to solve the technical problems inherent in systems integration is the prerequisite to providing business solutions. ▮ Multivendor integration has been a focus of Digital's worldwide research and development program since the early 1980s. Over the last ten years, Digital spent more than $16 billion on research, development, equipment, and facilities. This past year, more than $1 billion was spent on new equipment and facilities. In addition, Digital invested 12.5 percent of operating revenues – more than $1.6 billion – in research and development. This placed Digital fifth among all American companies and fourteenth worldwide in total R&D expenditures. ▮ These investments address a pressing customer need. In the past, multivendor computing environments had to be pieced together. It was left to the customer to write software to meet the interface specifications of this manufacturer or that. ▮ Digital simplified things. We developed Network Application Support, NAS, software with several other companies so that our mutual customers would have a common application environment. NAS supports industry-standard windowing and menu interfaces so users can access applications in a consistent manner. And applications can access data and programs running on other systems anywhere on a Digital network. NAS makes multivendor distributed and client/server computing attractive and cost-effective. ▮ Independent software developers have been quick to recognize the advantages of writing applications to NAS standards. This past year, they introduced hundreds of new programs that use NAS software, while hundreds of existing programs work with NAS as is, without requiring any rewrite. ▮

In one way or another, all the customer stories featured in this Annual Report are about integrating systems and applications. The first story is about Eastman Kodak and Digital's role in planning, designing, implementing and maintaining multivendor networks. The last story features Bankers Trust and the role of NAS – Network Application Support – in providing the underlying technology needed to build multivendor networks. ▮ Systems integration and NAS are, in effect, the bookends. They represent the service philosophy and the technology that support every Digital customer and provide the foundation for Digital's approach to client/server computing, transaction processing, application development, office and desktop computing, and all the other subjects addressed in this Annual Report. ▮

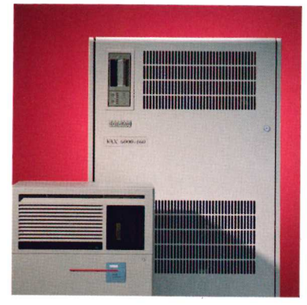


"OSI makes the *networking,* in network computing, a non-issue. It provides the standards that will enable everything to work together in a scalable, manageable, and cost-efficient multivendor voice/data network."

Katherine Hudson
Vice President and Director
Corporate Information Systems
Eastman Kodak Company

The Digital Response: DECnet/OSI implements OSI – Open Systems Interconnection – standards. It's the key to multivendor networking; one reason Kodak selected Digital to maintain and manage its worldwide voice/data network.

As information systems and telecommunications networks grow ever more complex and interrelated, standards become the critical issue. A systems integration program is either built on standards or built on sand. ▮ Digital is committed to standards and works closely with other companies that share this commitment. With Consilium, ASK, Sanchez Computing, Shared Medical Systems, and other industry specialists. With leading telecommunications companies like Northern Telecom, Siemens, Mitel, and AT&T. ▮ This past year, Digital signed formal alliances with a number of consulting firms including Arthur D. Little, Computer Sciences Corporation, Deloitte & Touche, Andersen Consulting, Price Waterhouse, and Ernst & Young. Through these alliances, Digital is able to offer a complete range of services for planning, designing, implementing, managing, and maintaining complex multivendor networks. ▮ Digital has undertaken major systems integration programs for Deutsche Telepost, Bankers Trust, Aetna Life & Casualty, Tyson Foods, and the U.S. Census Bureau. Eastman Kodak selected Digital to manage, maintain, and operate its worldwide voice and data network. This network supports computers, workstations, personal computers, and terminals from Digital, IBM, and other computer vendors, together with telephones, facsimile machines, and closed-circuit television. ▮ It takes sophisticated technology to get everything to work together. Digital's Enterprise Management Architecture is based on the OSI standard. It provides the tools needed to build a distributed network management system. DECnet/OSI software supports multivendor computer networks. NAS, Digital's Network Application Support software, provides print, message, file sharing, data access, windowing, application control, and other services across the network. And CIT, Digital's Computer Integrated Telephony program, gives telephone users access to computer databases. ▮ These tools provide the mechanism to integrate IBM SNA, DECnet/OSI, and existing telephone networks into a single, manageable system. ▮ It is for this reason companies like MCI, Northern Telecom, and Litel use Digital systems like the VAX 4000 and VAX 6000 computers to provide value-added network services, to control voice/data switches, and to manage network operations. ▮



"The new Alfa Romeo 164 integrates high-performance engineering and advanced manufacturing techniques to produce an exceptional luxury car. Setting the pace in design, performance, and quality requires consistent, integrated, and connectable software."

Arrigo Arrigoni
Director of Sales and Marketing
Alfa Romeo
The Fiat Group

The Digital Response:
This year more than 1,200 software developers signed cooperative marketing or development agreements to provide Digital customers with quality solutions that work together.

People who buy an Alfa Romeo look for performance, panache, and polish. Bringing these elusive characteristics together requires a total quality program. ▮ Building quality applications is also a challenge for software developers. Customers like Alfa Romeo want applications that work together. Software that runs on a broad range of computers from desktop systems to mainframes. Software that's reliable and robust. They want applications that are fully supported and properly documented in English, Spanish, Japanese, and German, as well as in Italian. ▮ There are over 8,000 applications for Digital VAX and RISC systems. Many of these applications are provided by over 3,600 Complementary Solutions Organizations (CSOs) worldwide, including leading software developers such as Lotus, Matra, Schlumberger, Ross Systems, Wolfram Research, Computer Associates, and Dun & Bradstreet Software Services. ▮ Digital also has formal alliances with customers. Some have developed specialized applications for their own use and want to work with Digital to market these applications to other companies. Others are joint ventures, like SESAM S.p.A. – Software e Sistemi per l'Automazione Manifatturiera – an alliance between Fiat and Digital to develop new approaches to computer-integrated manufacturing. ▮ Teamwork facilitates the development, testing, marketing, and support of consistent, integrated, and connectable application programs and tools for Digital systems. Our customers want Lotus spreadsheets to be able to access Rdb databases. They want engineering graphics programs to implement the DECwindows user interface. ▮ Complementary software built around a consistent user interface and common data management and networking services reduces data processing costs. And, because Digital provides customers and software developers with a well-defined and consistent architecture, software written for a small system will run on a larger one. Software written for prior generations will run on future systems. ▮

8,000

Software

Applications

"To lower software development costs and improve programmer productivity, we need a complete set of CASE – Computer-Aided Software Engineering – tools and the ability to 'transport' finished applications from one system to the next."

Ed Hurd
Vice President and
General Manager
Industrial Automation
and Control Division
Honeywell Inc.

The Digital Response: CASE is not blue smoke and mirrors. This year, Digital introduced COHESION, a complete software development environment with the services and CASE tools that make it easier to write applications for multivendor computing.

Software Development, Transportability, and the Application Backlog

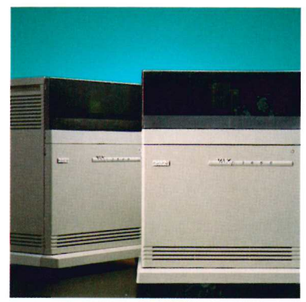
Computer Aided Software Engineering – CASE – tools are used to build transportable and integrated applications for multivendor environments. They're the basis for strategic alliances between Digital and companies like Honeywell, who are developing systems for complex applications. Both parties work in a common software environment, share the same tools, and follow common methodologies. ▮ For example, Digital works with Honeywell's Industrial Automation and Control Division to integrate process control and plant-wide information systems. These solutions consist of Honeywell application software packages, an interface that links Honeywell's TDC 3000 process control system to Digital VAX computers, and a joint development product that will link TDC 3000 systems directly to DECnet/OSI networks. ▮ This integration gives Honeywell customers in the process industries – oil and gas production, petrochemicals, pulp and paper, power generation, and food processing – realtime, business-oriented, decision-making capabilities. ▮ Digital helps Honeywell achieve this level of integration through COHESION, a comprehensive software development environment with industry-standard CASE tools and a complete set of services. Software developed in this environment will run on any VAX or RISC-based Digital workstation or system. ▮ Honeywell, like many manufacturers, systems integrators, and software developers, uses Digital systems, NAS software, and CASE tools to develop "transportable" applications that will run on many personal computers, workstations, or mainframes. ▮ This unified environment spreads development costs over a broad range of systems, greatly increasing the potential market for new software. Software has become the largest component in most data processing budgets. Developing, documenting, updating, and maintaining software can account for sixty cents in every data processing dollar. But expense is only part of the problem. Most large organizations have an application backlog. ▮ Digital systems like the VAXstation 3100 and the DECstation 5000 workstations can help reduce this backlog. Each programmer can have a dedicated VAX or RISC system with a complete set of development tools, freeing production systems from the programming development workload. ▮

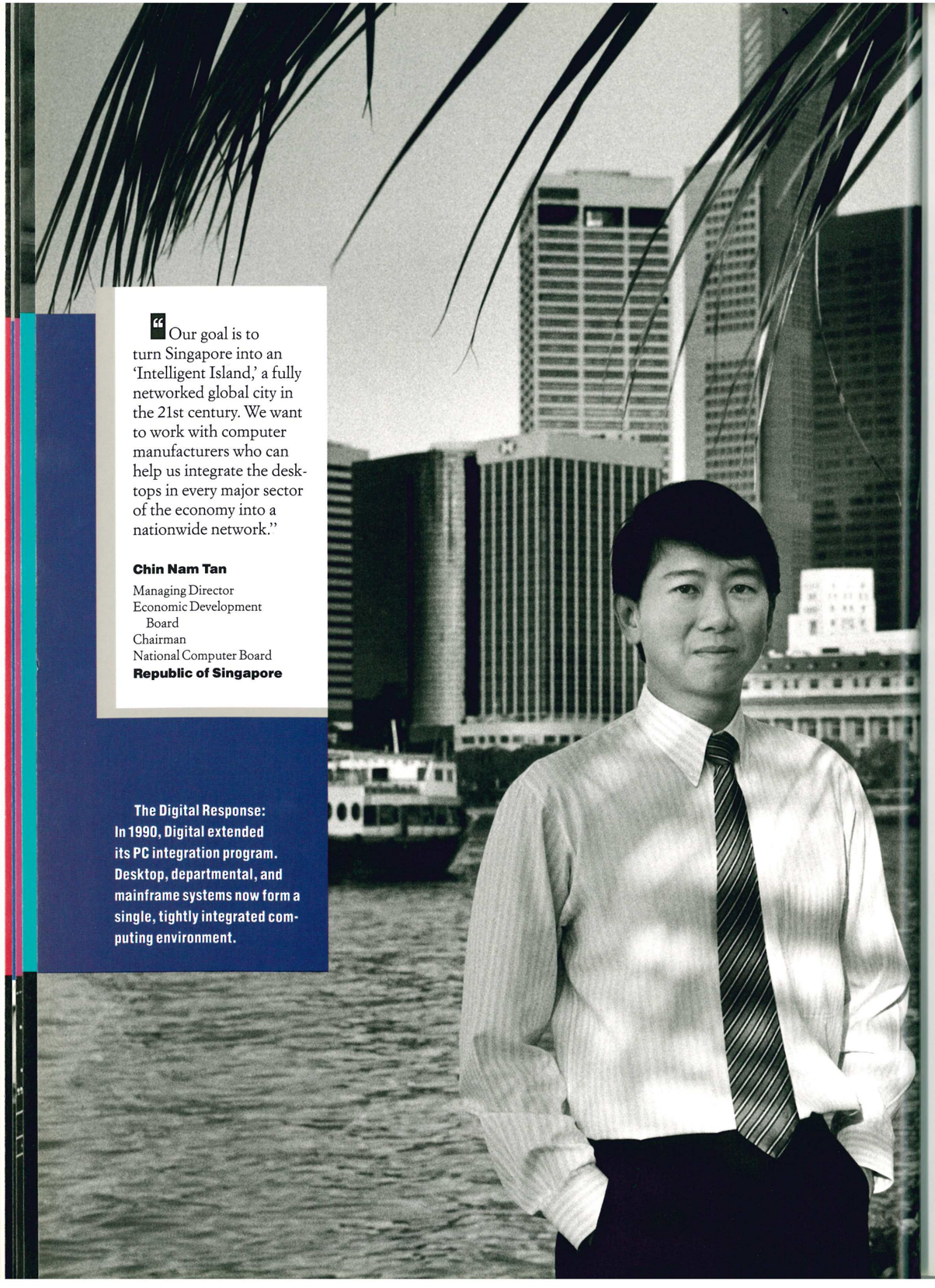
"In retailing and distribution, almost everything involves transaction processing. That's why we wanted to integrate transaction processing into a distributed environment where it can run concurrently with batch and timesharing applications."

Lennart Nilsson
Information Systems Director
IKEA Svenska AB

The Digital Response:
This past February, Digital made every VAX/VMS system a full-function production machine that can handle a mix of transaction processing, batch, and timesharing jobs.

Production data processing supports the critical missions of a business. If production systems aren't running, business grinds to a halt. That's why there is so much interest in distributed transaction processing – where the network, not just an individual system, is fault tolerant. ▮ This is particularly true in retailing and distribution. IKEA, a $2.6 billion furniture retailer based in Älmhult, Sweden, is a case in point. A long-time Digital customer, IKEA operates 83 outlets and works with 1,500 suppliers in 20 countries, and has a rapidly expanding presence in the U.S. ▮ In a typical distributed transaction processing network, fault-tolerant VAXft 3000 systems gather transactions from point-of-sale systems and pass them on to high-availability VAXcluster systems that maintain the corporate database. It's a very cost-effective approach that eliminates the need to duplicate every system on the network. There's absolute data integrity. All VAX systems – from the smallest desktop workstation to a VAX 9000 mainframe – run system software that allows a single transaction to access and update multiple databases on a network. ▮ VMS software implements this "two-phase" commit procedure. One database isn't changed unless all databases are changed. This is the key capability needed to build distributed transaction processing networks with multiple databases. In effect, every VAX computer has "mainframe" capabilities. Application availability and recoverability, data integrity and security, and response time and elapsed time can all be matched to the customer's specific requirements. ▮ The flexibility of Digital's approach makes a lot of sense to profit-conscious retailers like IKEA, Blockbuster Video, and Toys "R" Us, who use MicroVAX systems to capture transactions at the point of sale and who have to maintain accurate, mirror-image databases at both retail outlets and distribution centers. ▮ Support is particularly important to these retailers. Digital's established presence in international markets is one reason IKEA has bought more than 80 MicroVAX systems. Digital is there to help IKEA plan, design, and implement its worldwide network. ▮



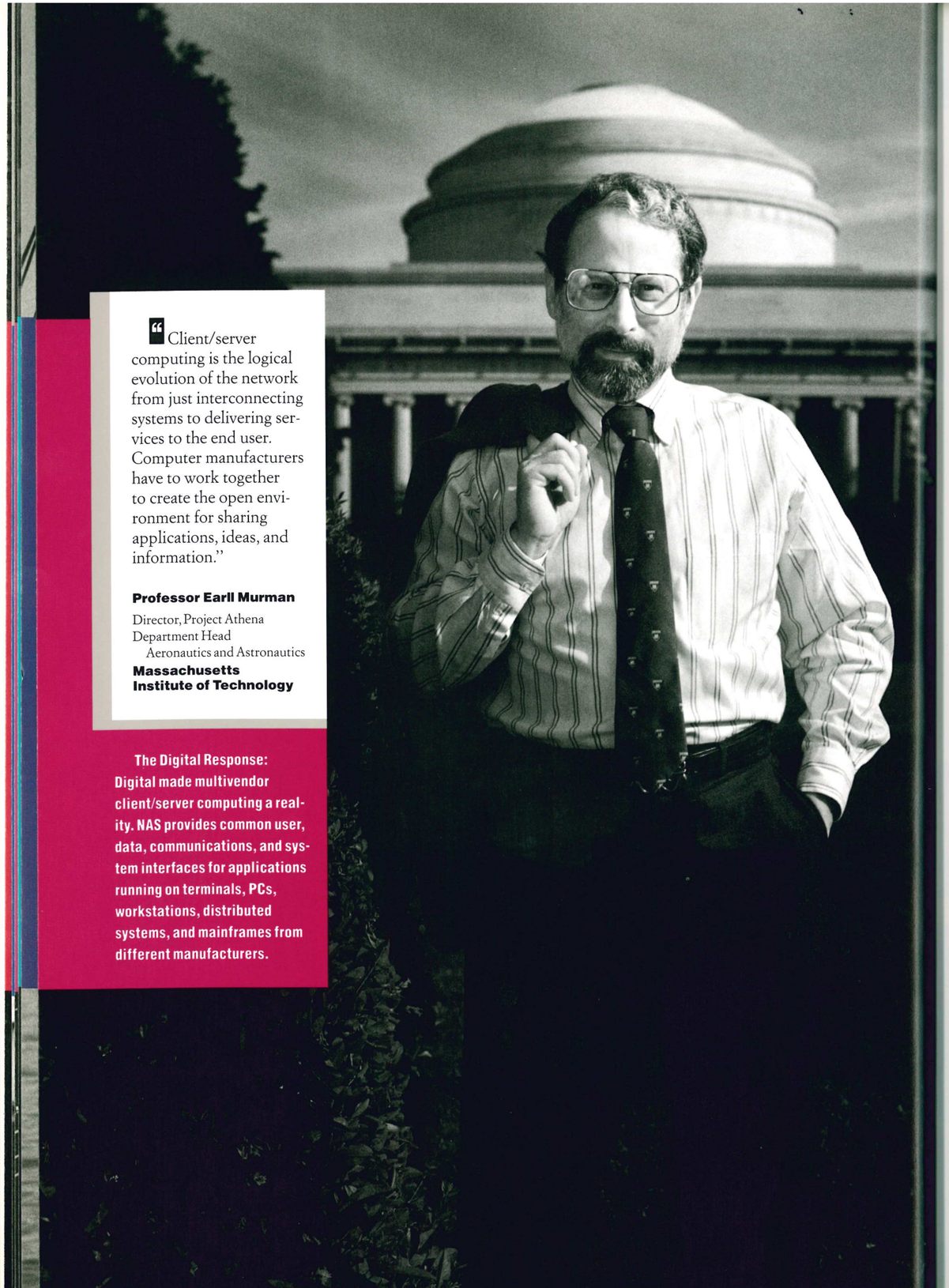


"Our goal is to turn Singapore into an 'Intelligent Island,' a fully networked global city in the 21st century. We want to work with computer manufacturers who can help us integrate the desktops in every major sector of the economy into a nationwide network."

Chin Nam Tan
Managing Director
Economic Development Board
Chairman
National Computer Board
Republic of Singapore

The Digital Response: In 1990, Digital extended its PC integration program. Desktop, departmental, and mainframe systems now form a single, tightly integrated computing environment.

In a typical office, one user may run WordPerfect, another Microsoft Word, a third WPS-PLUS. People want software they're familiar and comfortable with. They want to exchange compound documents, access videotex services, and send and receive mail. ▮ Digital is helping to break the barriers that separate one desktop and one department from the next. The office is no longer defined by four walls and a local area network. Future office systems will cut across geographies and existing organizational structures. They will make use of emerging technologies for integrating voice and data, for combining text and graphics in printed documents, and for distributing transaction processing capabilities across the organization. ▮ The National Computer Board, Economic Development Board, and Trade Development Board are three Singapore government agencies linked in an intra- and inter-organizational DECnet network. ▮ A prototype of the office of the future, this network integrates over 900 personal computers and terminals and two VAXcluster systems on the island of Singapore with overseas offices in New York, San Francisco, Frankfurt, and Tokyo. A fourth agency, the Jurong Town Corporation, will be linked to the network by the end of 1990. ▮ Working with PCSA, Digital's Personal Computing Systems Architecture – a key NAS component – and ALL-IN-1, Digital's office information and communication system, users can share files and network resources, and mail and videotex services across the organization. And they can choose the desktop device that best meets their needs – a Digital VT420 or VT1200 terminal, an industry-standard PC like the DECstation 320, a Macintosh personal computer, or a workstation. ▮ This approach to office systems is based on standards and alliances with leading PC companies, including Apple, Ashton-Tate, COMPAQ, Lotus, and Toshiba. These alliances help ensure that desktop systems and applications using the MS-DOS, OS/2, Macintosh, UNIX, and VMS operating systems can share files and exchange information. ▮ As a local manufacturer for the past decade, Digital is committed to the idea of the "intelligent island." Working with the Republic of Singapore, Digital is making the investments needed to help the island country in its aspirations to become a global technopolis. ▮

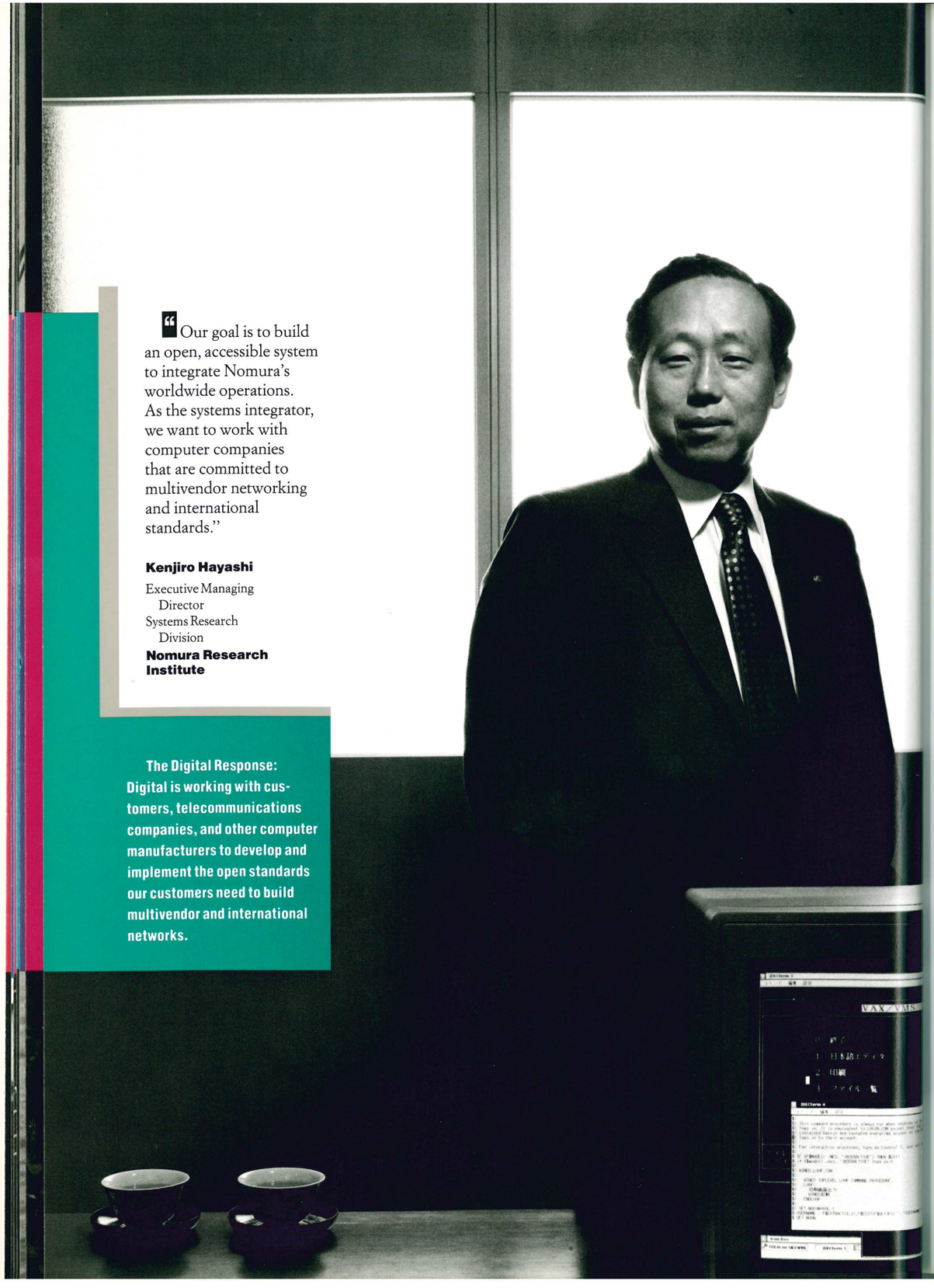


"Client/server computing is the logical evolution of the network from just interconnecting systems to delivering services to the end user. Computer manufacturers have to work together to create the open environment for sharing applications, ideas, and information."

Professor Earll Murman
Director, Project Athena
Department Head
Aeronautics and Astronautics
Massachusetts Institute of Technology

The Digital Response: Digital made multivendor client/server computing a reality. NAS provides common user, data, communications, and system interfaces for applications running on terminals, PCs, workstations, distributed systems, and mainframes from different manufacturers.

Users want the simplicity of timesharing, the "one-to-one" convenience of personal computers and workstations, *and* the power of a network that can tap all the computing resources within the enterprise. Client/server computing goes far beyond the familiar local area network linking PCs together. ▮ It's relatively easy to build a local area network to support a handful of PCs. It is quite another thing to build a LAN that will support over 10,000 workstations from a number of different manufacturers and provide each user with transparent access to a number of different applications and services. ▮ That was the goal of Project Athena. This $100 million, eight-year joint project among MIT, Digital, and IBM turned the MIT campus into a living laboratory for client/server computing. The X Window System was developed as part of the project. It provides a systems-independent windowing interface to any workstation on the network. ▮ DECwindows, a NAS component, is Digital's implementation of the X Window System. As part of the DECwindows program, Digital developed an application interface that makes it possible to write a single program that will run on many different computers. This interface has been incorporated into the X Window System specification and has been adopted by the Open Software Foundation as a key component in an emerging standard for client/server networks. ▮ With this new standard, users will no longer have to learn a new set of commands every time they run a new program. They will no longer have to deal with the complexities of the network. In fact, they won't see any difference between a program running on the desktop and a program running on any other system on the network. They won't know – or care – whether the application is running under the VMS, UNIX, MS-DOS, OS/2, or Macintosh operating system. ▮ At the same time, users will be able to access information anywhere on the network. Using NAS, a generation of specialized systems like the VAXserver 4000 and the DECsystem 5000 servers are optimized to support VMS, UNIX, MS-DOS, OS/2, and Macintosh clients, while maintaining very large databases and serving as a link to datacenter mainframes. ▮

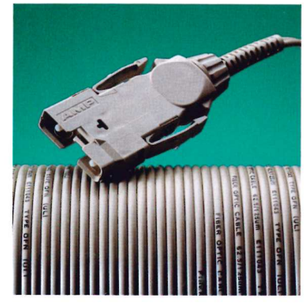


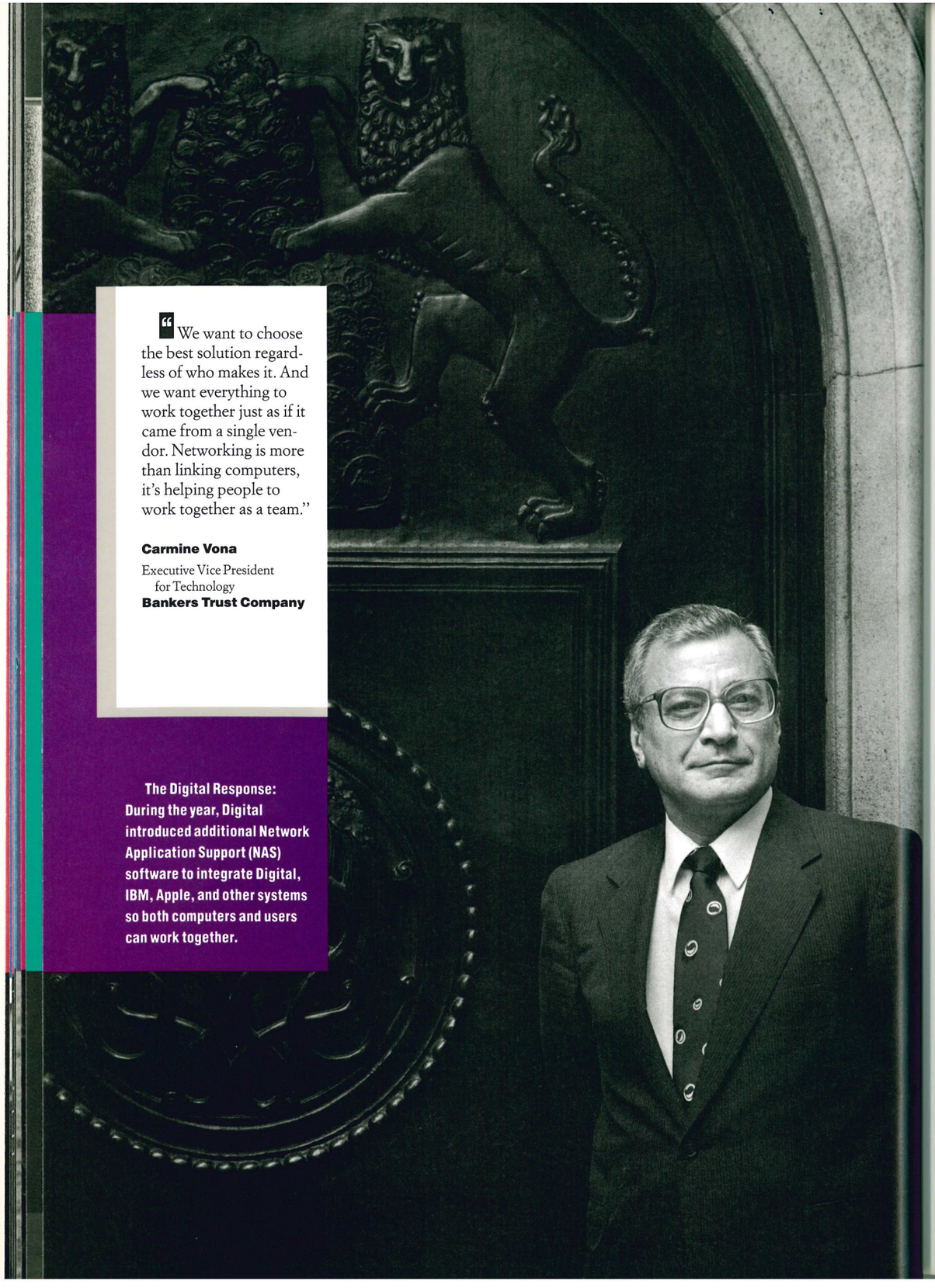
"Our goal is to build an open, accessible system to integrate Nomura's worldwide operations. As the systems integrator, we want to work with computer companies that are committed to multivendor networking and international standards."

Kenjiro Hayashi
Executive Managing Director
Systems Research Division
Nomura Research Institute

The Digital Response: Digital is working with customers, telecommunications companies, and other computer manufacturers to develop and implement the open standards our customers need to build multivendor and international networks.

The Nomura Research Institute (NRI) is developing a strategic financial system for various customers, including the Nomura Group, the world's largest financial institution. Nomura wants NRI to create a network that will make exchanging data or messages among computers in London, New York, and Tokyo as simple as communicating with a PC in the next office. For example, the decision support system for Nomura will support realtime arbitrage and risk management by integrating various systems in different offices into a single, open network. ▮ NRI's goal is to create a single system that will be the common property of the entire Nomura Group. Building this network means conforming to international standards and integrating the efforts of a number of different computer and telecommunications companies. ▮ For NRI, working with other companies is a way of life. In the financial services industry, success often comes from working with competitors, from developing mature relationships with customers and suppliers, and from building a strong presence in local markets. This kind of cooperation is a model for computer manufacturers and telecommunications companies. ▮ Digital helps customers achieve their strategic business goals by taking the same approach as NRI. Digital has established alliances with leading telecommunications providers and equipment manufacturers and plays an active role in international organizations that develop and set standards. Without these standards, it would be difficult to introduce products and services designed to support a multivendor computing environment. For example, Digital's FDDI–Fiber Distributed Data Interface–products provide high-speed, 100-megabit-per-second, local area network communications. These new products are based on a standard published by the X3T9.5 committee of the American National Standards Institute. ▮ Implementing international standards and supporting international customers requires an established global infrastructure. Digital Equipment Corporation Japan has the resources needed to provide global account management and to coordinate the efforts of Digital networking specialists in the U.S. and Europe. ▮





"We want to choose the best solution regardless of who makes it. And we want everything to work together just as if it came from a single vendor. Networking is more than linking computers, it's helping people to work together as a team."

Carmine Vona
Executive Vice President
for Technology
Bankers Trust Company

The Digital Response: During the year, Digital introduced additional Network Application Support (NAS) software to integrate Digital, IBM, Apple, and other systems so both computers and users can work together.

Network Application Support

Network Application Support, NAS, is more than an architecture; it is a comprehensive set of software products that is being used by Digital customers today. NAS is windowing, electronic mail, electronic document interchange, data management, and spreadsheets that can be shared among different systems. It's desktop, commercial, and technical applications. ▮ With NAS, distributed and client/server applications run across Digital networks. NAS is the logical outgrowth of Digital's long-standing commitment to desktop-to-datacenter compatibility. As VMS was Digital's architecture for the 1980s, NAS is the Digital architecture for the 1990s. It applies the lessons and disciplines of VMS to a multivendor environment. But NAS does not replace VMS or other operating systems; it enhances them in a way that lets the customer build a multivendor computing environment around existing systems. ▮ The new Bankers Trust trading room at Broadgate in London demonstrates this capability. In the past, trading rooms depended on video technology to provide a picture of market activity. But with feeds coming in from a number of different reporting services, it had become increasingly difficult for traders to find and focus on the specific information they needed. ▮ Working with software specialists, network analysts, hardware engineers, and traders, the Digital/Bankers Trust team solved the problem by converting the incoming video feeds into a digital format. Where it used to take a trader ten seconds to call up specific information on a display, it now takes less than half a second. And when you're dealing in a market where prices change by the second, time is literally money. ▮ By combining its knowledge of capital markets with Digital's technology, Bankers Trust has been able to create applications that can be used in trading rooms around the world. Network Application Support provides the needed links to existing networks, computer systems, and applications. ▮ This capability made Digital the world leader in multivendor networking. Every Digital system – from desktop computers and workstations to the VAX 9000 mainframe designed for production data processing – is a network computer. ▮

It's Good Business to be a Good Neighbor

A good neighbor contributes time, talent, and resources to the community; is genuinely concerned with people and the environment. ▮ For Digital – and Digital employees – being a good neighbor means more than making donations. It means being involved in the communities where we live and work. Being involved with environmental issues that have global impact. ▮ It means Digital executives and engineers on their own time, and on assignment from the Company, work with researchers, teachers, and social agencies to apply technology to environmental, health, and educational issues. ▮ For example, a team of engineers from Digital's Augusta, Maine, plant and Tewksbury, Massachusetts, office developed a process (left) for cleaning circuit boards with an aqueous solution rather than CFCs – chlorofluorocarbons – that affect the atmosphere. Digital put this new technology in the public domain so that everyone could benefit from Digital's research without paying a licensing fee. ▮ When "The Infinite Voyage" – an ongoing series of hour-long public television science specials underwritten by Digital – focused on ozone depletion, hundreds of students gathered at the University of Colorado to listen to a lecture by Dr. Sherwood Rowland. This lecture was beamed live via Digital's satellite network to 1,500 high schools, colleges, and Digital facilities across the United States. ▮ Digital also supports educational, health, and cultural programs. When Digital sponsored "Monet in the '90s" in Boston, Chicago, and London, special showings were scheduled for employees and their families. ▮ Being a good neighbor meant donating Digital computers to hospitals in New South Wales, Australia, for AIDS research, testing, and patient-care monitoring. It meant contributing money and equipment to Tuskegee Institute, Howard University, and other black colleges and universities. ▮ It meant supporting over 300 research programs at 125 colleges in North America, Europe, and the Pacific Rim. ▮ This kind of commitment and community involvement was supported by research grants and $37 million in cash and equipment donations, including $6 million in matching funds disbursed to nonprofit organizations. ▮ Being involved is not just good business; it is one of the ways Digital and Digital people support the communities that support them. ▮

Contents

Notes to Consolidated Financial Statements

Supplementary Information

Eleven-Year Financial Summary

Operations *(in millions except per share data)*	**1990**	1989	1988	1987	1986	1985	1984	1983	1982	1981	1980
Revenues											
Product sales	**$ 8,146**	$ 8,190	$ 7,541	$ 6,254	$ 5,103	$ 4,530	$ 3,804	$ 2,828	$ 2,739	$ 2,313	$ 1,736
Service and other revenues	**4,797**	4,552	3,934	3,135	2,487	2,156	1,780	1,444	1,142	885	632
Total operating revenues	**12,943**	12,742	11,475	9,389	7,590	6,686	5,584	4,272	3,881	3,198	2,368
Costs and Expenses											
Cost of product sales, service and other revenues	**6,795**	6,242	5,468	4,514	4,282	4,087	3,379	2,606	2,188	1,779	1,320
Research and engineering expenses	**1,614**	1,525	1,306	1,010	814	717	631	472	350	251	186
Selling, general and administrative expenses[4]	**4,521**	3,639	3,066	2,253	1,665	1,432	1,179	831	758	632	479
Operating income	**13**	1,336	1,635	1,612	829	450	395	363	585	536	383
Interest income	**142**	124	144	122	116	63	41	61	103	60	54
Interest expense	**31**	39	38	45	88	82	35	13	15	29	27
Income before income taxes	**124**	1,421	1,741	1,689	857	431	401	411	673	567	410
Provision for income taxes	**50**	348	435	552	240	(16)[3]	72	127	256	224	160
Net income	**$ 74**	$ 1,073	$ 1,306	$ 1,137	$ 617	$ 447	$ 329	$ 284	$ 417	$ 343	$ 250
Net income per share[1,2]	**$ .59**	$ 8.45	$ 9.90	$ 8.53	$ 4.81	$ 3.71	$ 2.87	$ 2.50	$ 3.76	$ 3.35	$ 2.73
Weighted average shares outstanding	**125**	127	132	133	131	124	115	113	111	105	94
Financial Position *(in millions except per share data)*											
Inventories	**$ 1,538**	$ 1,638	$ 1,575	$ 1,453	$ 1,200	$ 1,756	$ 1,852	$ 1,354	$ 1,137	$ 1,102	$ 820
Accounts receivable, net of allowance	**$ 3,207**	$ 2,965	$ 2,592	$ 2,312	$ 1,903	$ 1,539	$ 1,527	$ 1,125	$ 808	$ 758	$ 629
Property, plant and equipment, at cost	**$ 7,027**	$ 6,249	$ 5,210	$ 3,859	$ 3,263	$ 2,828	$ 2,352	$ 1,961	$ 1,605	$ 1,128	$ 772
Total assets	**$ 11,655**	$ 10,668	$ 10,112	$ 8,407	$ 7,173	$ 6,369	$ 5,593	$ 4,541	$ 4,024	$ 3,456	$ 2,666
Long-term debt	**$ 150**	$ 136	$ 124	$ 269	$ 333	$ 837	$ 441	$ 93	$ 92	$ 88	$ 490
Stockholders' equity	**$ 8,182**	$ 8,036	$ 7,510	$ 6,294	$ 5,728	$ 4,555	$ 3,979	$ 3,541	$ 3,165	$ 2,680	$ 1,652
Stockholders' equity per share[2]	**$ 66.76**	$ 66.12	$ 59.47	$ 49.87	$ 44.54	$ 38.43	$ 34.42	$ 31.42	$ 28.65	$ 24.65	$ 18.12
General Information and Ratios											
(dollars in millions except stock prices)											
Current ratio	**2.3:1**	2.9:1	2.9:1	3.4:1	4.9:1	4.9:1	3.8:1	3.9:1	4.1:1	4.2:1	4.5:1
Quick ratio	**1.6:1**	1.9:1	2.0:1	2.4:1	3.5:1	2.8:1	1.9:1	2.0:1	2.3:1	2.3:1	2.6:1
Working capital	**$ 4,332**	$ 4,501	$ 4,516	$ 4,377	$ 4,223	$ 3,694	$ 3,001	$ 2,377	$ 2,181	$ 2,030	$ 1,658
Additions to property, plant and equipment	**$ 1,028**	$ 1,223	$ 1,518	$ 748	$ 564	$ 572	$ 452	$ 419	$ 511	$ 399	$ 210
Depreciation	**$ 759**	$ 659	$ 516	$ 435	$ 384	$ 315	$ 253	$ 203	$ 153	$ 102	$ 70
Debt to debt plus equity ratio	**1.8%**	1.7%	1.6%	4.1%	5.5%	15.5%	10.0%	2.6%	2.8%	3.2%	22.9%
Operating income as a percentage of revenues	**.1%**	10.5%	14.2%	17.2%	10.9%	6.7%	7.1%	8.5%	15.1%	16.8%	16.2%
Income before income taxes as a percentage of revenues	**1.0%**	11.2%	15.2%	18.0%	11.3%	6.4%	7.2%	9.6%	17.3%	17.7%	17.3%
Effective tax rate	**40.0%**	24.5%	25.0%	32.7%	28.0%	(3.7%)[3]	18.0%	31.0%	38.0%	39.5%	39.0%
Net income as a percentage of revenues	**.6%**	8.4%	11.4%	12.1%	8.1%	6.7%	5.9%	6.6%	10.7%	10.7%	10.6%
Net income as a percentage of average stockholders' equity	**.9%**	13.8%	18.9%	18.9%	12.0%	10.5%	8.7%	8.5%	14.3%	15.9%	18.0%
Net income as a percentage of average total assets	**.7%**	10.3%	14.1%	14.6%	9.1%	7.5%	6.5%	6.6%	11.2%	11.2%	11.0%
Number of days sales of accounts receivable outstanding	**86**	76	75	78	79	75	83	82	73	73	81
Inventory turns	**4.3**	3.9	3.6	3.4	2.9	2.3	2.1	2.1	2.0	1.9	2.0
Number of employees at year-end	**124,000**	125,800	121,500	110,500	94,700	89,000	85,600	73,000	67,100	63,000	55,500
Common shares outstanding *(in thousands)*	**122,555**	121,537	126,290	126,187	128,591	59,253	57,811	56,357	55,227	54,348	45,568
Stockholders at year-end	**92,934**	99,084	103,162	99,379	76,860	68,810	44,389	40,903	44,706	39,948	35,144
Common stock yearly high and low sales prices	**$ 103-70**	$ 122-86	$ 199-99	$ 174-82	$ 94-46	$ 63-39	$ 61-33	$ 65-32	$ 55-34	$ 55-29	$ 41-27

[1] *See Note B of Notes to Consolidated Financial Statements.*
[2] *Per share data adjusted to reflect two-for-one stock split in May 1986.*
[3] *Includes elimination of DISC taxes of $63M accrued prior to 1984.*
[4] *Includes restructuring charges of $550M in 1990.*

Income and Expense Items as a Percentage of Total Operating Revenues				*Percentage Changes*		
1988	1989	**1990**	**Income and Expense Items**	**1989-90**	1988-89	1987-88
65.7%	64.3%	**62.9%**	Product sales	**(1%)**	9%	21%
34.3%	35.7%	**37.1%**	Service and other revenues	**5%**	16%	25%
100.0%	100.0%	**100.0%**	Total operating revenues	**2%**	11%	22%
40.3%	42.3%	**47.0%**	Cost of product sales	**10%**	14%	20%
61.7%	60.9%	**61.9%**	Service expense and cost of other revenues	**7%**	14%	22%
47.7%	49.0%	**52.5%**	Total cost of operating revenues	**9%**	14%	21%
11.4%	12.0%	**12.5%**	Research and engineering expenses	**6%**	17%	29%
26.7%	28.5%	**30.7%**	Selling, general and administrative expenses	**9%**	19%	36%
–	–	**4.2%**	Restructuring charges	**–**	–	–
14.2%	10.5%	**0.1%**	Operating income	**(99%)**	(18%)	1%
1.3%	1.0%	**1.1%**	Interest income	**15%**	(14%)	18%
0.3%	0.3%	**0.2%**	Interest expense	**(22%)**	4%	(16%)
15.2%	11.2%	**1.0%**	Income before income taxes	**(91%)**	(18%)	3%
3.8%	2.8%	**0.4%**	Provision for income taxes	**(86%)**	(20%)	(21%)
11.4%	8.4%	**0.6%**	Net income	**(93%)**	(18%)	15%

As an aid to understanding the Company's operating results, the above tables indicate the percentage relationships of income and expense items included in the Consolidated Statements of Income for the three years ended June 30, 1990, and the percentage changes in those items for such years. Components of total cost of operating revenues are shown as percentages of their related revenues.

Revenues

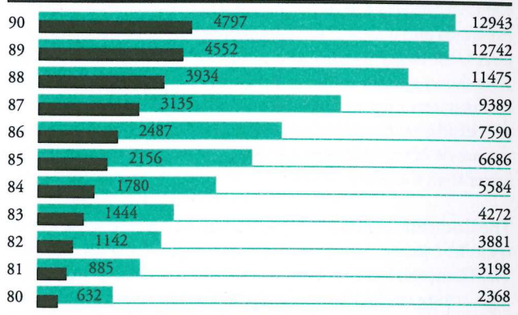
In 1990, the Company's operating revenues grew by 2% compared with the prior year. All of the Company's growth occurred in its overseas markets. For the year, international revenues accounted for approximately 56% of the Company's total revenues.

Product sales, which accounted for approximately 63% of operating revenues, were essentially flat compared with those of the prior year, following increases of 9% in 1989 and 21% in 1988. The lack of growth of product sales reflects persistent weakness in the U.S. market, a contraction in the rate of growth in some of the Company's overseas markets and a revenue decline in the Company's high-end product set pending production start-up of the new VAX 9000 mainframe computer. A pervasive change in industry demand, favoring low-end and desktop products, also was a factor. The Company has responded to this change in demand by introducing a number of new computer systems for both UNIX and Digital's own VMS operating systems, as well as a broad range of multivendor client/server software, service and hardware products.

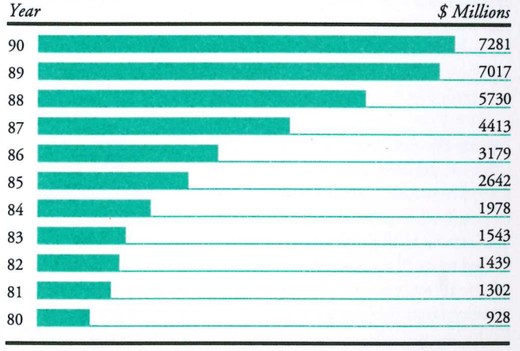
During the second fiscal quarter the Company announced its VAX 9000 mainframe computer system. The machine has met with a high level of customer interest and is functioning at speeds 30% faster than those noted at the time of the product's announcement. In anticipation of the availability of the VAX 9000 mainframe, demand for a number of the Company's other computer systems declined during the year.

In 1990, service and other revenues grew by $245 million or 5%, following increases of 16% in 1989 and 25% in 1988. Service revenue growth slowed somewhat from the prior two years, reflecting the same factors that affected product sales growth. Service revenues also were affected by changes in warranty policies, the high level of product quality, and price/performance improvements that often lead to product replacement instead of maintenance.

Total Operating Revenues



Non-United States Revenues



Expenses and Profit Margins

The Company's gross margin declined from the previous year, reflecting primarily lower than anticipated revenue growth, the negative impact of currency movements, competitive pricing pressures and a shift in the Company's mix of product revenues from larger systems toward smaller desktop systems. This shift shows a trend evident throughout much of the industry, as customers migrate applications to more of a distributed data processing environment and place more computer resources in the hands of the ultimate user. Service gross margin was slightly lower than the previous year.

The Company continued to be among the leaders in the industry in its commitment to research and engineering investment. The Company believes such investment is critical to maintaining a strong competitive position and ensuring future growth. Research and engineering expenses grew 6% in 1990 and represented 12.5% of total operating revenues, compared with 12% in 1989 and 11.4% in 1988. For the last three years combined, the Company's investment in research and engineering exceeded $4.4 billion. Approximately 10,500 professional employees are involved in a number of research, engineering and programming activities around the world. These activities include developing or enhancing systems, related peripheral equipment, and software, and expanding product applications and multivendor systems integration.

During the year the Company introduced many new hardware, software and service products. Early in the year the Company added new DECsystem 5800 series RISC systems and extended its family of expandable VAX systems with MicroVAX and VAXserver 3100 products. At the same time, the Company added to its Network Application Support (NAS) software, which allows customers to combine VAX, RISC systems and systems from other manufacturers in a multivendor network. In the second quarter a number of new products that simplify multivendor network management were announced in conjunction with several third-party companies. At mid-year the Company enlarged its family of desktop systems with the introduction of two models of the VAXstation 3100 workstation. The Company also reconfigured its ALL-IN-1 integrated office system to support multivendor systems in a client/server model. In this relationship, client software on the desktop gives users access to the network while server software on a host provides numerous business applications across a local area or global network. In the third quarter the Company enhanced its NAS capabilities with the announcement of VMS Production Systems Programs for mission-critical, distributed computing and, in addition, announced its first fault-tolerant

Research and Engineering

Year	*$ Millions*
90	1614
89	1525
88	1306
87	1010
86	814
85	717
84	631
83	472
82	350
81	251
80	186

Net Income

Year	*$ Millions*
90	74
89	1073
88	1306
87	1137
86	617
85	447
84	329
83	284
82	417
81	343
80	250

Net Income Per Common Share

Year	*$*
90	.59
89	8.45
88	9.90
87	8.53
86	4.81
85	3.71
84	2.87
83	2.50
82	3.76
81	3.35
80	2.73

system, the VAXft 3000 computer. A new version of Digital's ULTRIX operating system also was announced, with many new features including the ability to support symmetric multiprocessing.

Shortly after the close of the year, at DECWORLD '90, the Company announced new products for critical elements of the emerging client/server market, including software, hardware, networking and management capabilities. At the forefront of the Company's client/server strategy is the VAX 4000 Model 300 system. This system has excellent price/performance characteristics that allow it to perform high capacity input/output and network traffic tasks at considerable cost savings to the customer.

Selling, general and administrative expenses increased 9% over the previous year and represented 30.7% of total operating revenues, compared with 28.5% in 1989 and 26.7% in 1988. The Company continued to invest in its sales, marketing and Enterprise Integration Services organizations to promote sales growth and enhance customer support. Much of the increase in spending represented the addition of personnel as the Company increased the size of its sales organization.

For the last several years the Company has invested heavily in all facets of its operations in anticipation of higher revenue growth than what was actually achieved. Although the rate of spending growth has been reduced, the Company's overall profitability has declined. Consequently, the Company absorbed restructuring charges of $550 million to cover the cost of employee separations, reskilling, retraining and relocation, as well as facility consolidations and related administrative costs, mostly in the United States. As a result of this charge, the Company incurred a $378 million loss before income taxes in the United States in the 1990 fiscal year.

A portion of these restructuring actions occurred in fiscal 1990 but most will occur during fiscal 1991. The considerable cost savings benefits expected from these actions, therefore, will be realized partially in 1991 and more fully in 1992. During 1990, worldwide employment declined from 125,800 to 124,000.

The restructuring charges contributed to the lowering of the Company's operating margin for the year to .1%, compared with 10.5% in 1989 and 14.2% in 1988. Some positive impact from these charges will be realized during the 1991 fiscal year, and the full impact of actions taken in 1990 and 1991 will be realized in fiscal 1992.

The Company's positive cash flow, high cash balance, low level of debt and overall sound financial condition leave it well-positioned to absorb the restructuring charges without any serious impairment to its financial strength.

Interest income in 1990 increased from 1989 levels, reflecting higher cash balances. Interest expense decreased from the previous year due to a lower level of debt outstanding.

The Company's effective tax rate for 1990 was 40%, up from 24.5% in the previous year. The increase primarily reflects the inability of the Company to utilize all of the foreign tax credits available to it due to the lack of profitability in the U.S.

During December 1987, the Financial Accounting Standards Board issued a new accounting standard for income taxes, SFAS No. 96, which will require the company to adjust its deferred tax assets and liabilities. The statement has been amended by SFAS No. 103 which defers the effective date of adoption. The Company must adopt SFAS No. 96 no later than fiscal year 1993. Management does not anticipate that its adoption will have a material impact on the Company's consolidated financial position and results of operations. There will be no cash flow impact from these adjustments.

Employee Population

Year	*Thousands*
90	124
89	126
88	122
87	111
86	95
85	89
84	86
83	73
82	67
81	63
80	56

Availability of Funds to Support Current and Future Operations

Cash to support the Company's operations has historically been met with internally generated cash supplemented with external financing. During 1990, internally generated cash was more than sufficient to support operations.

During the three-year period of 1988-1990, cash generated from operating activities exceeded cash used for investing activities by $681 million. In 1990, net cash generated from operations and investments was $331 million, compared with $189 million in 1989 and $161 million in 1988. The increase in net cash generated from operations and investments from 1989 to 1990 reflects lower capital spending.

During 1989 and 1990, the Board of Directors authorized the repurchase of ten and five million shares, respectively, of the Company's common stock on the open market. In the second quarter of 1990, the Company repurchased 1.7 million shares of common stock at a cost of $159 million to complete the 10 million share authorization. In the fourth quarter of 1990, the Company repurchased 1.3 million of the five million share authorization at a cost of $111 million.

Cash and temporary cash investments rose to $2,009 million at the end of 1990 from $1,655 million at the end of 1989. Unused lines of credit at the end of 1990 were $784 million.

The Company's financial performance, together with its substantial reserve debt capacity and high credit rating, leave it well positioned to obtain cash required for future growth.

Common Stock Information

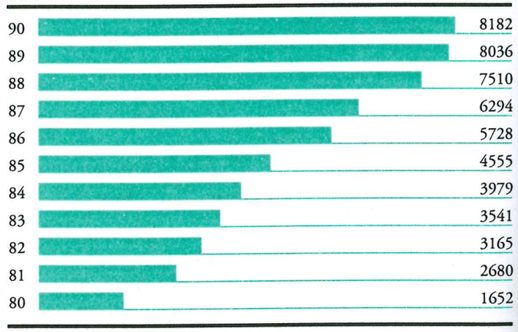
The Company's common stock is listed and traded on the Midwest Stock Exchange, New York Stock Exchange, Pacific Stock Exchange and several European stock exchanges. There were 92,934 stockholders of record as of June 30, 1990. The high and low quarterly sales prices for the past three fiscal years are presented below.

	1990	
Fiscal Quarter	*High*	*Low*
First	**$103 3/8**	**$ 91**
Second	**94 1/2**	**79 3/4**
Third	**90 1/4**	**69 1/2**
Fourth	**95 1/8**	**76 1/4**

	1989	
Fiscal Quarter	*High*	*Low*
First	$117	$ 91 1/2
Second	99 3/8	86 3/8
Third	122 3/8	95 3/4
Fourth	102 1/2	89 3/4

	1988	
Fiscal Quarter	*High*	*Low*
First	$198 1/4	$157 1/2
Second	199 1/2	110
Third	144 3/4	103 3/4
Fourth	115 7/8	99 1/4

Total Stockholders' Equity



Spending for Operations

The Company continued to make investments during the 1990 fiscal year to ensure product quality and technological competitiveness, while maintaining its sound financial position.

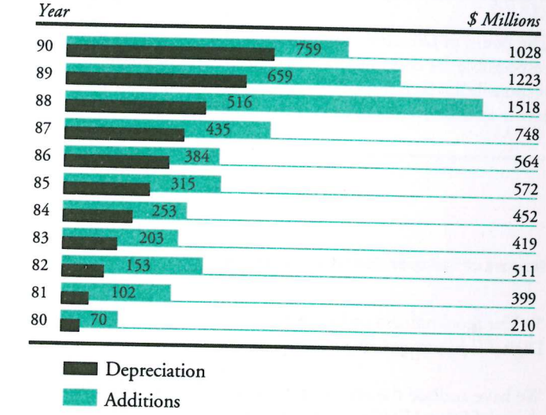
The Company invested $1,028 million in property, plant and equipment in 1990 compared with $1,223 million in 1989. In the last three years, capital expenditures have exceeded $3.7 billion. This sizable investment in the future aims at supporting the Company's growth, improving manufacturing and engineering processes and techniques, and advancing employee productivity. Nearly 72% of the current year's total was spent for machinery and equipment. The balance of the capital spending was for buildings, leasehold improvements and land.

Despite lower than anticipated revenue growth and a number of product transitions, inventories declined in 1990 by $100 million or 6%. All three categories of inventory – raw materials, work in process and finished goods – declined from 1989 levels. Average year inventory turned 4.3 times, an improvement from 3.9 times in fiscal 1989 and 3.6 times in fiscal 1988. Accounts receivable grew 8% in 1990 due principally to the larger proportion of non-U.S. revenues, extended payment terms, and the impact of currency on overseas operations. Consequently, days sales in accounts receivable grew to 86 days compared with 76 days and 75 days in the two prior fiscal years.

The Company added approximately 1.3 million square feet of building space in 1990, bringing the total amount of space to 44.2 million square feet in approximately 1,200 owned and leased facilities. Major projects completed during the year included new customer sales facilities in Atlanta, Georgia, and Sydney, Australia, and a new engineering storage systems facility in Shrewsbury, Massachusetts.

The Company will continue to invest for the future, and anticipates that its capital spending level in 1991 will be in the same general range as that of 1990. The actual level of spending will be dependent on a variety of factors, including worldwide economic conditions, growth in demand for the Company's products and services and changes in semiconductor and manufacturing process technology.

Additions to Property, Plant and Equipment
Depreciation Expense



Report of Management

The Company's management is responsible for the preparation of the financial statements in accordance with generally accepted accounting principles and for the integrity of all the financial data included in this Annual Report. In preparing the financial statements, management makes informed judgments and estimates of the expected effects of events and transactions that are currently being reported.

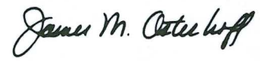
Management maintains a system of internal accounting controls that is designed to provide reasonable assurance that assets are safeguarded and that transactions are executed and recorded in accordance with management's policies for conducting its business. This system includes policies which require adherence to ethical business standards and compliance with all laws to which the Company is subject. The internal controls process is continuously monitored by direct management review and an internal audit program under which periodic independent reviews are made.

The Board of Directors, through its Audit Committee, is responsible for determining that management fulfills its responsibility with respect to the Company's financial statements and the system of internal accounting controls.

The Audit Committee meets periodically with representatives of management, the independent accountants and the Company's internal auditors to review audits, financial reporting, and internal control matters, and also meets with the Company's outside counsel on related matters. The independent accountants and the internal auditors have full and free access to the Audit Committee and periodically meet privately with the Audit Committee.

Coopers & Lybrand, independent accountants, have been engaged by the Board of Directors, with the approval of the stockholders, to examine the Company's financial statements. Their report appears below.

Kenneth H. Olsen
President



James M. Osterhoff
Vice President, Finance

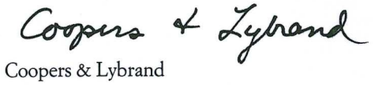
Report of Independent Accountants

To The Stockholders and Directors,
Digital Equipment Corporation

We have audited the accompanying consolidated balance sheets of Digital Equipment Corporation as of June 30, 1990 and July 1, 1989 and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three fiscal years in the period ended June 30, 1990. 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Digital Equipment Corporation as of June 30, 1990 and July 1, 1989, and the consolidated results of its operations and cash flows for each of the three fiscal years in the period ended June 30, 1990 in conformity with generally accepted accounting principles.



Coopers & Lybrand

Boston, Massachusetts
July 25, 1990

Consolidated Statements of Income

(in thousands except per share data)

	Year Ended		
	June 30, 1990	July 1, 1989	July 2, 1988
Revenues *(Notes A and C)*			
Product sales	**$ 8,145,491**	$ 8,190,308	$ 7,541,241
Service and other revenues	**4,797,032**	4,551,648	3,934,205
Total operating revenues	**12,942,523**	12,741,956	11,475,446
Costs and Expenses *(Notes A, D and I)*			
Cost of product sales	**3,825,897**	3,468,307	3,042,172
Service expense and cost of other revenues	**2,968,529**	2,773,563	2,426,176
Research and engineering expenses	**1,614,423**	1,525,129	1,306,543
Selling, general and administrative expenses	**3,971,059**	3,638,868	3,065,555
Restructuring charges *(Note M)*	**550,000**	–	–
Operating income	**12,615**	1,336,089	1,635,000
Interest income	**142,015**	124,021	143,665
Interest expense	**30,641**	39,435	37,820
Income before income taxes	**123,989**	1,420,675	1,740,845
Provision for income taxes *(Notes A and E)*	**49,596**	348,065	435,212
Net Income	**$ 74,393**	$ 1,072,610	$ 1,305,633
Net Income per Share *(Note B)*	**$ .59**	$ 8.45	$ 9.90
Weighted average shares outstanding *(Note B)*	**125,222**	127,008	131,923

The accompanying notes are an integral part of these financial statements.

Consolidated Balance Sheets

(in thousands)

	June 30, 1990	July 1, 1989
Assets		
Current Assets		
Cash and cash equivalents *(Note F)*	**$ 2,008,983**	$ 1,655,264
Accounts receivable, net of allowance of $87,632 and $74,345	**3,206,765**	2,965,408
Inventories *(Note A)*		
Raw materials	**352,976**	360,135
Work-in-process	**479,472**	570,064
Finished goods	**705,810**	707,802
Total inventories	**1,538,258**	1,638,001
Prepaid expenses	**345,797**	255,195
Net deferred Federal and foreign income tax charges	**521,809**	381,140
Total Current Assets	**7,621,612**	6,895,008
Property, Plant and Equipment, at Cost *(Note A)*		
Land	**352,296**	300,540
Buildings	**1,712,204**	1,599,673
Leasehold improvements	**569,885**	530,773
Machinery and equipment	**4,392,609**	3,817,587
Total property, plant and equipment, at cost	**7,026,994**	6,248,573
Less accumulated depreciation	**3,158,902**	2,602,677
Net property, plant and equipment	**3,868,092**	3,645,896
Other assets, net *(Note G)*	**165,117**	126,875
Total Assets	**$11,654,821**	$10,667,779
Liabilities and Stockholders' Equity		
Current Liabilities		
Bank loans and current portion of long-term debt *(Note H)*	**$ 12,538**	$ 29,755
Accounts payable	**660,819**	553,818
Federal, foreign and state income taxes	**453,997**	445,977
Salaries, wages and related items	**472,153**	300,393
Deferred revenues and customer advances *(Note A)*	**903,038**	833,831
Other current liabilities *(Note M)*	**787,224**	230,265
Total Current Liabilities	**3,289,769**	2,394,039
Net deferred Federal and foreign income tax credits	**33,137**	102,048
Long-term debt *(Note H)*	**150,001**	136,019
Total Liabilities	**3,472,907**	2,632,106
Stockholders' Equity *(Notes I and J)*		
Common stock, $1.00 par value; authorized 450,000,000 shares; issued 130,008,231 shares	**130,008**	130,008
Additional paid-in capital	**2,565,487**	2,469,711
Retained earnings	**6,257,199**	6,366,418
Treasury stock at cost; 7,453,501 shares and 8,471,655 shares	**(770,780)**	(930,464)
Total Stockholders' Equity	**8,181,914**	8,035,673
Total Liabilities and Stockholders' Equity	**$11,654,821**	$10,667,779

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Cash Flows

(in thousands)

	June 30, 1990	July 1, 1989	Year Ended July 2, 1988
Cash Flows from Operating Activities			
Net income	**$ 74,393**	$1,072,610	$1,305,633
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**796,201**	686,738	527,141
Other adjustments to income	**92,329**	49,702	66,349
(Increase) in accounts receivable	**(241,357)**	(373,248)	(279,972)
(Increase)/decrease in inventories	**99,743**	(62,942)	(122,140)
(Increase)/decrease in prepaid expenses	**(90,602)**	18,965	(154,967)
Increase in accounts payable	**107,001**	30,645	92,598
Increase/(decrease) in taxes	**(201,560)**	(75,502)	92,600
Increase in deferred revenues and customer advances	**69,207**	105,847	252,059
Increase/(decrease) in other liabilities	**728,719**	26,576	(80,916)
Total adjustments	**1,359,681**	406,781	392,752
Net cash flows from operating activities	**1,434,074**	1,479,391	1,698,385
Cash Flows from Investing Activities			
Purchase of plant, property, and equipment	**(1,027,625)**	(1,223,038)	(1,517,579)
(Increase) in other assets, net	**(75,489)**	(67,624)	(19,212)
Net cash flows from investing activities	**(1,103,114)**	(1,290,662)	(1,536,791)
Net cash flows from operating and investing activities	**330,960**	188,729	161,594
Cash Flows from Financing Activities			
Proceeds from issuance of debt	**17,661**	40,425	7,283
Payments to retire debt	**(20,896)**	(153,245)	(2,854)
Purchase of treasury shares	**(270,231)**	(814,958)	(363,499)
Issuance of treasury shares, including tax benefits	**296,225**	230,733	242,761
Net cash flows from financing activities	**22,759**	(697,045)	(116,309)
Net increase/(decrease) in cash and cash equivalents	**353,719**	(508,316)	45,285
Cash and cash equivalents at the beginning of year	**1,655,264**	2,163,580	2,118,295
Cash and cash equivalents at end of year	**$2,008,983**	$1,655,264	$2,163,580

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Stockholders' Equity

(in thousands)	*Common Stock*	*Additional Paid-in Capital*	*Retained Earnings*	*Treasury Stock*	*Total Stock-holders' Equity*
June 27, 1987	$130,008	$2,352,939	$4,410,242	$(599,718)	$6,293,471
Purchase of 3,000,000 shares of treasury stock *(Note J)*				(363,499)	(363,499)
Shares issued under stock option and purchase plans *(Note I)*			(252,825)	456,142	203,317
Restricted stock plans, charge to operations		32,008			32,008
Tax benefits related to stock option and purchase plans *(Note I)*		39,444			39,444
Net income–1988			1,305,633		1,305,633
July 2, 1988	$130,008	$2,424,391	$5,463,050	$(507,075)	$7,510,374
Purchase of 8,247,000 shares of treasury stock *(Note J)*				(814,958)	(814,958)
Shares issued under stock option and purchase plans *(Note I)*			(169,242)	391,569	222,327
Restricted stock plans, charge to operations		36,914			36,914
Tax benefits related to stock option and purchase plans *(Note I)*		8,406			8,406
Net income–1989			1,072,610		1,072,610
July 1, 1989	$130,008	$2,469,711	$6,366,418	$(930,464)	$8,035,673
Purchase of 3,053,000 shares of treasury stock *(Note J)*				**(270,231)**	**(270,231)**
Shares issued under stock option and purchase plans *(Note I)*			**(183,612)**	**429,915**	**246,303**
Restricted stock plans, charge to operations		**45,854**			**45,854**
Tax benefits related to stock option and purchase plans *(Note I)*		**49,922**			**49,922**
Net income–1990			**74,393**		**74,393**
June 30, 1990	**$130,008**	**$2,565,487**	**$6,257,199**	**$(770,780)**	**$8,181,914**

The accompanying notes are an integral part of these financial statements.

Notes to Consolidated Financial Statements

Note A—*Significant Accounting Policies*

Principles of Consolidation ☐ The consolidated financial statements of the Company include the financial statements of the parent and its domestic and foreign subsidiaries. All significant intercompany accounts and profits have been eliminated.

Translation of Foreign Currencies ☐ For foreign operations, the U.S. dollar continues to be the functional currency. Monetary assets and liabilities of foreign subsidiaries are translated into U.S. dollars at current exchange rates. Non-monetary assets such as inventories and property, plant and equipment are translated at historical rates. Income and expense items are translated at average exchange rates prevailing during the year, except that inventories charged to cost of sales and depreciation are translated at historical rates. Exchange gains and losses arising from translation are included in current income.

The Company enters into forward exchange contracts to delay the short term impact of foreign currency fluctuations on operations and the asset and liability positions of foreign subsidiaries. The gains or losses on these contracts are included in income when the operating revenues and expenses are recognized and, for assets and liabilities, in the period in which the exchange rates change. The cash flows related to these gains and losses are classified in the statement of cash flows, as part of cash flows from operating activities.

Revenue Recognition ☐ Revenues from product sales are recognized at the time the product is shipped. Service and other revenues are recognized ratably over the contractual period or as the services are performed.

Warranty Costs ☐ Warranty costs are expensed as incurred. The warranty costs result in the same charge to expense as would be incurred if such warranty costs were accrued at the time of revenue recognition.

Taxes ☐ In general, the Company's practice is to reinvest the earnings of its foreign subsidiaries in those operations and repatriation of retained earnings is done only when it is advantageous to do so. Applicable taxes are provided only on amounts planned to be remitted.

Inventories ☐ Inventories are stated at the lower of cost (first-in, first-out) or market.

Property, Plant and Equipment ☐ Depreciation expense is computed principally on the following basis:

Classification	*Depreciation Lives and Methods*
Buildings	33 years (straight-line)
Leasehold Improvements	Life of assets or term of lease, whichever is shorter (straight-line)
Machinery and Equipment	3 to 10 years (accelerated methods)

Note B—*Net Income Per Share and Dividends*

Net income per share is based on the weighted average number of common shares and common share equivalents outstanding during the year. In the years ended June 30, 1990, July 1, 1989, and July 2, 1988, common share equivalents were attributable to stock options.

Cash dividends have never been paid by the Company.

Note C—*International Operations*

(in thousands)	*Year Ended*		
	June 30, 1990	July 1, 1989	July 2, 1988
Revenues			
United States customers	**$ 5,823,435**	$ 5,848,975	$ 5,810,598
Intercompany	**1,920,254**	2,103,290	2,017,928
	7,743,689	7,952,265	7,828,526
Europe customers	**5,242,740**	5,130,052	4,221,631
Intercompany	**144,511**	113,820	137,669
	5,387,251	5,243,872	4,359,300
Canada, Far East, Americas, Pacific Rim customers	**1,876,348**	1,762,929	1,443,217
Intercompany	**1,087,099**	1,065,746	912,786
	2,963,447	2,828,675	2,356,003
Eliminations	**(3,151,864)**	(3,282,856)	(3,068,383)
Net revenue	**$12,942,523**	$12,741,956	$11,475,446
Income			
United States	**$ (381,450)**	$ 510,364	$ 512,754
Europe	**478,225**	815,655	770,135
Canada, Far East, Americas, Pacific Rim	**255,051**	411,267	390,787
Eliminations	**(339,211)**	(401,197)	(38,676)
Operating income	**12,615**	1,336,089	1,635,000
Interest income	**142,015**	124,021	143,665
Interest expense	**30,641**	39,435	37,820
Income before income taxes	**$ 123,989**	$ 1,420,675	$ 1,740,845
Assets			
United States	**$ 5,786,798**	$ 5,499,763	$ 5,245,439
Europe	**3,654,206**	3,420,247	3,093,818
Canada, Far East, Americas, Pacific Rim	**1,430,592**	1,298,519	1,293,906
Corporate assets *(cash equivalents)*	**1,959,201**	1,469,842	2,057,528
Eliminations	**(1,175,976)**	(1,020,592)	(1,579,135)
Total assets	**$11,654,821**	$10,667,779	$10,111,556

Note C—*International Operations (continued)*

Industry ☐ The Company's business consists of the design, manufacture and sale of networked computer systems, software and services, and the integration of multivendor systems.

International Operations ☐ Sales and marketing operations outside the United States are conducted principally through sales subsidiaries in Canada, Europe, Central and South America, the Far East and the Pacific Rim; by direct sales from the parent corporation and through various representative and distributorship arrangements. The Company's international manufacturing operations include plants in Canada, the Far East, Europe and the Pacific Rim. The products of these manufacturing plants are sold to the Company's sales subsidiaries, the parent corporation or other manufacturing plants for further processing.

Intercompany transfers between geographic areas are accounted for at prices which are designed to be representative of unaffiliated party transactions.

Sales to unaffiliated customers outside the United States, including U.S. export sales, were $7,280,880,000, $7,016,952,000 and $5,729,879,000 for the years ended June 30, 1990, July 1, 1989, and July 2, 1988, respectively, which represented 56%, 55% and 50%, respectively, of total operating revenues. The retained earnings of substantially all of the Company's international subsidiaries have been reinvested to support operations. These accumulated retained earnings, before elimination of intercompany transactions, aggregated $3,753,644,000, $3,426,975,000 and $2,793,239,000 at June 30, 1990, July 1, 1989, and July 2, 1988, respectively.

Note D—*Pension Plans and Other Retirement Benefits*

The Company and its subsidiaries have defined benefit pension plans covering substantially all employees. Pension cost is based on estimated benefit payment formulas. The benefits are based on years of service and compensation during the employee's career.

It is the Company's policy to make contributions to the plans in accordance with local laws and to the extent that such contributions are tax deductible. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. For the U.S. pension plan, there were no contributions in either of the fiscal years 1989 or 1990 due to the full funding limit of the Omnibus Budget Reconciliation Act of 1987. The assets of the plans include corporate equity and debt securities, government securities and real estate.

As a result of restructuring activities, a curtailment gain of $65,000,000 is reflected in the net amortization and deferral component of net periodic pension cost for fiscal year 1990.

The following table provides information on the status of the U.S. pension plan and certain non-U.S. plans which, in aggregate, represent approximately 91% of the total pension expense of the Company and its subsidiaries for the years ended June 30, 1990, July 1, 1989, and July 2, 1988, respectively. The measurement dates for all plans were within 90 days of year-end.

Net periodic pension cost for fiscal years 1990, 1989 and 1988 included the following components:

(in thousands)	**1990**	1989	1988
Service cost-benefits earned during the period	**$219,499**	$ 188,068	$ 160,225
Interest cost on projected benefit obligation	**137,850**	111,095	90,283
Actual return on plan assets	**(185,555)**	(230,671)	590
Net amortization and deferral	**(48,130)**	84,129	(124,714)
Net periodic pension cost	**$123,664**	$ 152,621	$ 126,384
Total net periodic pension cost for all pension plans	**$137,597**	$ 166,848	$ 138,308

Note D—*Pension Plans and Other Retirement Benefits (continued)*

The significant actuarial assumptions as of the year-end measurement date were as follows:

	1990	1989	1988
U.S. pension plan:			
Discount rate	**9.0%**	9.0%	9.0%
Expected long-term rate of return on plan assets	**9.5%**	9.5%	9.5%
Rate of increase in future compensation levels	**6.8%**	6.8%	7.0%
Non-U.S. pension plans:			
Discount rate	**5.0-12.5%**	5.0-12.5%	5.0-11.5%
Expected long-term rate of return on plan assets	**5.5-10.0%**	5.0-10.0%	5.0-10.0%
Rate of increase in future compensation levels	**5.0- 9.5%**	4.0- 9.5%	5.3-10.5%

The funded status as of the year-end measurement date was as follows:

(in thousands)	**1990**	1989
Actuarial present value of benefit obligations:		
Vested benefit obligation	**$ (692,386)**	$ (472,004)
Accumulated benefit obligation	**$ (785,533)**	$ (552,685)
Projected benefit obligation	**$(1,949,220)**	$(1,570,855)
Plan assets at fair value	**2,219,322**	1,884,146
Plan assets in excess of projected benefit obligation	**270,102**	313,291
Contributions made after measurement date but before end of fiscal year	**5,983**	3,112
Unrecognized net (gain)	**(161,394)**	(140,296)
Unrecognized prior service cost	**28,388**	25,149
Unrecognized transition asset, net	**(128,400)**	(147,320)
Pension cost recognized on the balance sheet	**$ 14,679**	$ 53,936

In addition to providing pension benefits, the Company provides certain medical, dental and life insurance benefits for retired employees. Substantially all of the Company's domestic employees may become eligible for those benefits if they reach normal retirement age while working for the Company. The cost of retiree health care and life insurance benefits is recognized as an expense as claims are paid. These costs totaled $3,005,000, $1,565,000 and $1,025,000 for the years ended June 30, 1990, July 1, 1989, and July 2, 1988, respectively. The majority of the Company's foreign subsidiaries do not offer such benefits to retirees. Of those that do, the amounts are immaterial.

Note E—*Income Taxes*

Income before income taxes for domestic and foreign operations was as follows:

(in thousands)	*Year Ended*		
	June 30, 1990	July 1, 1989	July 2, 1988
Domestic	**(378,476)**	$530,298	$ 773,679
Foreign	**502,465**	890,377	967,166
Total	**$123,989**	$1,420,675	$1,740,845

The total provisions for income taxes were at rates different than the U.S. Federal statutory tax rate for the following reasons:

	1990	1989	1988
U.S. Federal statutory tax rate	**34.0%**	34.0%	34.0%
Tax benefit of manufacturing operations in: (a)			
Puerto Rico	**(49.0)**	(3.9)	(2.6)
Ireland	**(56.5)**	(3.3)	(2.4)
Singapore	**(6.7)**	(0.4)	(0.7)
Taiwan	**(4.7)**	(0.4)	(0.4)
Research and engineering credit	**(6.0)**	(1.5)	(1.6)
State income taxes	**0.0**	0.8	1.9
Foreign tax rates, net of foreign tax credits	**90.9**	1.6	1.1
Other	**38.0**	(2.4)	(4.3)
Effective tax rate	**40.0%**	24.5%	25.0%

The Company has underutilized U.S. tax credits equal to $94,000,000, of which $16,000,000 will expire in 1994 and $78,000,000 will expire in 1995.

(a) The Company's manufacturing subsidiary operating in Puerto Rico is subject to tax at a rate of approximately 8% on its manufacturing earnings through fiscal year 2003. The income from products manufactured for export by the Company's Irish manufacturing subsidiary was exempt from Irish taxes through April 1990. After that time, the Irish manufacturing operations are subject to a 10% tax rate through December 1999. The income from certain products manufactured by the Company's Singaporean manufacturing subsidiary is wholly exempt from Singaporean taxes through December 1990 and partially exempt through December 1993. The income from certain products manufactured by the Company's subsidiary operating in Taiwan is subject to a reduced tax rate of 20% through May 1991, while the income from certain other products continues to be taxed at 20% through January 1994.

Note E—*Income Taxes (continued)*

The components of the provisions for U.S. Federal and foreign income taxes were as follows:

(in thousands)			*Year Ended*
	June 30, 1990	July 1, 1989	July 2, 1988
U.S. Federal:			
Current	**$ 33,940**	$136,331	$175,079
Deferred	**(113,048)**	(6,775)	(80,118)
Total	**$ (79,108)**	$129,556	$ 94,961
Foreign:			
Current	**$ 187,516**	$211,652	$259,246
Deferred	**(58,781)**	(10,861)	31,483
Total	**$ 128,735**	$200,791	$290,729
State income taxes	**$ (31)**	$ 17,718	$ 49,522
Total income taxes	**$ 49,596**	$348,065	$435,212

Deferred tax expense results from timing differences in the recognition of revenues and expenses for tax and financial reporting purposes. The sources of these timing differences in the years ended June 30, 1990, July 1, 1989, and July 2, 1988, and the tax effect of each were as follows:

(in thousands)			*Year Ended*
	June 30, 1990	July 1, 1989	July 2, 1988
Inventory related transactions	**$ 6,068**	$ (26,909)	$ 13,533
Deferred warranty revenue	**64,621**	14,687	(99,510)
Depreciation	**(35,813)**	(6,089)	7,706
Pension	**(50,135)**	(21,656)	20,289
Restructuring	**(119,917)**	–	–
Other	**(36,653)**	22,331	9,347
Total	**$(171,829)**	$ (17,636)	$(48,635)

In connection with its normal examinations of the Company's 1984, 1985 and 1986 tax returns, the Internal Revenue Service has proposed adjustments. The Company believes its judgments in these matters have been appropriate and intends to contest certain of the adjustments proposed by the IRS. In addition, the Company believes any adjustments which might result would not have a material effect on the financial statements.

During December 1987, the Financial Accounting Standards Board issued a new accounting standard for income taxes, SFAS No. 96, which will require the Company to adjust its deferred tax assets and liabilities. The Statement has been amended by SFAS No. 103 which defers the effective date of adoption.

The Company must adopt SFAS No. 96 no later than fiscal year 1993. Management does not anticipate that the adoption of SFAS No. 96 will have a material impact on the Company's consolidated financial position and results of operations. There will be no cash flow impact from these adjustments.

See Note A of Notes to Consolidated Financial Statements for further explanation of the Company's income tax accounting policies.

Note F—*Cash Flow Statement*

The Company considers all highly liquid temporary cash investments with low interest rate risk to be cash equivalents. Cash equivalents are valued at cost plus accrued interest, which approximates market. None of the cash reflected on the balance sheet at June 30, 1990, and July 1, 1989, was required as compensating balances.

Income taxes paid were $228,852,000, $451,460,000 and $307,785,000 for the years ended June 30, 1990, July 1, 1989, and July 2, 1988, respectively.

Interest paid was $33,431,000, $40,902,000 and $38,182,000 for the years ended June 30, 1990, July 1, 1989, and July 2, 1988, respectively.

Note G—*Capitalized Computer Software Development Costs*

Unamortized computer software development costs which are included in Other assets, net on the balance sheet, were $109,907,000 and $90,395,000 at June 30, 1990, and July 1, 1989, respectively. These costs are amortized over three years from the date the products are available for general release. Amortization expense was $37,247,000, $27,359,000 and $11,634,000 for the years ended June 30, 1990, July 1, 1989, and July 2, 1988, respectively.

Note H—*Debt*

Long-term debt, exclusive of current maturities, consisted of the following:

(in thousands)	**June 30, 1990**	July 1, 1989
Lease obligations payable 1991-2002 (5.4%-12.25%)(a)	**$ 32,335**	$ 17,083
Notes due 1994 (12⅝%)(b)	**100,000**	100,000
Other debt obligations	**17,666**	18,936
	$150,001	$136,019

Principal payments required during the next five fiscal years are as follows: 1991–$4,560,000; 1992–$4,967,000; 1993–$5,338,000; 1994–$104,788,000; 1995–$6,712,000.

(a) Weighted average interest rate at June 30, 1990, and July 1, 1989, of 10.6% and 9.2%, respectively.

(b) Notes were issued by the Company in April 1984. The notes are redeemable on or after April 15, 1991, as a whole or in part, at a redemption price equal to the principal amount plus accrued interest. The indenture for the notes also contains certain restrictions on future borrowings, and sales and leasebacks.

The Company has lines of credit available for short-term financing totaling $791,943,000. Unused lines of credit totaled $783,965,000 at June 30, 1990, and $575,535,000 at July 1, 1989.

Note I—*Stock Plans*

Restricted Stock Options ☐ Under its Restricted Stock Option Plans, the Company has granted certain officers and key employees options, which are exercisable upon grant, to purchase common stock at a price determined by the Board of Directors. Shares purchased under the plans were issued from treasury shares and are generally subject to repurchase options and restrictions on sales which lapse over an extended time period not exceeding 10 years.

Information concerning activity during the three years ended June 30, 1990, was as follows:

		Options Outstanding	
	Shares Reserved For Future Grants	*Shares*	*Average Price Per Share*
June 27, 1987	15,165,630	13,003,201	$36.12
Options Granted	(3,244,400)	3,244,400	152.95
Options Exercised	–	(1,302,482)	28.67
Options Cancelled	182,896	(182,896)	52.68
Options Terminated	(118,075)	–	–
July 2, 1988	11,986,051	14,762,223	$62.25
Options Granted	(3,491,580)	3,491,580	73.00
Options Exercised	–	(1,081,871)	29.75
Options Cancelled	307,370	(307,370)	66.99
Options Terminated	(142,472)	–	–
July 1, 1989	8,659,369	16,864,562	$66.47
Options Granted	**(3,365,390)**	**3,365,390**	**75.18**
Options Exercised		**(1,297,584)**	**33.90**
Options Cancelled	**321,362**	**(321,362)**	**70.91**
Options Terminated	**(131,656)**	**–**	**–**
June 30, 1990	**5,483,685**	**18,611,006**	**$70.24**

The excess of the fair market value of the shares on the grant date over the option price is charged to operations each year as the restrictions lapse.

Employee Stock Purchase Plans ☐ Under the Company's Employee Stock Purchase Plans, all United States and certain international employees may be granted the opportunity to purchase common stock at 85% of market value on the first or last business day of the six month payment period, whichever is lower. Common stock reserved for future grants aggregated 6,884,972 shares at June 30, 1990. There were 2,797,296 shares issued from treasury shares at an average price of $73.13 per share during the year ended June 30, 1990, and 2,417,459 shares at $78.87 per share during the year ended July 1, 1989. There have been no charges to income in connection with these Plans other than incidental expenses related to the issuance of the shares. Federal income tax benefits relating to such Plans have been credited to additional paid-in capital.

Note J—*Treasury Stock*

The Company purchased on the open market 3,053,000 shares of its common stock at an aggregate purchase price of $270,231,000, or $88.51 per share, during the year ended June 30, 1990; 8,247,000 shares at an aggregate purchase price of $814,958,000, or $98.82 per share, during the year ended July 1, 1989; 3,000,000 shares at an aggregate purchase price of $363,499,000, or $121.17 per share, during the year ended July 2, 1988. All of the acquired shares are held as common stock in treasury, less shares issued to employees under the Employee Stock Purchase Plans and Restricted Stock Option Plans. The difference between the average acquisition cost of the shares and the proceeds from issuance is charged to retained earnings.

Note K—*Leases*

Minimum annual rentals under noncancelable leases (which are principally for leased real estate, vehicles and equipment) for the fiscal years listed are as follows:

Fiscal Years	*(in thousands)*
1991	$ 355,577
1992	293,788
1993	209,980
1994	146,764
1995	118,466
Later years	693,337
Total minimum lease payments	$1,817,912

Total rental expense for the years ended June 30, 1990, July 1, 1989, and July 2, 1988, amounted to $512,052,000, $452,078,000, and $406,376,000, respectively.

Note L—*Off-Balance-Sheet Risk and Concentrations of Credit Risk*

In 1990, the Company adopted Statement of Financial Accounting Standard No. 105, which requires disclosure of information about financial instruments with off-balance-sheet risk and about concentrations of credit risk for all financial instruments.

Off-Balance-Sheet Risk ☐ The Company enters into forward exchange contracts to hedge foreign currency transactions on a continuing basis for periods consistent with its committed exposures. It does not engage in speculation. The effect of this practice is to delay on a rolling basis the impact of foreign exchange rate movements on the Company's operating results. The Company's foreign exchange contracts do not subject the Company to risk due to exchange rate movements because gains and losses on these contracts offset losses and gains on the assets, liabilities, and transactions being hedged. As of June 30, 1990, the Company had $2.5 billion of foreign exchange contracts outstanding, 85% of which were in European currencies. The forward exchange contracts generally have maturities which do not exceed six months and require the Company to exchange foreign currencies for U.S. dollars at maturity, at rates agreed to at inception of the contracts. See Note A for information on the Company's accounting policy on forward exchange contract gains and losses.

Concentrations of Credit Risk ☐ Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of temporary cash investments and trade receivables.

The Company places its temporary cash investments with high credit quality financial institutions and, by policy, limits the amount of credit exposure to any one financial institution. Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers comprising the Company's customer base, and their dispersion across many different industries and geographies.

As of June 30, 1990, the Company had no significant concentrations of credit risk.

Note M—*Restructuring Charges*

In fiscal year 1990, the Company recorded restructuring charges of $550,000,000 on a pretax basis. Included in the charge were $455,000,000 for employee separations, redeployment and related expenses and $95,000,000 for facility consolidations and equipment retirements.

Note N—*Stockholder Rights Plan*

The Company's Board of Directors adopted a Stockholder Rights Plan on December 11, 1989. Under the Plan, the Company distributed to stockholders a dividend of one Common Stock Purchase Right for each outstanding share of Common Stock. Each Right initially will entitle holders of Common Stock to buy one share of Common Stock of the Company at an exercise price of $400, subject to adjustment. The Rights will become exercisable only if a person acquires 20% or more of the Common Stock, or announces a tender or exchange offer which would result in its ownership of 30% or more of the Common Stock, or a person owning 10% or more of the Common Stock is determined by the Board of Directors to be an Adverse Person, as defined in the Plan. Until they become exercisable, the Rights will be evidenced by the Common Stock certificates and will be transferred only with such certificates.

If any person becomes the beneficial owner of 25% or more of the Common Stock except pursuant to a tender offer for all shares which the directors determine to be at a fair price and in the best interests of the Company; a 20% or more stockholder engages in a merger with the Company in which the Company survives and its Common Stock remains outstanding and unchanged; certain other events involving the Company and a 20% or more stockholder occur; or, under certain circumstances, the Board of Directors determines a 10% or more stockholder to be an Adverse Person, each Right not then held by such person will entitle its holder to purchase, at the Right's then current exercise price, Common Stock of the Company (or, in certain circumstances as determined by the Board of Directors, a combination of cash, property, Common Stock or other securities) having a value of twice the Right's exercise price. In addition, at any time after a stockholder acquires a 20% or more equity interest in the Company, if the Company is involved in a merger or other business combination transaction with another person in which its Common Stock is changed or converted, or sells or transfers more than 50% of its assets or earning power to another person, each Right that has not previously been exercised or voided will entitle its holder to purchase, at the Right's then current exercise price, shares of Common Stock of such other person having a value of twice the Right's exercise price. The Company will generally be entitled to redeem the Rights at $.01 per Right at any time until the Board determines a 10% or more stockholder to be an Adverse Person or the tenth day following public announcement that a 20% equity interest in the Company has been acquired. The Plan will expire on December 21, 1999, unless the Rights are earlier redeemed by the Company.

Supplementary Financial Information

Quarterly Financial Data *(unaudited)*

Selected quarterly financial data for the years ended June 30, 1990, and July 1, 1989, is set forth below:

(in millions except per share data)	*Total Operating Revenues*	*Gross Profit*	*Income Before Income Taxes*	*Net Income*	*Net Income Per Share*[1]
1990					
First Quarter	**$ 3,131.2**	**$1,519.3**	**$ 198.4**	**$ 150.8**	**$1.20**
Second Quarter	**3,184.8**	**1,525.3**	**194.1**	**155.4**	**1.25**
Third Quarter[2]	**3,261.3**	**1,557.1**	**24.9**	**24.9**	**.20**
Fourth Quarter[2]	**3,365.2**	**1,546.4**	**(293.4)**	**(256.7)**	**(2.11)**
Total Year[2]	**$12,942.5**	**$6,148.1**	**$ 124.0**	**$ 74.4**	**$ .59**
1989					
First Quarter	$ 2,941.8	$1,492.5	$ 306.0	$ 223.4	$1.71
Second Quarter	3,179.5	1,623.3	373.7	279.6	2.20
Third Quarter	3,125.8	1,605.3	339.6	256.4	2.05
Fourth Quarter	3,494.9	1,779.0	401.4	313.2	2.51
Total Year	$12,742.0	$6,500.1	$1,420.7	$1,072.6	$8.45

[1]*Earnings per share is computed independently for each of the quarters presented and therefore does not equal the total for the year.*

[2]*Includes restructuring charges of $150M, $400M and $550M for the third quarter, fourth quarter and total year, respectively.*

Officers

Kenneth H. Olsen
President and Director

Winston R. Hindle, Jr.
Senior Vice President

John F. Smith
Senior Vice President, Operations

John L. Alexanderson
Vice President, U.S. Direct Marketing

Don K. Busiek
Vice President, New Business Development

George A. Chamberlain, 3d
Vice President, Marketing Finance

Henry J. Crouse
Vice President, Strategic Relations

James G. Cudmore
Vice President, Product Operations

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Vice President, VAX/VMS Systems and Servers

Pier Carlo Falotti
Vice President, President and Chief Executive Officer – Europe

Samuel H. Fuller
Vice President, Corporate Research

Rose Ann Giordano
Vice President, Eastern States

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Vice President, Information Systems Business

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Vice President, United States Sales and Services

William C. Hanson
Vice President, Manufacturing Operations

William J. Heffner
Vice President, Software Systems

Martin R. Hoffmann
Vice President, General Counsel, Clerk and Secretary

Robert C. Hughes
Vice President, National Accounts

Donato A. Infante, Jr.
Vice President, Digital Information Management and Technology

Ilene B. Jacobs
Vice President and Treasurer

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Vice President, Telecommunications and Networks Group

John C. MacKeen
Vice President, International Accounts Marketing

Edward B. McDonough
Vice President, General International Area Manufacturing

Albert E. Mullin, Jr.
Vice President, Corporate Relations

James M. Osterhoff
Vice President, Finance

Robert B. Palmer
Vice President, Semiconductor and Interconnect Technology

Richard Poulsen
Vice President, General International Area

Bruce J. Ryan
Vice President and Corporate Controller

F. Grant Saviers
Vice President, PC Systems and Peripherals

Godfrey S. Shingles
Vice President, Managing Director, Digital Equipment Co. Ltd.

John L. Sims
Vice President, Strategic Resources

Peter J. Smith
Vice President, Product and Industry Marketing

David L. Stone
Vice President, Software Product Group

William D. Strecker
Vice President, Engineering

Harvey L. Weiss
Vice President, Government Systems Group

Richard H. Yen
Vice President, General International Area Manufacturing and Engineering

Donald P. Zereski
Vice President, Customer Services

Directors

Vernon R. Alden
Director and Trustee of several organizations
Former Chairman, The Boston Company, Inc.

Philip Caldwell
Senior Managing Director of Shearson Lehman Brothers Inc. and Director of several corporations

Colby H. Chandler
Director of several corporations
Retired Chairman of the Board and Chief Executive Officer, Eastman Kodak Company

Arnaud de Vitry
Engineering consultant and Director and Trustee of several organizations

Robert R. Everett
Retired President of The MITRE Corporation

William H. McLean
Engineering consultant and Director of several corporations

Kenneth H. Olsen
President, Digital Equipment Corporation

Corporate Consulting Engineers

Fernando Colon-Osorio
Corporate Consultant, Information Systems Business

Richard J. Hollingsworth
Corporate Consultant, Semiconductor and Interconnect Technology

Richard I. Hustvedt
Corporate Consultant, Operating Systems

Alan Kotok
Corporate Consultant, Telecommunications and Networks

Butler W. Lampson
Corporate Consultant, Corporate Research and Architecture

Richard Lary
Corporate Consultant, Storage and Information Management

Anthony G. Lauck
Corporate Consultant, Telecommunications and Networks

Jesse Lipcon
Corporate Consultant, Low End Systems

Mahendra R. Patel
Corporate Consultant, Technical Director, Telecommunications and Networks

Mike Riggle
Senior Corporate Consultant, Storage and Information Management

John Shebell
Corporate Consultant, Customer Service Systems Engineering

Robert E. Stewart
Corporate Consultant, Low End Systems

William D. Strecker
Senior Corporate Consultant, Architecture

Robert M. Supnik
Corporate Consultant, VAX/VMS Systems and Servers

Charles P. Thacker
Corporate Consultant, Corporate Research and Architecture

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100 Herzberg Road
Kanata, Ontario, Canada K2K 2A6
Telephone: (613) 592-5111
Fax: (613) 591-4375

Investor Information

The Company's common stock is listed and traded on the:

Midwest Stock Exchange
New York Stock Exchange
Pacific Stock Exchange
(Ticker Symbol "DEC")

In Europe: Swiss Stock Exchanges of Zurich, Geneva and Basel; and the German Stock Exchanges of Frankfurt, Munich and Berlin.

Unlisted trading privileges have been granted by the:

Boston Stock Exchange
Cincinnati Stock Exchange
Philadelphia Stock Exchange
In Europe: Luxembourg Stock Exchange

The Company maintains an Investor Relations office to assist stockholders. Investors' inquiries are welcome, by telephone or letter.

Correspondence may be directed to:

Albert E. Mullin, Jr.
Vice President, Corporate Relations
Digital Equipment Corporation
111 Powdermill Road (N9)
Maynard, MA 01754-1418

Requests for specific information are handled as follows:

Digital Equipment Corporation's Annual Report on Form 10-K for the fiscal year ended June 30, 1990, including schedules thereto, which is filed with the Securities and Exchange Commission, will be sent without charge upon written request. The Company's annual report, filings with the Securities and Exchange Commission, interim reports and additional information about the Company and its products can be obtained by addressing:

Digital Equipment Corporation, Inquiry Section
444 Whitney Street NRO2/H3
Northboro, MA 01532-2599
(508) 351-4401

Information about Digital's environmental, health, and safety programs and policies can be obtained by addressing:

Digital Equipment Corporation
Corporate Environmental Health & Safety
150 Coulter Drive
Concord, MA 01742-2190

Financial community information and requests to be placed on the Company's mailing list should be directed to:

Mark A. Steinkrauss
Director, Investor Relations
Digital Equipment Corporation
111 Powdermill Road (K10)
Maynard, MA 01754-1418
(508) 493-7182; Fax: 508-493-7633

Investor Information *(continued)*

Inquiries of an administrative nature relating to stockholder accounting records, stock transfer, change of address, and employee purchases should be directed to:

Digital Equipment Corporation
Investor Services
111 Powdermill Road (L12)
Maynard, MA 01754-1418
(508) 493-5213

Transfer Agent and Registrar
for Common Stock

First Chicago Trust Company of New York is the principal stock transfer agent and registrar, and maintains the stockholder accounting records. The agent will respond to questions on change of ownership, lost stock certificates, consolidation of accounts and change of address.

A change of address should be reported promptly by sending a signed and dated note or postcard to First Chicago Trust Company of New York. Stockholders should state the name in which the stock is registered, account number, as well as the old and new addresses.

First Chicago Trust Company of New York
30 West Broadway
New York, NY 10007

Trustees and Registrars
For 12⅝% Notes due 1994
The Chase Manhattan Bank, N.A.
1 New York Plaza
New York, NY 10081

Auditors
Coopers & Lybrand
One Post Office Square
Boston, MA 02109
(617) 574-5000

Legal Counsel
Testa, Hurwitz & Thibeault
53 State Street
Exchange Place
Boston, MA 02109-2809
(617) 367-7500

Customer Inquiries

Digital Equipment Corporation customers who have questions and/or problems relating to their account should contact the Customer Assistance Department at 800-332-4636.

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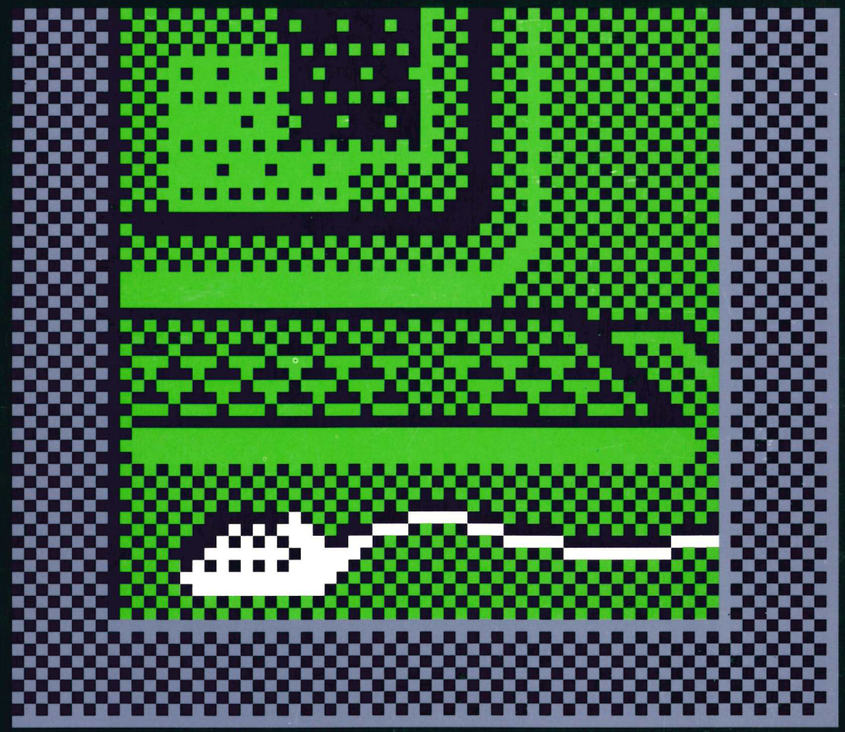
Digital Equipment Corporation
Maynard, Massachusetts 01754

digital

The **Power** to Use The Computing Technologies of The '90s



Digital Equipment Corporation **1991 Annual Report**

Financial Highlights

Fiscal Year	1991	1990
Total operating revenues	**$13,911,004,000**	$12,942,523,000
Restructuring charges	**$ 1,100,000,000**	$ 550,000,000
Net income/(loss)	**$ (617,427,000)**	$ 74,393,000
Net income/(loss) per share	**$(5.08)**	$.59
Total stockholders' equity	**$ 7,623,839,000**	$ 8,181,914,000
Number of stockholders	**98,023**	92,934
Stockholders' equity per share	**$61.18**	$66.76
Number of employees	**121,000**	124,000

Annual Meeting

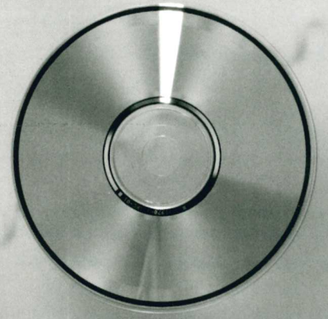
The Annual Meeting of Stockholders will be held at 11:00 a.m. Thursday, November 7, 1991, at the World Trade Center, Commonwealth Pier, 164 Northern Avenue, Boston, Massachusetts 02210. Stockholders of record on September 9, 1991, will be entitled to vote at this meeting.

Corporate Profile

Digital Equipment Corporation is the leading worldwide supplier of networked computer systems, software and services. Digital pioneered and leads the industry in interactive, distributed and multivendor computing. An international company, Digital does more than half its business outside the United States, developing and manufacturing products and providing customer services in the Americas, Europe, Asia and the Pacific Rim. Digital offers a full range of desktop, client/server, production, and mainframe systems for multivendor computing environments. Applications include transaction processing, data management, telecommunications, finance, realtime data acquisition and control, vector processing, education, publishing, manufacturing, software development, and health care.

Contents

Digital Gives You the **Power** to Use the Computing Technologies of the '90s



Digital delivers the **Power** to use the best solutions. The **Systems** that meet industry standards so applications can be moved from the computers you have now to the computers you buy tomorrow. The **Networks** that support systems built by different manufacturers. The **Software** that lets applications work together across open networks. The **Services** and support for open systems, networks, and applications. All integrated in an **Environment** where Digital, its customers, employees, suppliers, and its business partners share ideas for their mutual advantage.

President's Letter

To Our Stockholders, Employees, and Customers:

These are challenging times for Digital and for the computer industry. Dramatic improvements in technology and unbelievable increases in productivity make this industry exciting, especially in these difficult economic times.

This year's results were unsatisfactory to both our stockholders and management. We had a $617 million loss, which included a $1.1 billion restructuring charge. Before this charge, we had positive operating results exceeding those of last year.

Our 1991 results reflect intense price competition throughout the industry because of the recession. The pressure on operating results was compounded by dramatic improvements in the performance of computers.

We have the products, services, and software our customers want and need. We have the financial strength and personnel to continue to improve productivity and efficiency. The restructuring charges are needed to close facilities and reduce staff because increased efficiency and productivity have come faster than planned. We are not cutting back our investments in computer technology.

Today, Digital is one of the few companies offering a complete line of systems — from our new, exciting, and successful networked personal computers to mainframes. We are proud of our part in encouraging standards among computer manufacturers. With our Network Application Support (NAS) software we can integrate our MS-DOS, UNIX, and VMS desktop, minicomputer, and mainframe systems as well as other computers that run standards-based software. We offer solutions for a range of requirements from banking to manufacturing, from retailing to telecommunications, from scientific data processing to the office.

Our product and market strategy is clear and simple. We are in four businesses.

I. We offer commodity products that are standard in the industry and include PCs, UNIX workstations and servers, and a wide range of peripheral products. We are a leader in the ACE initiative to ensure common standards across these systems.

"Today, Digital is one of the few companies offering a complete line of systems. . ."
— Ken Olsen

II. We offer VAX systems that meet all common standards, are unique in that they do things other systems cannot do, and that are rapidly becoming directly price-competitive with UNIX machines.

This last year, Digital started shipping the VAX 9000 mainframe which was very well received. We shipped 330 VAX 9000 systems, an excellent sales level for a new mainframe, especially in times of recession. Digital is now extending its VAX 9000 line to include both less expensive and more powerful versions.

III. We offer extensive systems integration, tying together our complete range of products — UNIX, VMS, and MS-DOS — into simple or complex systems to provide complete solutions for our customers. We also integrate software and hardware from other manufacturers.

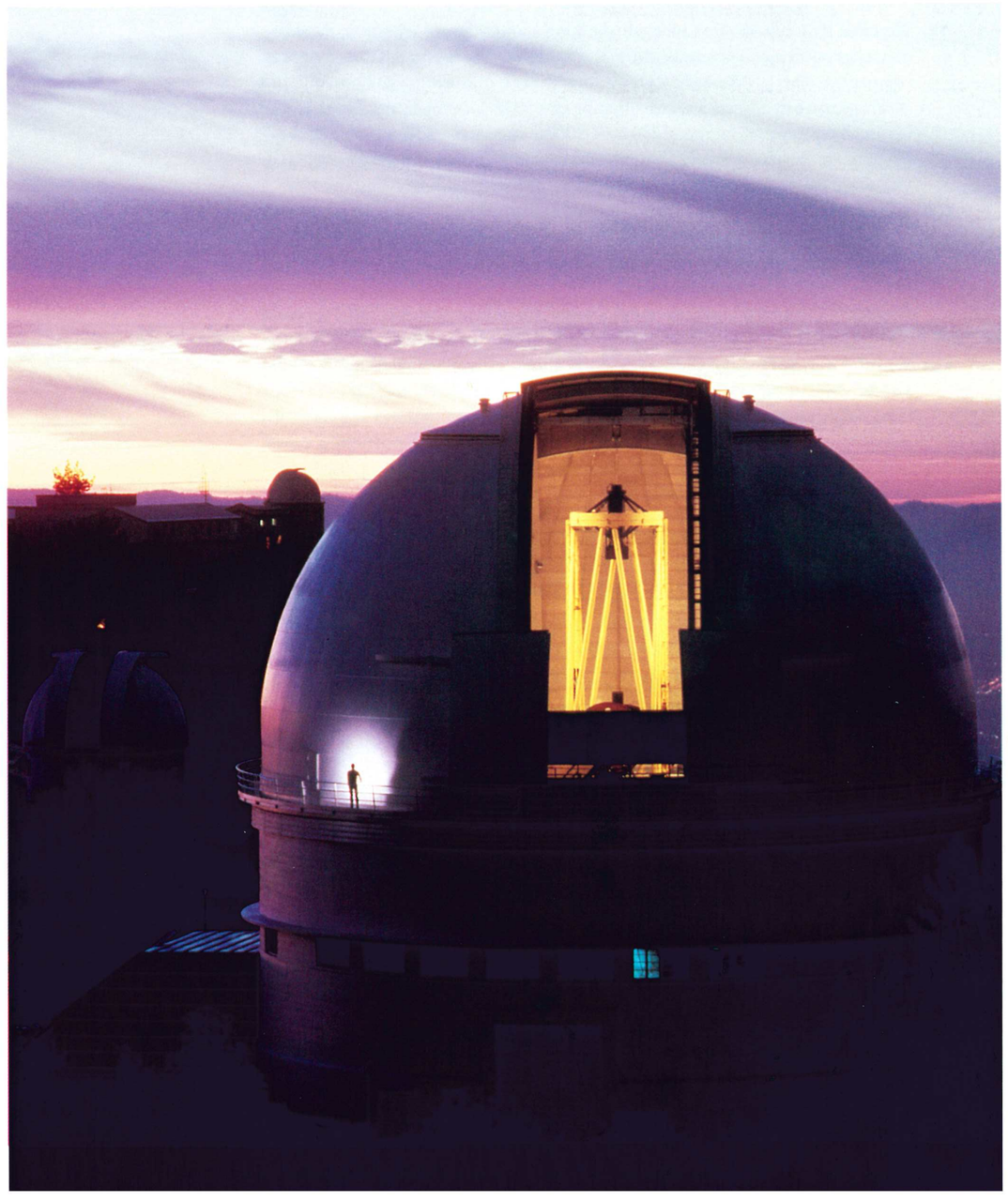
Systems integration is a growing and important business because our customers normally want to buy a complete system that's guaranteed to do a job.

IV. We offer a wide range of services to do all those things needed to complete the job for the customer. Our service organization designs and installs networks, integrates systems, runs complete information shops, supports standard PC software, runs networks of PCs, and provides all the services the customer wants, or needs, after our equipment has been shipped. This business is growing and profitable and is key to our success.

It is painful to downsize, but this is the result of the technology we have worked hard to develop. At no time in Digital's history have the productivity, the enthusiasm, the thrill of new products, and new ways to help the customer been so strong.

Kenneth H. Olsen
President
September 3, 1991

Digital delivers the **Power** to use the best solutions.



"Technology is power. Our focus on technology gives customers the systems, software, and services they need today, while anticipating their future requirements."
— David Stone
Vice President
Software Product Group

Digital's Business, Technical, and Investment Strategies All Reflect the Vision of Our Customers ■ You learn a lot about vision, working with customers like the University of California. Astronomers see the universe as an open, constantly expanding, system. In a way, technology models the universe.

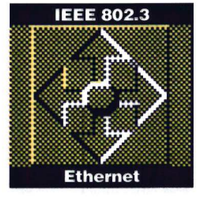
Technology is reaching beyond the known world. And our customers are looking to Digital for the technology they need to manage their businesses in a changing environment.

Providing this technology takes leadership. You have to know where you are going, and you have to blaze a trail for others to follow. Developing an open computing environment is a journey. Existing technologies and standards — Ethernet, POSIX, Motif, the OSI networking model — are just signposts along the road. The moment anyone thinks they have arrived at their destination, progress stops.

An open environment is one that welcomes progress and embraces new technologies. To develop this environment, customers, computer companies, and software developers have to work together to adopt, implement, and integrate standards.

Many companies have played an important role in this effort. Computer scientists at Xerox, Intel, and Digital developed Ethernet and worked with the IEEE to establish a formal standard (IEEE 802.3) for local area networks. The small drawing, or cartouche, that appears in each section of this annual report acknowledges the contributions of our competitors and serves as a reminder that an open computing environment is bigger than any one company or any single standard.

Digital recognizes this. Working with other companies, we developed NAS — Network Application Support — the software needed to support open, multivendor computing. Conceptually, NAS bridges the differences among various operating environments and industry standards so VMS, UNIX, MVS, MS-DOS, OS/2, Macintosh, and other systems can work together in a single open environment.



But, "If everything is standard, how can a computer company make money?" The answer is simple. Standards are the minimum. To enjoy a competitive advantage, a computer company must add value. Digital is:

- Linking new standards-based products to established products.
- Providing the technology our customers need to integrate products based on *different* standards into a single, open computing environment.
- Anticipating future customer needs and developing new technology to meet them.
- Licensing its technology to others.
- Providing service and support for multivendor systems and networks.
- Empowering its employees to make customer problems and concerns their own.

This strategy calls for discipline, teamwork, and aggressive investment in technology and market development. During the past ten years, we spent over $17.5 billion on R&D, equipment, and facilities.

Major investments were made in companies whose technological and marketing strengths complement our own. We belong to leading research consortia and are active in standards organizations. For example, we worked with the Open Software Foundation (OSF) to develop Motif, the standard for window-based, multivendor, application program interfaces. DECwindows Motif is now available on Digital VMS, ULTRIX, SUN, MS-DOS, and other systems. Digital continues to play a leadership role in the development of the OSF Distributed Computing Environment (DCE).

Developing Digital software for competitive systems is only one of the initiatives we have undertaken to build market share by focusing our resources on customer needs. Sales is now organized by account; marketing by industry and application. Each product, application, integration, and customer service business unit adds value to the products we sell and has P&L responsibilities. Our goal is to build a "Network of Entrepreneurs" where the individual employee is empowered to take the initiative on the customer's behalf.

Digital delivers the **Systems** that meet industry standards so applications can be moved from the computers you have now to the computers you buy tomorrow.

"Customers want systems to play together. They want system interoperability and software portability. That's the added value that Digital and third-party developers bring to multivendor computing environments."
— Phil Auberg
Manager
VMS Marketing

Standards Mean Your Old Software Plays on New Systems; New Software on Old Systems ■ You can listen to Liszt while sitting on a balcony overlooking the Danube, you can listen in your car, or you can listen at home — the music sounds the same. Like music, software is something you want to be able to play anywhere, any time, on any system.

Digital's VAX architecture showed that it was possible to set and implement standards to create a single computing environment that extends from the desktop right up to the data center.

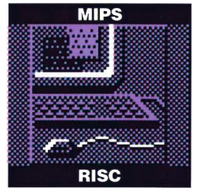
Now, working with other industry leaders, Digital has applied the same principles that made the VAX family so successful to multivendor environments.

For example, Digital, together with sixty other computer companies — including Microsoft, COMPAQ, MIPS Computer Systems, and The Santa Cruz Operation — agreed on a common set of standards that will enable high-performance desktop computers and workstations from different manufacturers to run the same software.

This initiative is unique. Previous efforts at opening the desktop environment focused on software standards for a particular computer or workstation architecture. ACE, the Advanced Computing Environment, defined in this initiative, addresses *both* personal computers and workstations — *both* hardware and software — so there will no longer be disconnects among desktop systems.

While ACE provides software portability, DECwindows Motif software provides interoperability among computers that use different system software and are built by different manufacturers.

With DECwindows Motif software, a user can monitor, interact with, and control VMS, UNIX, MS-DOS, and Macintosh applications running anywhere on the network, opening a different "window" on their desktop system for each application. It's "point and click." The user doesn't have to remember arcane commands; doesn't even know, or care, which computer using which operating system is running what program.



Motif is a key component in OSF/1, the complete, vendor-neutral systems environment developed by the Open Software Foundation of which Digital, together with IBM, Hewlett-Packard, and other leading computer companies, is a charter member. OSF/1 will be the basis for system software developed under the ACE initiative. In addition, Digital has committed to making its OSF/1 operating system product source-compatible with ULTRIX. ULTRIX is already compatible with SVID (Issue 2, Volume 1) and BSD 4.2 specifications for UNIX operating systems

Digital's VAX Family —
The broadest line of high-performance desktop and production systems in the industry.

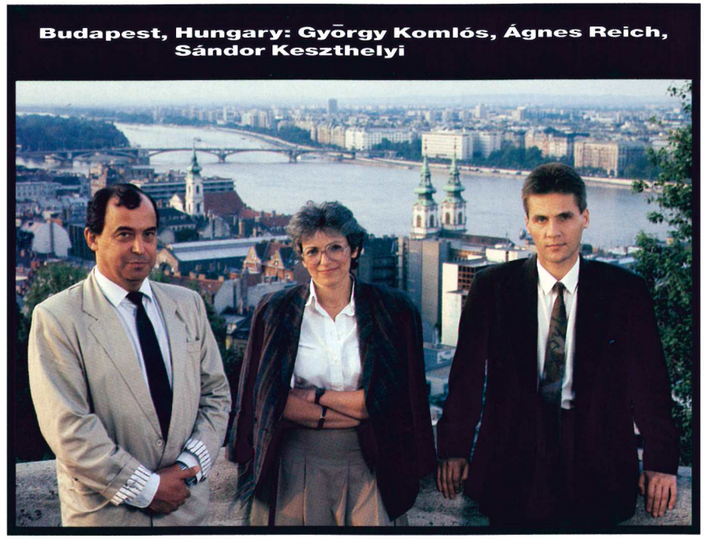
VAXstation workstations
VAXft 3000 fault-tolerant systems
VAX 4000 workgroup and departmental systems and servers
VAX 6000 departmental and data center systems
VAX 9000 mainframes
VAXcluster systems

Digital's RISC Family —
Price/performance and open systems leadership.

DECstation 2100 workstations
DECstation 3100 workstations
DECstation 5000 workstations
DECsystem 3100 systems and servers
DECsystem 5400 systems and servers
DECsystem 5800 systems and servers

Digital's DECmpp 1200 Family —
Massively Parallel Processors

Digital's Network Personal Computers —
MS-DOS software and both local area and enterprise-wide network support
DECpc 320sx notebook system
DECpc 333 portable system
DECpc 433T deskside personal computer
DECpc 433 workstation



Budapest, Hungary: György Komlós, Ágnes Reich, Sándor Keszthelyi

and has been validated for POSIX conformance.

While all this sounds complicated, you have to remember that an "open" operating system cannot be based on a single standard. An open system has to comply with a whole set of accepted standards if you're to pick up software running on one system and move it to another.

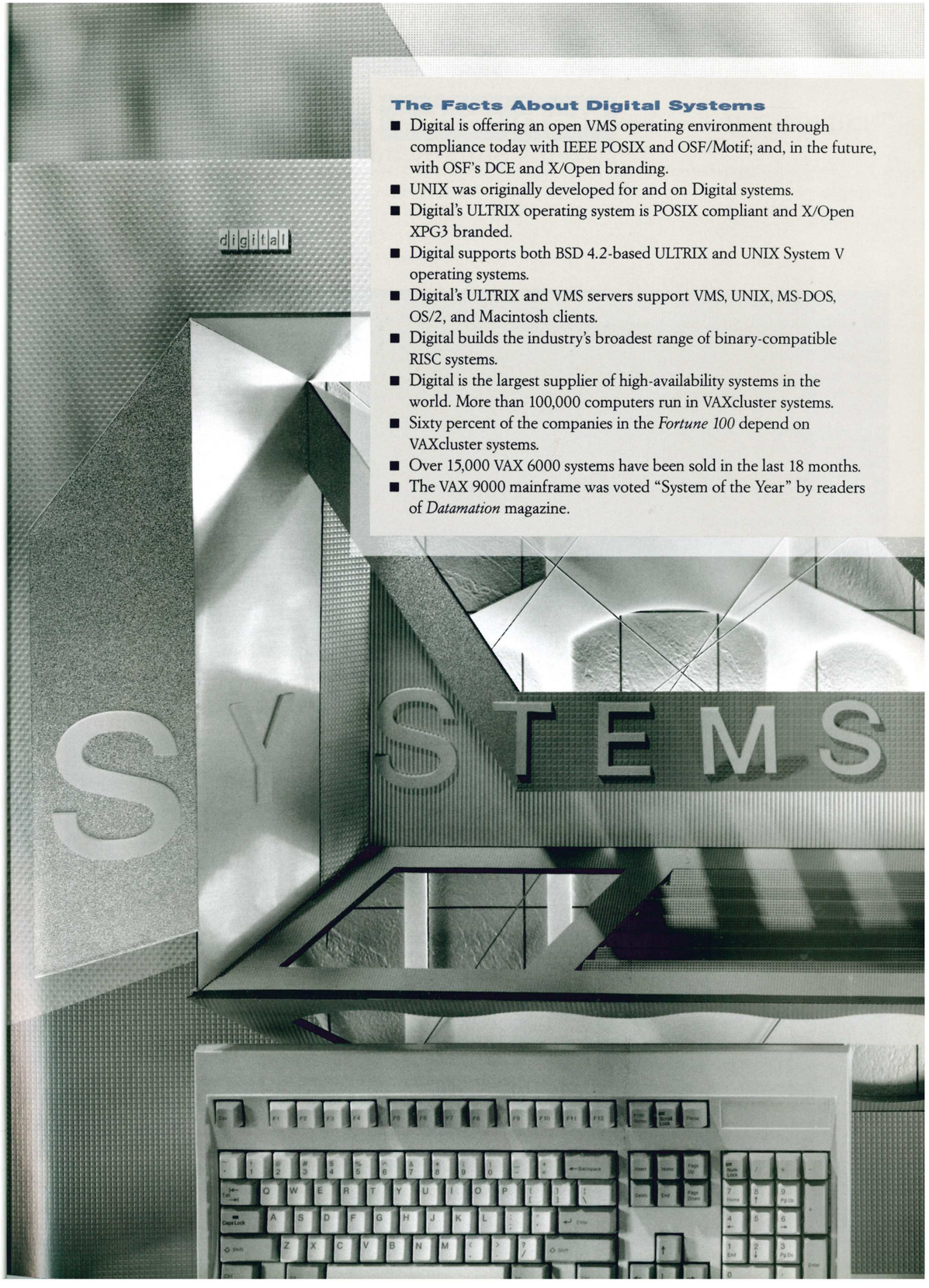
It would be a mistake, however, to think that only a UNIX operating system can be open. That is not the case. Operating systems like VMS provide very high levels of functionality and security and are an integral part of open computing environments. VMS software supports most of the same open systems standards as UNIX operating systems. At the same time, the VMS environment supports vector processing, clustering, symmetrical multiprocessing, and other capabilities not commonly found on UNIX operating systems but which are critical in high-volume production data processing environments.

These initiatives reflect a unique approach to building an open software environment. Five years ago when Digital announced its intention to provide the software and services needed to integrate multivendor computing environments, we recognized that standards ensure only baseline functionality. Simply meeting standards would not be enough.

By adding functionality over and above standards, Digital adds value. And, so this added value would not be lost in multivendor environments, Digital committed to moving new features into industry standards. We see this as a continuum. You conform to standards. You create new functionality. You make that functionality available to the industry so it can be incorporated into new standards.

This approach to building an open computing environment has been enthusiastically adopted by software developers. Digital has formal alliances with over 3,600 Complementary Solutions Organizations who have developed over 7,000 applications for VAX systems, 1,500 applications for Digital RISC systems, and over 300 DECwindows Motif applications for the desktop.

Systems — from the desktop to the data center



The Facts About Digital Systems

- Digital is offering an open VMS operating environment through compliance today with IEEE POSIX and OSF/Motif; and, in the future, with OSF's DCE and X/Open branding.
- UNIX was originally developed for and on Digital systems.
- Digital's ULTRIX operating system is POSIX compliant and X/Open XPG3 branded.
- Digital supports both BSD 4.2-based ULTRIX and UNIX System V operating systems.
- Digital's ULTRIX and VMS servers support VMS, UNIX, MS-DOS, OS/2, and Macintosh clients.
- Digital builds the industry's broadest range of binary-compatible RISC systems.
- Digital is the largest supplier of high-availability systems in the world. More than 100,000 computers run in VAXcluster systems.
- Sixty percent of the companies in the *Fortune 100* depend on VAXcluster systems.
- Over 15,000 VAX 6000 systems have been sold in the last 18 months.
- The VAX 9000 mainframe was voted "System of the Year" by readers of *Datamation* magazine.

Digital delivers the **Networks** that support systems built by different manufacturers.

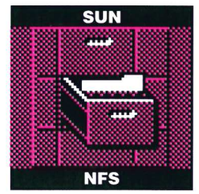
"Digital brought system and network management together so customers can build enterprise-wide networks for sharing information, for transaction processing, and for providing new services to their customers."
— Gail Daniels
Group Manager
Networks and Communications Marketing

It Is the Network That Brings Open Systems and Telecommunications Together So an ATM in a Fishing Village in Maine Can Be a "Branch Office" of a Money Center Bank in London ■ Without the network, an open system would be an island of automation. And without standards there would be no network. Standards define how messages are transmitted over telecommunication links. How computers and individual users access the network. How the network is managed. How voice mail, videotex, electronic mail, electronic document interchange, distributed transaction processing, and other network applications are implemented.

There are standards for local area networks, for public packet-switching networks, for communicating with UNIX and IBM systems, and for long-distance data transmission over telephone networks.

Digital has incorporated these standards into ADVANTAGE-NETWORKS. It integrates OSI, TCP/IP, and DECnet protocols to provide the infrastructure needed to connect personal computer networks, Ethernet and token ring local area networks, SNA networks, Novell networks, and public and private wide area networks to support distributed applications, client/server computing, and inter-enterprise communications.

ADVANTAGE-NETWORKS, coupled with Digital's Network Application Support (NAS) services, provides the level of system interoperability and software portability customers need to protect existing system, software, and network investments while implementing their computing strategies. ADVANTAGE-NETWORKS is flexible. It provides the information utility customers need to integrate existing network resources. Users on local area networks can now access data kept on corporate networks. Electronic mail can be sent between different networks. Systems can be added to, or removed from, the network without disrupting operations.



At the same time, ADVANTAGE-NETWORKS provides a high level of network security. The network manager can define administrative areas, or domains, to control access to critical computing resources. And any domain — or the entire network — can be managed from any node.

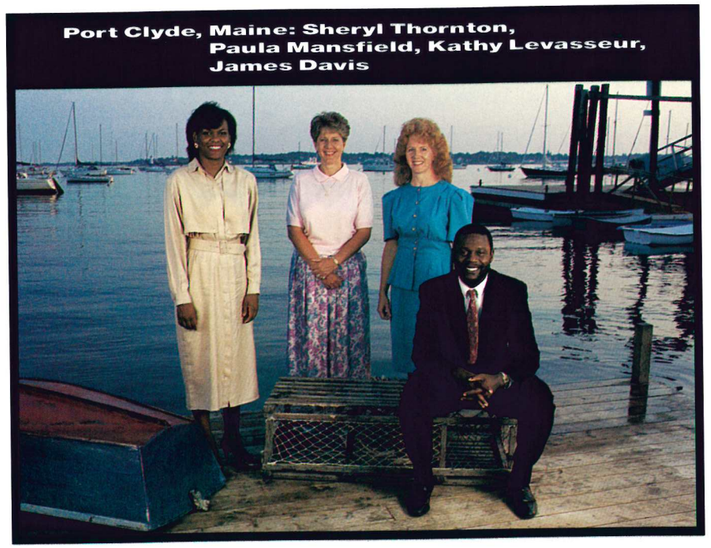
The concept of the network as an information utility is critical to the implementation of many business strategies. Banking is the business of moving money from company to company and country to country with electronic speed. Just-in-time manufacturing is largely dependent on

Network Protocols

DECnet
OSI
TCP/IP
Ethernet (IEEE 802.3)
Token Ring (IEEE 802.5)
FDDI (Fiber Distributed Data Interface)
X.25, X.400, X.500
IBM SNA
DECmcc (Network Management System)
NFS (SUN's Network File System)
DCE (OSF's Distributed Computing Environment)

Key Applications

Currency, Security, and Commodity Trading
Point-of-Sale and Credit Authorization
Computer Integrated Manufacturing
Concurrent Engineering
Logistics and Distribution
On-line Transaction Processing
Electronic Mail/Electronic Document Interchange
Office Information Systems
Telecommunications/Computer-Integrated Telephony
Videotex
Imaging Systems
Reservation Systems
Client/Server Computing
Management Information Systems



Port Clyde, Maine: Sheryl Thornton, Paula Mansfield, Kathy Levasseur, James Davis

electronic document interchange and on-line communications between a manufacturer and its suppliers. Retailing and distribution strategies are more and more dependent on distributed transaction processing. Telecommunications companies see value-added network services as an important new source of revenue.

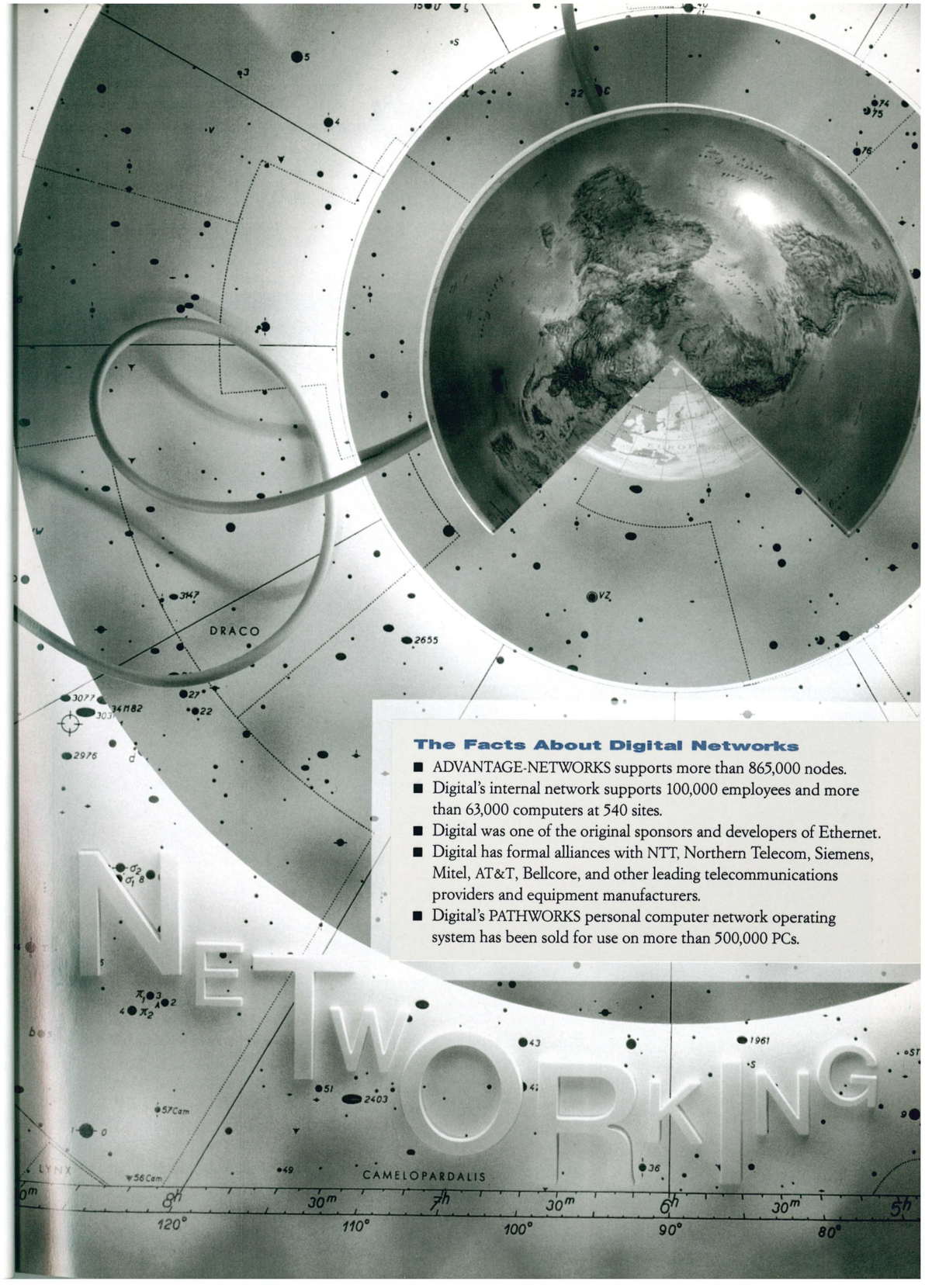
Reliability is critical. A money center bank can lose millions of dollars every hour a network or trading system is down.

Digital's approach to transaction processing and network and system reliability is unique. In a Digital transaction processing network, fault-tolerant VAXft systems collect data from MS-DOS clients and pass them on to high-availability VAXcluster systems that maintain corporate databases. This very cost-effective client/server solution provides absolute data integrity without the expense of duplicating every system on the network.

With Digital's system software, a single transaction can access and update multiple databases at multiple locations, implementing a "two-phase" commit procedure where one database isn't updated unless all databases are updated.

We recognize that our customers want flexibility and network reliability without making existing computer investments obsolete. They want their computer company to help them migrate to open network standards while providing application services that will run across multi-protocol networks using DECnet, OSI, IBM SNA, UNIX TCP/IP, and Novell protocols. Digital's Network Application Support software provides these capabilities. NAS was developed jointly with other computer manufacturers to provide common application access, communications, resource sharing, and systems services in networks where VMS, UNIX, MS-DOS, OS/2, and Macintosh systems work together.

Networks — from the work group to the world



The Facts About Digital Networks

- ADVANTAGE-NETWORKS supports more than 865,000 nodes.
- Digital's internal network supports 100,000 employees and more than 63,000 computers at 540 sites.
- Digital was one of the original sponsors and developers of Ethernet.
- Digital has formal alliances with NTT, Northern Telecom, Siemens, Mitel, AT&T, Bellcore, and other leading telecommunications providers and equipment manufacturers.
- Digital's PATHWORKS personal computer network operating system has been sold for use on more than 500,000 PCs.

Digital delivers the **Software** that lets applications work together across open networks.

"NAS is the foundation for The Open Advantage. It implements industry standards so customers and independent software vendors can develop applications that will work together, applications that will work across the network and around the globe."

— Henry Ancona
Vice President
Information Systems and Applications Group

NAS Makes It Easier to Develop Production, Distributed Transaction Processing, and Client/Server Applications for Open Computing Environments ■ "An open system is one that lets me access the information I need to do my job. When I need it. Wherever I am." That's a customer definition. And it makes no difference whether the customer is staying at an inn in Kyoto, Japan, or working at a desk in London. Whether the customer is a banker, a retailer, an insurance broker, or a freelance writer. Whether using a terminal, a personal computer, or a workstation.

Unfortunately, all too many systems and applications were developed for a particular computing environment. Laptop computers are very different from mainframes. Personal computing software is very different from mainframe applications used in a production environment.

Digital solved this problem.

Three years ago, we announced the first delivery of software needed to build a single open computing environment that would let individuals access the information they needed to do their jobs — anytime, anywhere.

Today, COHESION and NAS — Network Application Support — provide the software needed to make applications more portable, interoperable, and distributable across a multivendor network and the tools needed to build multivendor applications.

COHESION, the industry's most comprehensive and inclusive software environment, includes the CASE tools, repository, fourth-generation languages, and the services needed to develop, deploy, and manage applications in open computing environments.

With COHESION and the underlying NAS software, developers can write a program once that will run on both VMS and UNIX computers as well as on many non-Digital systems including IBM mainframes. There is no longer any need to write a program for one system and then turn around and re-code everything so the program can run on a different system.

In addition, NAS provides a comprehensive set of software that enables users and the applications they access to share information smoothly and easily with one another across systems from different vendors.

CDA — Compound Document Architecture — is an example. Digital provides the NAS software to enable organizations to exchange multimedia documents containing text, graphics, images, and voice across different systems and applications.

NAS software is being used as the foundation for a wide range of Digital applications and solutions, such as the

Digital Supports Software From Leading Developers Including:

Ashton-Tate Corporation
Lotus Development Corporation
Keyword Office Technologies, Inc.
Vitalink Communications Corporation
WordPerfect Corporation
Network Research Corporation
Wollongong Group, Inc.
Uniplex Corporation
Santa Cruz Operation, Inc.
Adobe Systems Inc.
Microsoft Corporation
Novell, Inc.
Joiner Associates, Inc.
Microsystems Development Corporation
Micro Focus Limited
LOCUS Computing Corporation
Simpact Associates, Inc.
Neuron Data, Inc.
Odesta Corporation
Stratacom, Inc.
Wolfram Research, Inc.
Applix, Inc.
3Com Corporation
Access Technology, Inc.
Matra
Marben Informatique
Systematica
Scion Corporation
Interleaf, Inc.
Apple Computer, Inc.
Aldus Corporation
Xerox Corporation
Borland International, Inc.
Software Publishing Corporation
Claris Corporation
Insignia Solutions, Inc.
Pacer Software, Inc.
Symantec Corporation
Alisa Systems
Norton/Lambert Corporation
Microrim, Inc.
Polygon, Inc.
Farallon Computing, Inc.

Kyoto, Japan: Akihiro Ikawa, Kazuto Mitsui, Eriko Toukai

NAS Environment for Manufacturing. More than 900 independent software developers have built over 2,000 applications using NAS. And Digital customers have used NAS software to build global trading systems, to integrate manufacturing operations, and to build company-wide management information systems.

The key to NAS is standards. Because NAS software supports a wide range of vendor-independent industry standards, NAS can run on many different systems. Today Digital is delivering NAS software for Digital systems as well as IBM mainframes; SUN workstations; and MS-DOS, MS-Windows, OS/2, and Apple Macintosh personal computers. Our goal is to fill the software gap that separates one system from the next.

More than a quarter of our engineering staff is directly involved in this effort, developing the specialized software needed for production, distributed transaction processing, and client/server computing. While other computer manufacturers are still concentrating their efforts on developing software for their own computers, Digital has developed the tools and infrastructure to support an open, multivendor computing environment.

An open environment is particularly important in computer integrated manufacturing (CIM), just-in-time inventory systems, concurrent engineering, and computer-aided design and manufacturing (CAD/CAM) where cell controllers from companies like Honeywell and Allen-Bradley have to work with workstations and computers on the factory floor.

But Digital's software program is not limited to manufacturing. We have developed a trader's platform for the banking industry. We have specialized software for education, publishing, health care, scientific research, small business, and other key application areas — all built on the foundation of NAS.

NAS — Network Application Support — adds value to over 2,000 applications for Digital, IBM, Apple, and other systems

The Facts About Software Applications

- More than 2,000 applications from over 900 software developers use NAS services — thousands more are enhanced by NAS.
- Over 7,000 VAX and 1,500 RISC applications are available to Digital customers. Plus thousands of shrink-wrapped MS-DOS, OS/2, and SCO applications.
- Lotus, Schlumberger, Ross Systems, Wolfram Research, Computer Associates, and Dun & Bradstreet are among the 3,600 Complementary Solutions Organizations that have developed applications for Digital systems.
- Digital's COHESION software development environment lets developers write applications that will run on both VAX VMS and RISC ULTRIX systems.
- Digital's ALL-IN-1 software supports 57 percent of all proprietary office system users in the U.S.

Digital delivers all the **Services** needed to support open systems, networks, and applications.

"It takes knowledgeable people to integrate open systems. They have to understand both technologies and applications and be able to manage complex projects."
— Kannakote Srikanth
Director of Systems Integration and Support Services
General International Area

More Than A Third of Digital's Revenue Comes from Services for Planning, Designing, Implementing, and Managing Complex Systems and Networks ■ All too often, plans written in London, New York, Tokyo, or Maynard, Massachusetts, have to be implemented in places like Santa Maria De Hidalgo, Mexico; Wagga Wagga, Australia; or Good Night, Texas.

Digital's strength is that we'll stay with you through the entire "plan, design, implement, and manage" cycle. This is critical with today's economy and technology. A plan that may seem straightforward at corporate headquarters may be complex and difficult to implement in the field.

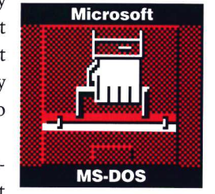
Digital's approach to systems integration and support is built around industry teams. If we're asked to help with a banking problem, we have former bankers on our staff. If it's a manufacturing problem, we'll assign manufacturing specialists to the job.

We understand that the day has long since passed when customers used computers to automate the status quo — existing, manual processes.

Today the emphasis is on developing business solutions to shorten cycle time, implement just-in-time inventory controls, process in-store transactions in real-time, control receivables, and automate design and manufacturing processes.

Few companies can afford all the in-house business consultants, project managers, systems analysts, and programmers they need to plan, design, implement, and manage the complex systems and networks needed to provide complete business solutions. That's why large companies like Eastman Kodak and small organizations like the New York City Department of Corrections are turning to Digital for help.

Digital has the open, multivendor software needed to do the job — ADVANTAGE-NETWORKS, NAS, COHESION, ALL-IN-1 Office Information Systems — and the services to make it all work together.



If a company is looking for a way to integrate Digital, HP, IBM, SPRINT, MCI, and other electronic mail systems, Digital has an off-the-shelf solution — the Digital MAILBUS implementing the X.400 standard.

If they need to exchange compound documents with their customers and suppliers, Digital has EDI software and services. If they want to integrate PCs, workstations, and terminals from different manufacturers into a single office information system, Digital has an off-the-shelf solution — ALL-IN-1.

If they have specialized needs, Digital has the technical and project management resources to undertake major systems integration and outsourcing programs.

Digital Services

Hardware Product Services
Software Product Services
Desktop Services
Systems Integration
Facilities Management
Customized Software and Hardware (Project Services)
Network Services
Operations Support Services
Consulting Services
Customer Training

Major Systems Integration Projects

Eastman Kodak Company
Deutsche Telepost
Toys "R" Us
Bankers Trust Company
Aetna Life Insurance Company
Tyson Foods, Inc.
Citibank Australia
U.S. Census Bureau

Mexico City, Mexico: Hector Soto Dominguez, Lorena Alejandra Mendez Tejeda, Blanca Rosa Cruz

Last year, systems integration accounted for nearly $1.5 billion in Digital revenues. These systems integration programs include the development of a cellular telephone system for the German post office, the automation of Boeing's new sheet-metal facility at Spokane, Washington, and a $140 million U.S. Navy contract to provide the hardware, software, and services to support up to 8,000 local area networks with the potential of connecting more than a million PCs.

Digital also worked closely with Nippon Telegraph & Telephone to establish standards for systems used by the Japanese telecommunications giant. NTT adopted key NAS components for its internal use.

But this kind of cooperation is not limited to large companies or major programs. Service is a day-to-day business. It's supporting small customers as well as large ones. It's being there to help customers regardless of where their headquarters are located or where they're doing business.

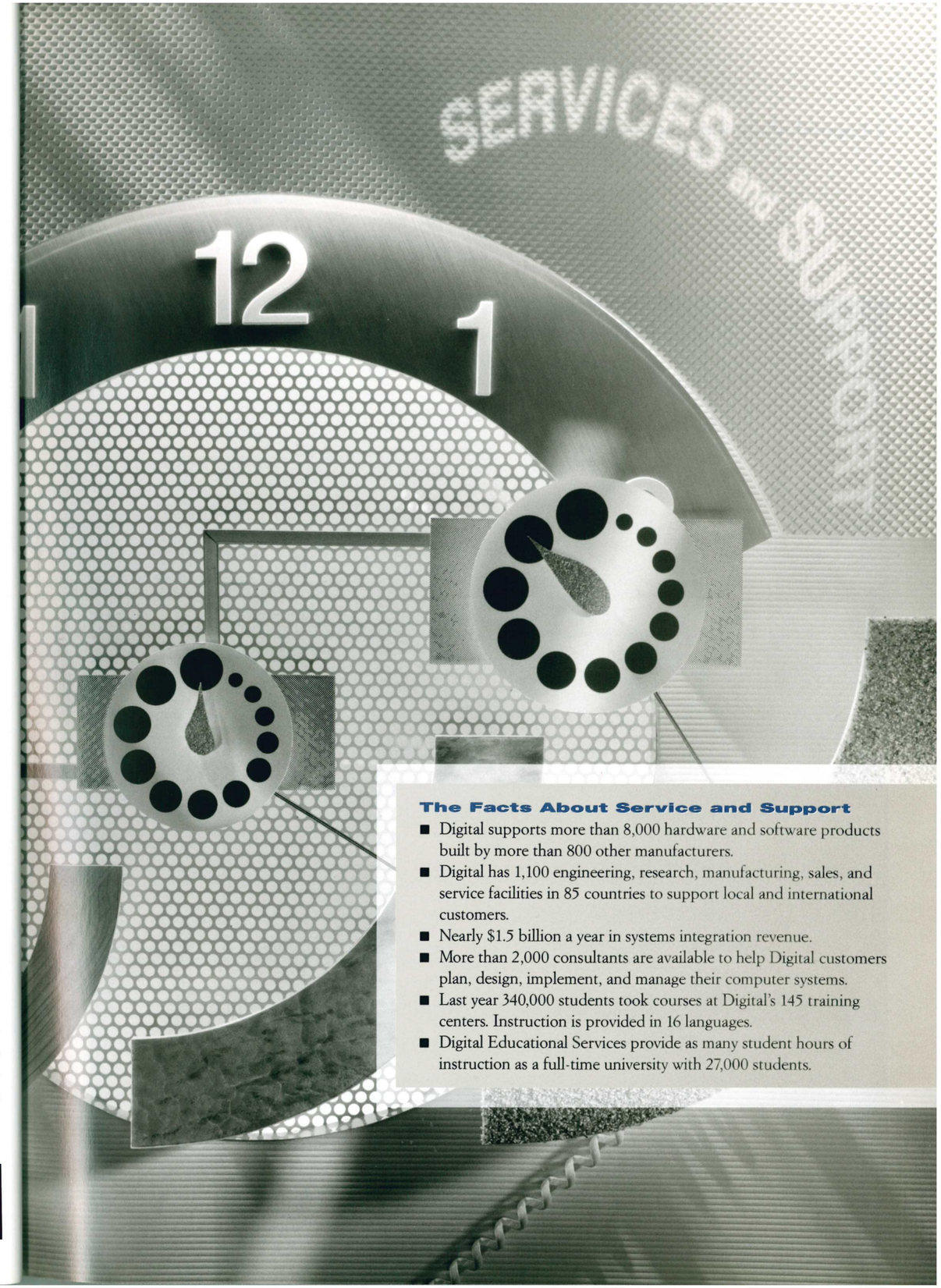
Digital services and support are available worldwide. They're available to large multinational corporations and to medium- and small-sized businesses who want to be able to compete with much larger companies on a level playing field.

This requires a local presence.

Digital does business in 85 countries. This past year, we opened a new subsidiary in Czechoslovakia, and we acquired a controlling interest in a new German company formed from the computer operations of Mannesmann AG. The new company, Digital-Kienzle, specializes in the small business market. With 26 offices throughout Europe, it is Germany's second-largest domestic computer company with annual sales of about $450 million. Digital-Kienzle provides an established infrastructure to support growing sales in Central and Eastern Europe as well as a portfolio of software applications designed for small- and medium-sized businesses.

Digital's willingness to invest in emerging markets is indicative of our belief in the power of computers to help make this a better world. Computers bring people together to share ideas and information.

Support — Digital services cover the entire life cycle of your systems, networks, and applications



The Facts About Service and Support

- Digital supports more than 8,000 hardware and software products built by more than 800 other manufacturers.
- Digital has 1,100 engineering, research, manufacturing, sales, and service facilities in 85 countries to support local and international customers.
- Nearly $1.5 billion a year in systems integration revenue.
- More than 2,000 consultants are available to help Digital customers plan, design, implement, and manage their computer systems.
- Last year 340,000 students took courses at Digital's 145 training centers. Instruction is provided in 16 languages.
- Digital Educational Services provide as many student hours of instruction as a full-time university with 27,000 students.

Digital delivers an open **Environment** where Digital, its customers, employees, suppliers, and business partners share ideas for their mutual advantage.

"We want to extend this environment to include our investments in the community, which range from schools and hospitals to museums and social service agencies."
— Nancy Dube
Manager
Corporate Community Relations

Competition, Mass Customization, and A New Awareness for the Environment Are Changing the Way People Work Together ■ Like St. Mark's Cathedral on the Grand Canal in Venice, business finds itself in a changing environment.

We're working with our customers to improve the business environment — finding ways to make it easier for them to do business with us. And we're working with our neighbors in the communities where we do business to make this world a little better than the way we found it.

Working with others means sharing and being open to new ideas. An open attitude is not new to Digital. The company got its start by bringing computer technology out of the glassed-in data center and into the open where it could be accessed by everyone.

In those early days, we relied heavily on our customers for software development. Digital is still listening to, and working with, its customers and with the academic community.

For example, we are one of the sponsors of The Enterprise Council, a unique program that is bringing strategic planners from customer companies together with technologists and the academic community to find ways to implement the concept of mass customization.

MIT
Project Athena

But this is only one of over 250 engineering and business research programs that Digital is sponsoring at more than 100 colleges and universities around the world.

For Digital, working with others to solve common problems is as much a way of living as it is a way of doing business. In fact, Digital's business goals and its social goals are not merely compatible; they are inseparable. The Company's well-being is closely linked to the well-being of the communities around the world that are home to our facilities, employees, and stakeholders.

The socioeconomic issues facing urban areas are of serious concern to many corporations and communities. As employees, and as a company, we look for those opportunities relating to housing, health, and education that will allow us to support projects that can make a difference to individuals and families living in our cities. We encourage collaboration among corporations and community groups through the combination and sharing of resources necessary to address socially destructive issues.

Through the Corporate Contributions Program, local community relations initiatives, and employee volunteerism, Digital supports educational, health care, civic, social, and cultural programs at the national, regional, and local levels.

A few examples show the breadth of these initiatives.

Representative Programs and Institutions That Digital Works With Include:

AIDS Action Committee of Massachusetts, Inc.
Alzheimer's Association of Geneva (Switzerland)
American Association of Bone Marrow Transplants (New Jersey)
Boys Choir of Harlem (New York)
East European Environmental Research (Hungary)
Espoo Art and Technology Center (Finland)
Habitat for Humanity (Georgia)
Harvard School of Public Health (Massachusetts)
Hospital for Sick Children (Canada)
Howard University (Washington, DC)
Maricopa Community College (Arizona)
Mathematics, Engineering, and Science Achievement (California)
Milan General Hospital (Italy)
NAACP (New York)
National Center for Missing and Exploited Children (Washington, DC)
National Urban League (New York)
New York Blood Center (New York)
North Carolina Agricultural & Technical University
Pine Street Inn (Massachusetts)
Portsmouth Voluntary Association for the Blind (United Kingdom)
Resource Center for the Handicapped (Washington)
Royal Academy of Arts (United Kingdom)
Service Hospitalier Frederic Joliot (France)
Tennessee State University
Tuskegee University (Alabama)
University of Bucharest (Romania)
Western Sydney Health Services (Australia)
World Wildlife Fund (Washington, DC)

Venice, Italy: Emilio Brizzi, Daniela Bertoldo, Federica Frisan, Giovanni Benetti

Digital has undertaken a three-year initiative to help historically black colleges and universities enhance computer science, engineering and related programs.

Our Minority and Women's Education Excellence Programs exemplify our commitment to increase the availability of and access to computer science, engineering, and business careers for minorities, women, and underrepresented populations.

This is a goal shared by Digital employees, three of whom co-founded the STEPS (Science, Technology, Engineering, Pre-College Studies) Program to help minority middle-school children achieve excellence in math and science.

We are also concerned about homelessness and housing. For a number of years, Digital has supported a variety of programs to provide shelter for the homeless, revitalize our neighborhoods, and provide support services for families at risk. For example, the Company joined other corporations and community groups in Massachusetts in supporting the Greater Worcester Community Foundation's Housing and Dependence Program which seeks to help homeless persons make the transition from shelter programs to permanent housing.

Digital's commitment to health care includes focused support for AIDS education and research. We also have an ongoing relationship with the Communication Enhancement Center at Children's Hospital, Boston, to develop a portable, battery-powered voice synthesizer that will allow people with learning, vision, and communication disabilities to live more independently.

Technology — combined with a concern for the quality of life — can make a difference to the whole community as well as the individual. For example, we provided computer equipment to, and worked with, the Venice Lagoon Consortium on an environmental research program to help protect that ancient city from air and water pollution.

There is a common thread that runs through all these stories, from Minority and Women's Education Excellence Programs to the Venice Lagoon — working together is a way of life for Digital, its employees, customers, and suppliers.

The Environment — where Digital works with the community to build a better world

Financial Statements

Eleven-Year Financial Summary

Operations *(in millions except per share data)*	**1991**	1990	1989	1988	1987	1986	1985	1984	1983	1982	1981
Revenues											
Product sales	**$ 8,299**	$ 8,146	$ 8,190	$ 7,541	$ 6,254	$ 5,103	$ 4,530	$ 3,804	$ 2,828	$ 2,739	$ 2,313
Service and other revenues	**5,612**	4,797	4,552	3,934	3,135	2,487	2,156	1,780	1,444	1,142	885
Total operating revenues	**13,911**	12,943	12,742	11,475	9,389	7,590	6,686	5,584	4,272	3,881	3,198
Costs and Expenses											
Cost of product sales, service and other revenues	**7,278**	6,795	6,242	5,468	4,514	4,282	4,087	3,379	2,606	2,188	1,779
Research and engineering expenses	**1,649**	1,614	1,525	1,306	1,010	814	717	631	472	350	251
Selling, general and administrative expenses[1]	**5,572**	4,521	3,639	3,066	2,253	1,665	1,432	1,179	831	758	632
Operating income/(loss)	**(588)**	13	1,336	1,635	1,612	829	450	395	363	585	536
Interest income	**113**	142	124	144	122	116	63	41	61	103	60
Interest expense	**45**	31	39	38	45	88	82	35	13	15	29
Income/(loss) before income taxes	**(520)**	124	1,421	1,741	1,689	857	431	401	411	673	567
Provision for income taxes	**97**	50	348	435	552	240	(16)[4]	72	127	256	224
Net income/(loss)	**$ (617)**	$ 74	$ 1,073	$ 1,306	$ 1,137	$ 617	$ 447	$ 329	$ 284	$ 417	$ 343
Net income/(loss) per share[2,3]	**$ (5.08)**	$ .59	$ 8.45	$ 9.90	$ 8.53	$ 4.81	$ 3.71	$ 2.87	$ 2.50	$ 3.76	$ 3.35
Weighted average shares outstanding	**122**	125	127	132	133	131	124	115	113	111	105
Financial Position *(in millions except per share data)*											
Inventories	**$ 1,595**	$ 1,538	$ 1,638	$ 1,575	$ 1,453	$ 1,200	$ 1,756	$ 1,852	$ 1,354	$ 1,137	$ 1,102
Accounts receivable, net of allowance	**$ 3,317**	$ 3,207	$ 2,965	$ 2,592	$ 2,312	$ 1,903	$ 1,539	$ 1,527	$ 1,125	$ 808	$ 758
Property, plant and equipment, at cost	**$ 7,429**	$ 7,027	$ 6,249	$ 5,210	$ 3,859	$ 3,263	$ 2,828	$ 2,352	$ 1,961	$ 1,605	$ 1,128
Total assets	**$ 11,875**	$ 11,655	$ 10,668	$ 10,112	$ 8,407	$ 7,173	$ 6,369	$ 5,593	$ 4,541	$ 4,024	$ 3,456
Long-term debt	**$ 150**	$ 150	$ 136	$ 124	$ 269	$ 333	$ 837	$ 441	$ 93	$ 92	$ 88
Stockholders' equity	**$ 7,624**	$ 8,182	$ 8,036	$ 7,510	$ 6,294	$ 5,728	$ 4,555	$ 3,979	$ 3,541	$ 3,165	$ 2,680
Stockholders' equity per share[3]	**$ 61.18**	$ 66.76	$ 66.12	$ 59.47	$ 49.87	$ 44.54	$ 38.43	$ 34.42	$ 31.42	$ 28.65	$ 24.65
General Information and Ratios											
(dollars in millions except stock prices)											
Current ratio	**1.9:1**	2.3:1	2.9:1	2.9:1	3.4:1	4.9:1	4.9:1	3.8:1	3.9:1	4.1:1	4.2:1
Quick ratio	**1.3:1**	1.6:1	1.9:1	2.0:1	2.4:1	3.5:1	2.8:1	1.9:1	2.0:1	2.3:1	2.3:1
Working capital	**$ 3,563**	$ 4,332	$ 4,501	$ 4,516	$ 4,377	$ 4,223	$ 3,694	$ 3,001	$ 2,377	$ 2,181	$ 2,030
Additions to property, plant and equipment	**$ 738**	$ 1,028	$ 1,223	$ 1,518	$ 748	$ 564	$ 572	$ 452	$ 419	$ 511	$ 399
Depreciation	**$ 772**	$ 759	$ 659	$ 516	$ 435	$ 384	$ 315	$ 253	$ 203	$ 153	$ 102
Debt to debt plus equity ratio	**1.9%**	1.8%	1.7%	1.6%	4.1%	5.5%	15.5%	10.0%	2.6%	2.8%	3.2%
Operating income/(loss) as a percentage of revenues	**(4.2)%**	.1%	10.5%	14.2%	17.2%	10.9%	6.7%	7.1%	8.5%	15.1%	16.8%
Income/(loss) before income taxes as a percentage of revenues	**(3.7)%**	1.0%	11.2%	15.2%	18.0%	11.3%	6.4%	7.2%	9.6%	17.3%	17.7%
Effective tax rate	**18.8%**	40.0%	24.5%	25.0%	32.7%	28.0%	(3.7%)[4]	18.0%	31.0%	38.0%	39.5%
Net income/(loss) as a percentage of revenues	**(4.4)%**	.6%	8.4%	11.4%	12.1%	8.1%	6.7%	5.9%	6.6%	10.7%	10.7%
Net income/(loss) as a percentage of average stockholders' equity	**(7.8)%**	.9%	13.8%	18.9%	18.9%	12.0%	10.5%	8.7%	8.5%	14.3%	15.9%
Net income/(loss) as a percentage of average total assets	**(5.2)%**	.7%	10.3%	14.1%	14.6%	9.1%	7.5%	6.5%	6.6%	11.2%	11.2%
Number of days sales of accounts receivable outstanding	**76**	86	76	75	78	79	75	83	82	73	73
Inventory turns	**4.6**	4.3	3.9	3.6	3.4	2.9	2.3	2.1	2.1	2.0	1.9
Number of employees at year-end	**121,000**	124,000	125,800	121,500	110,500	94,700	89,000	85,600	73,000	67,100	63,000
Common shares outstanding *(in thousands)*	**124,623**	122,555	121,537	126,290	126,187	128,591	59,253	57,811	56,357	55,227	54,348
Stockholders at year-end	**98,023**	92,934	99,084	103,162	99,379	76,860	68,810	44,389	40,903	44,706	39,948
Common stock yearly high and low sales prices	**$ 87-45**	$ 103-70	$ 122-86	$ 199-99	$174-82	$ 94-46	$ 63-39	$ 61-33	$ 65-32	$ 55-34	$ 55-29

[1] *Includes restructuring charges of $1,100M in 1991 and $550M in 1990.*
[2] *See Note B of Notes to Consolidated Financial Statements.*
[3] *Per share data adjusted to reflect two-for-one stock split in May 1986.*
[4] *Includes elimination of DISC taxes of $63M accrued prior to 1984.*

Income and Expense Items as a Percentage of Total Operating Revenues				*Percentage Changes*		
1989	1990	**1991**	**Income and Expense Items**	**1990-91**	1989-90	1988-89
64.3%	62.9%	**59.7%**	Product sales	**2%**	(1%)	9%
35.7%	37.1%	**40.3%**	Service and other revenues	**17%**	5%	16%
100.0%	100.0%	**100.0%**	Total operating revenues	**7%**	2%	11%
42.3%	47.0%	**47.1%**	Cost of product sales	**2%**	10%	14%
60.9%	61.9%	**60.1%**	Service expense and cost of other revenues	**14%**	7%	14%
49.0%	52.5%	**52.3%**	Total cost of operating revenues	**7%**	9%	14%
12.0%	12.5%	**11.9%**	Research and engineering expenses	**2%**	6%	17%
28.5%	30.7%	**32.1%**	Selling, general and administrative expenses	**13%**	9%	19%
–	4.2%	**7.9%**	Restructuring charges	**100%**	–	–
10.5%	0.1%	**(4.2%)**	Operating income/(loss)	**(100+%)**	(99%)	(18%)
1.0%	1.1%	**0.8%**	Interest income	**(20%)**	15%	(14%)
0.3%	0.2%	**0.3%**	Interest expense	**45%**	(22%)	4%
11.2%	1.0%	**(3.7%)**	Income/(loss) before income taxes	**(100+%)**	(91%)	(18%)
2.8%	0.4%	**0.7%**	Provision for income taxes	**97%**	(86%)	(20%)
8.4%	0.6%	**(4.4%)**	Net income/(loss)	**(100+%)**	(93%)	(18%)

Revenues

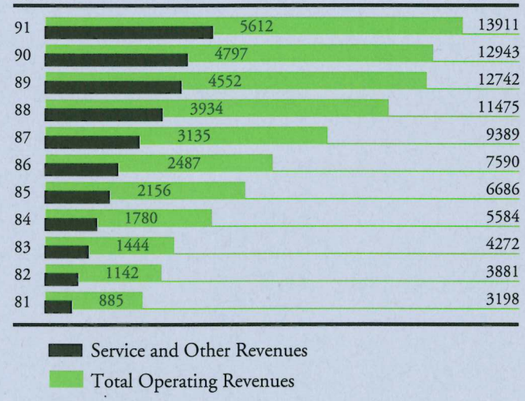
In 1991, the Company's operating revenues grew by $968 million or 7% compared with the prior year. All of the Company's growth occurred in its overseas operations. For the year, international revenues accounted for approximately 60% of the Company's total revenues. Results for the year included favorable effects of currency changes and full consolidation as of January 1, 1991 of Digital-Kienzle, a German company in which a 65% interest was acquired from Mannesmann AG.

Product sales, which accounted for approximately 60% of operating revenues, were up 2% compared with the prior year, following essentially no growth in 1990 and an increase of 9% in 1989. The slow growth of product sales reflects persistent weakness in the U.S. market, a slowing of economic activity in some of the Company's overseas markets and a pervasive change in industry demand, favoring low-end and desktop products. Intense price competition in some product lines, particularly personal computers and workstations, also was a factor.

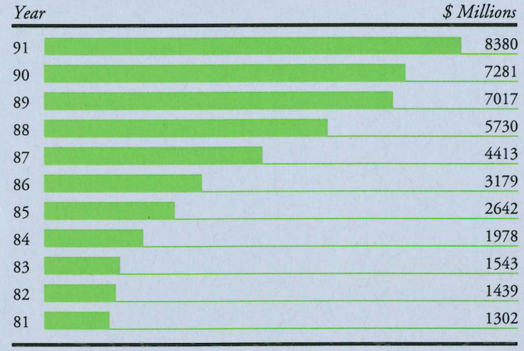
The Company has responded to these changes by introducing a number of new computer systems for both UNIX and the Company's own VMS operating systems, as well as a broad range of multivendor client/server software, service and hardware products. Additionally, the Company has increased the performance and functionality of its systems and lowered prices on many products, thereby improving price/performance.

In 1991, service and other revenues grew by $815 million or 17%, following increases of 5% in 1990 and 16% in 1989. Most of the growth in 1991 occurred in systems integration, software services, network and desktop services, facilities management and personal computer integration services.

Total Operating Revenues



Non-United States Revenues



Expenses and Profit Margins

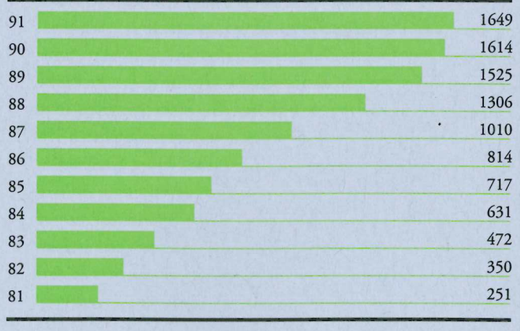
The Company's gross profit on product sales improved slightly from the previous year, reflecting the positive impact of currency movements as well as efficiencies in processes and technologies, including reductions in manufacturing population and facilities. These factors were partially offset by competitive pricing pressures and a shift in the Company's mix of product revenues from larger systems toward low-end desktop systems which typically carry lower margins. This shift shows a trend evident throughout much of the industry, as customers migrate applications to more of a distributed data processing environment and place more computer resources in the hands of the ultimate user. Product gross margins in percentage terms remained essentially unchanged from the previous year.

Service gross profit and margin both were higher than the previous year, reflecting the strong growth in service revenues, the positive impact of currency changes, and increased reliability of our products.

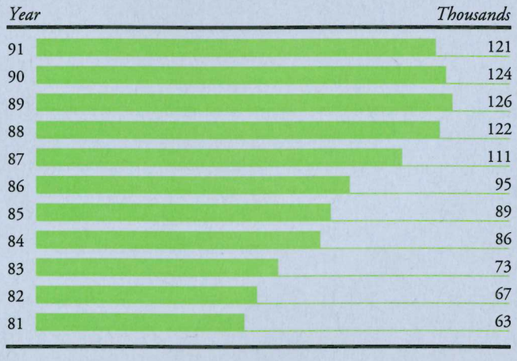
The Company continued to be among the leaders in the industry in its commitment to research and engineering and believes such investment is critical to maintaining a strong competitive position and ensuring future growth. Research and engineering expenses grew 2% in 1991 and represented 11.9% of total operating revenues, compared with 12.5% in 1990 and 12% in 1989. For the last three years combined, the Company's investment in research and engineering totaled $4.8 billion. Approximately 10,500 professional employees are involved in research, engineering and programming activities around the world. These activities include developing or enhancing systems, related peripheral equipment and software, and expanding product applications and multivendor systems integration.

During the year the Company introduced many new hardware, software, network and service products. Early in the year, the Company introduced enhanced models of its VAX 6000 systems, workstations and servers. The Company also introduced a multiprocessor system targeted for small- and medium-sized businesses, based on SCO UNIX and the Intel 486 Microprocessor, as well as high functionality personal computers and workstations based on the same chip. The Company expanded its family of fault tolerant machines with the addition of four new VAXft systems including models with increased storage and computer room packaging.

Research and Engineering



Employee Population



Early in the fourth quarter, the Company joined with 20 other companies in an industry initiative known as Advanced Computing Environment (ACE). The goal of the initiative is to produce specifications for new systems, based on the same industry standard hardware and software used in the Company's line of RISC-based systems and Intel microprocessor-based systems, and to encourage significant industry investment in those systems, as well as applications to run on them.

Throughout the year, the Company added to its Network Application Support (NAS) software which allows customers to combine VAX, RISC systems and systems from other vendors in a multivendor network. The Company also continued to work with independent third-party software vendors under joint marketing and development arrangements to introduce application solutions across a variety of platforms.

These networking products incorporate several industry standard protocols, providing connectivity to personal computer and mainframe environments. In addition, the Company announced a new licensing program to encourage the development of Digital-based network products for equipment built by other vendors.

Selling, general and administrative expenses increased 13% over the previous year and represented 32.1% of total operating revenues, compared with 30.7% in 1990 and 28.5% in 1989. The Company continued to invest in its sales, marketing and Enterprise Integration Services organizations to promote sales growth and enhance customer support. Much of the 13% increase in expenses resulted from changes in currency exchange rates and the addition of personnel through the acquisition of Digital-Kienzle.

In recent periods the Company has made investments in anticipation of revenue growth greater than was actually achieved. Although the rate of spending growth has been reduced, the Company's overall profitability has declined. In 1990 the Company began a series of restructuring actions to further improve its cost structure. In this regard, the Company absorbed restructuring charges of $550 million in fiscal year 1990 and $1.1 billion in fiscal year 1991 to cover the cost of employee separations, reskilling, retraining and relocation, as well as facility consolidations, retirement of equipment and related administrative costs. As a result of the 1991 charge, the Company incurred a $520 million loss before income taxes for the 1991 fiscal year.

Restructuring actions related to these charges occurred in fiscal 1990 and 1991, and more will occur during fiscal 1992 and possibly beyond. The considerable cost savings expected from these actions, therefore, were reflected in part in 1991 but will increase progressively over the next 2-3 years.

During fiscal 1991, worldwide employment declined from 124,000 to 121,000, with reductions of 7,000 employees partially offset by 4,000 employees added as a result of the Kienzle acquisition. Total employment also declined in 1990.

Interest income in 1991 decreased from 1990 levels, reflecting lower interest rates and lower average cash balances. Interest expense increased from the previous year, due to a higher level of debt outstanding during the year.

In 1991 the Company's tax expense was $97.7 million on a loss of $519.7 million. The tax expense reflects several factors, including taxes provided for profitable foreign operations and an inability to recognize currently U.S. tax benefits from losses arising primarily from restructuring charges. The effective tax rate in 1990 was 40%.

In June 1991, the Financial Accounting Standards Board (FASB) issued an Exposure Draft which would supersede Statement of Financial Accounting Standards (SFAS) No. 96 – Accounting for Income Taxes. The Company has deferred adoption of Statement No. 96. The proposed new standard, which would be effective for fiscal year 1994, would liberalize the SFAS No. 96 requirements for recognition of deferred tax assets and operating loss and tax credit carryforwards by requiring their recognition when and to the extent that their realization is more likely than not. Management anticipates that neither SFAS No. 96 nor the proposed new standard would have a material impact on the Company's consolidated financial position and results of operations. There will be no cash flow impact from these adjustments.

In December 1990, FASB issued a new accounting standard, SFAS No. 106 – Employers' Accounting for Postretirement Benefits Other than Pensions, which will require the Company to change accounting for postretirement benefits from a pay-as-you-go (cash) basis to an accrual basis. The Company must adopt SFAS No. 106 no later than fiscal year 1994 for its U.S. plans and fiscal year 1996 for its non-U.S. plans. The Company has not determined the amount of the cumulative effect or the timing of the charge resulting from the adoption of the new standard. Because the Company has relatively few retirees, however, the requirement to recognize these costs on an accrual basis will cause the Company's reported expense for such benefits to increase significantly. There will be no cash flow impact from the adoption of SFAS No. 106.

Management's Discussion and Analysis of Financial Condition

Availability of Funds to Support Current and Future Operations

Cash to support the Company's operations historically has been met with internally generated funds supplemented with external financing. During each of the last three years, internally generated funds were more than sufficient to support operations.

During the three-year period of 1989–1991, cash generated from operating activities exceeded cash used for investing activities by $534 million. In 1991, net cash generated from operations and investments was $14 million, compared with $331 million in 1990 and $189 million in 1989. The decrease from 1990 to 1991 was due principally to reduced profitability and the investment in Digital-Kienzle. This was partially offset by lower capital spending.

Net cash used for financing activities totaled $99 million for 1991 and $774 million in total for the three years 1989–1991. During 1991, the Company repurchased 3.7 million shares of its common stock at a cost of $241 million and redeemed, at par, $100 million of 12⅝% notes due in 1994. During the three-year period 1989–1991 the Company repurchased 15 million shares of its common stock for $1,326 million and received $767 million from stock sales to employees under various employee stock plans.

Cash and temporary cash investments declined $85 million during 1991 from $2,009 million at the end of 1990 to $1,924 million at the end of 1991. Unused lines of credit at the end of 1991 were $795 million.

After the close of the fiscal year, the Board of Directors authorized the purchase of up to six million shares of the Company's common stock for cash, as conditions warrant, for issuance under the Company's employee stock purchase plans, restricted stock option plans, equity plan and director's stock option plan.

The Company's strong financial position, together with its substantial debt capacity, leave it well-positioned to support current and future operations.

Common Stock Information

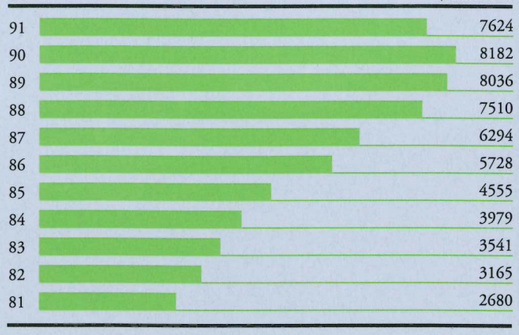
The Company's common stock is listed and traded on the Midwest Stock Exchange, New York Stock Exchange, Pacific Stock Exchange and several European stock exchanges. There were 98,023 shareholders of record as of June 29, 1991. The high and low quarterly sales prices for the past three fiscal years are presented below:

		1991
Fiscal Quarter	*High*	*Low*
First	$ 86⅞	$ 49⅞
Second	59½	45½
Third	83	50⅜
Fourth	74¼	58¾

		1990
Fiscal Quarter	*High*	*Low*
First	$103⅜	$ 91
Second	94½	79¾
Third	90¼	69½
Fourth	95⅛	76¼

		1989
Fiscal Quarter	*High*	*Low*
First	$117	$ 91½
Second	99⅜	86⅜
Third	122⅜	95¾
Fourth	102½	89¾

Total Stockholders' Equity



Spending for Operations

During the year the Company continued to make numerous investments to support future growth, enhance customer satisfaction and ensure product quality and technological competitiveness.

Capital expenditures totaled $738 million for the year, compared with $1,028 million in the preceding year. For the last three years, capital expenditures totaled $2,988 million. Much of this investment is focused on improving manufacturing and engineering efficiency and advancing employee productivity throughout the organization. Approximately 69% of the current year's total was spent for machinery and equipment; the balance was for buildings, leasehold improvements and land.

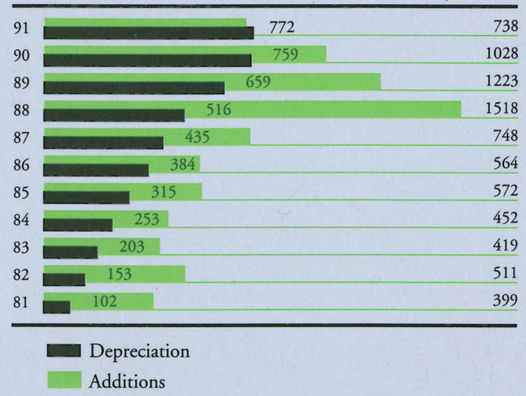
Continued emphasis on asset utilization resulted in improvement in both inventory and accounts receivable management during the year. In 1991 average year inventory turned 4.6 times, an improvement from 4.3 times in 1990 and 3.9 times in 1989. Accounts receivable grew 3% compared with total revenue growth of 7%. Days sales outstanding in accounts receivable was 76 days, compared with 86 days and 76 days in the two prior fiscal years.

Effective January 1, 1991, the Company acquired from Mannesmann AG 65% of a new company formed from the Mannesmann Kienzle Computer Systems Division, and the PROCAD GmbH and PCS GmbH divisions of Mannesmann Kienzle. The name of the new company is Digital-Kienzle Computersysteme GmbH & Co. K.G. (Digital-Kienzle). The Company's investment in Digital-Kienzle was $233 million. This investment advances the Company's strategic thrust in selling to small and medium-sized businesses worldwide and complements a series of new products, services and channels for small and medium-sized businesses announced by the Company during the year. This investment also complements the Company's development and support of UNIX-based applications and enhances the Company's position in selling into emerging markets in central and eastern Europe.

Consistent with this strategy, shortly after the close of the fiscal year, the Company reached an agreement in principle with Philips Electronics N.V. of the Netherlands to acquire most of the Philips' Information Systems Division, subject to receipt of necessary regulatory approvals and negotiation and execution of final agreements.

The Company will continue to invest for the future, and anticipates that its capital spending level in 1992 will be in the same general range as that of 1991. The actual levels of spending will be dependent on a variety of factors, including worldwide economic conditions, growth in demand for the Company's products and services and changes in semiconductor and manufacturing process technology.

Additions to Property, Plant and Equipment
Depreciation Expense



Report of Management

The Company's management is responsible for the preparation of the financial statements in accordance with generally accepted accounting principles and for the integrity of all the financial data included in this Annual Report. In preparing the financial statements, management makes informed judgments and estimates of the expected effects of events and transactions that are currently being reported.

Management maintains a system of internal accounting controls that is designed to provide reasonable assurance that assets are safeguarded and that transactions are executed and recorded in accordance with management's policies for conducting its business. This system includes policies which require adherence to ethical business standards and compliance with all laws to which the Company is subject. The internal controls process is continuously monitored by direct management review and an internal audit program under which periodic independent reviews are made.

The Company's independent public accountants annually review the accounting and control systems of the Company. Their audit includes a review of the internal control structure to the extent they consider necessary and selective tests of transactions to support their report.

The Board of Directors, through its Audit Committee, is responsible for determining that management fulfills its responsibility with respect to the Company's financial statements and the system of internal accounting controls.

The Audit Committee meets regularly with representatives of management, the independent accountants and the Company's internal auditors to review audits, financial reporting, and internal control matters, and also meets with the Company's outside counsel on related matters. The independent accountants and the internal auditors have full and free access to the Audit Committee and regularly meet privately with the Audit Committee.

Coopers & Lybrand, independent accountants, have been engaged by the Board of Directors, with the approval of the stockholders, to audit the Company's financial statements. Their report follows.

Kenneth H. Olsen
President

James M. Osterhoff
Vice President – Finance

Report of Independent Accountants

To The Stockholders and Directors,
Digital Equipment Corporation

We have audited the accompanying consolidated balance sheets of Digital Equipment Corporation as of June 29, 1991 and June 30, 1990 and the related consolidated statements of operations, cash flows, and stockholders' equity for each of the three fiscal years in the period ended June 29, 1991. 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Digital Equipment Corporation as of June 29, 1991 and June 30, 1990, and the consolidated results of its operations and cash flows for each of the three fiscal years in the period ended June 29, 1991, in conformity with generally accepted accounting principles.

Coopers & Lybrand
Coopers & Lybrand

Boston, Massachusetts
July 25, 1991

Consolidated Statements of Operations

(in thousands except per share data)			*Year Ended*
	June 29, 1991	June 30, 1990	July 1, 1989
Revenues *(Notes A and C)*			
Product sales	**$ 8,298,515**	$ 8,145,491	$ 8,190,308
Service and other revenues	**5,612,489**	4,797,032	4,551,648
Total operating revenues	**13,911,004**	12,942,523	12,741,956
Costs and Expenses *(Notes A, D and I)*			
Cost of product sales	**3,905,355**	3,825,897	3,468,307
Service expense and cost of other revenues	**3,373,025**	2,968,529	2,773,563
Research and engineering expenses	**1,649,380**	1,614,423	1,525,129
Selling, general and administrative expenses	**4,471,629**	3,971,059	3,638,868
Restructuring charges *(Note M)*	**1,100,000**	550,000	–
Operating income/(loss)	**(588,385)**	12,615	1,336,089
Interest income	**113,221**	142,015	124,021
Interest expense	**44,556**	30,641	39,435
Income/(loss) before income taxes	**(519,720)**	123,989	1,420,675
Provision for income taxes *(Notes A and E)*	**97,707**	49,596	348,065
Net Income/(Loss)	**$ (617,427)**	$ 74,393	$ 1,072,610
Net Income/(Loss) per Share *(Note B)*	**$ (5.08)**	$ .59	$ 8.45
Weighted average shares outstanding *(Note B)*	**121,558**	125,222	127,008

The accompanying notes are an integral part of these financial statements.

Consolidated Balance Sheets

(in thousands)		
	June 29, 1991	June 30, 1990
Assets		
Current Assets		
Cash and cash equivalents *(Note F)*	**$ 1,924,050**	$ 2,008,983
Accounts receivable, net of allowance of $84,999 and $87,632	**3,316,677**	3,206,765
Inventories *(Note A)*		
Raw materials	**360,367**	352,976
Work-in-process	**501,394**	479,472
Finished goods	**733,389**	705,810
Total inventories	**1,595,150**	1,538,258
Prepaid expenses	**395,478**	345,797
Net deferred Federal and foreign income tax charges	**422,685**	521,809
Total Current Assets	**7,654,040**	7,621,612
Property, Plant and Equipment, at Cost *(Note A)*		
Land	**376,071**	352,296
Buildings	**1,836,323**	1,712,204
Leasehold improvements	**573,378**	569,885
Machinery and equipment	**4,642,820**	4,392,609
Total property, plant and equipment, at cost	**7,428,592**	7,026,994
Less accumulated depreciation	**3,650,762**	3,158,902
Net property, plant and equipment	**3,777,830**	3,868,092
Other assets, net *(Note G)*	**442,833**	165,117
Total Assets	**$11,874,703**	$11,654,821
Liabilities and Stockholders' Equity		
Current Liabilities		
Bank loans and current portion of long-term debt *(Note H)*	**$ 23,344**	$ 12,538
Accounts payable	**722,534**	660,819
Federal, foreign and state income taxes	**272,567**	453,997
Salaries, wages and related items	**576,115**	472,153
Deferred revenues and customer advances *(Note A)*	**1,052,260**	903,038
Restructuring reserve *(Note M)*	**1,036,704**	443,544
Other current liabilities	**407,507**	343,680
Total Current Liabilities	**4,091,031**	3,289,769
Net deferred Federal and foreign income tax credits	**9,829**	33,137
Long-term debt *(Note H)*	**150,004**	150,001
Total Liabilities	**4,250,864**	3,472,907
Stockholders' Equity *(Notes I and J)*		
Common stock, $1.00 par value; authorized 450,000,000 shares; issued 130,008,231 shares	**130,008**	130,008
Additional paid-in capital	**2,636,141**	2,565,487
Retained earnings	**5,344,855**	6,257,199
Treasury stock at cost; 5,385,197 shares and 7,453,501 shares	**(487,165)**	(770,780)
Total Stockholders' Equity	**7,623,839**	8,181,914
Total Liabilities and Stockholders' Equity	**$11,874,703**	$11,654,821

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Cash Flows

(in thousands)			*Year Ended*
	June 29, 1991	June 30, 1990	July 1, 1989
Cash Flows from Operating Activities			
Net income/(loss)	**$ (617,427)**	$ 74,393	$1,072,610
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**828,560**	796,201	686,738
Other adjustments to income	**189,077**	92,329	49,702
(Increase)/decrease in accounts receivable	**105,977**	(241,357)	(373,248)
(Increase)/decrease in inventories	**18,616**	99,743	(62,942)
(Increase)/decrease in prepaid expenses	**(47,239)**	(90,602)	18,965
Increase/(decrease) in accounts payable	**(17,694)**	107,001	30,645
(Decrease) in taxes	**(105,614)**	(201,560)	(75,502)
Increase in deferred revenues and customer advances	**92,222**	69,207	105,847
Increase in restructuring reserve	**593,160**	443,544	–
Increase in other liabilities	**1,263**	285,175	26,576
Total adjustments	**1,658,328**	1,359,681	406,781
Net cash flows from operating activities	**1,040,901**	1,434,074	1,479,391
Cash Flows from Investing Activities			
Purchase of plant, property, and equipment	**(737,548)**	(1,027,625)	(1,223,038)
(Increase) in other assets, net	**(55,782)**	(75,489)	(67,624)
Purchase of Kienzle business	**(233,261)**	–	–
Net cash flows from investing activities	**(1,026,591)**	(1,103,114)	(1,290,662)
Net cash flows from operating and investing activities	**14,310**	330,960	188,729
Cash Flows from Financing Activities			
Proceeds from issuance of debt	**14,249**	17,661	40,425
Payments to retire debt	**(112,426)**	(20,896)	(153,245)
Purchase of treasury shares	**(240,719)**	(270,231)	(814,958)
Issuance of treasury shares, including tax benefits	**239,653**	296,225	230,733
Net cash flows from financing activities	**(99,243)**	22,759	(697,045)
Net increase/(decrease) in cash and cash equivalents	**(84,933)**	353,719	(508,316)
Cash and cash equivalents at beginning of year	**2,008,983**	1,655,264	2,163,580
Cash and cash equivalents at end of year	**$1,924,050**	$2,008,983	$1,655,264

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Stockholders' Equity

(in thousands)	*Common Stock*	*Additional Paid-in Capital*	*Retained Earnings*	*Treasury Stock*	*Total Stock-holders' Equity*
July 2, 1988	$130,008	$2,424,391	$5,463,050	$(507,075)	$7,510,374
Purchase of 8,247,000 shares of treasury stock *(Note J)*				(814,958)	(814,958)
Shares issued under stock plans *(Note I)*			(169,242)	391,569	222,327
Restricted stock plans, charge to operations		36,914			36,914
Tax benefits related to stock plans *(Note I)*		8,406			8,406
Net income–1989			1,072,610		1,072,610
July 1, 1989	$130,008	$2,469,711	$6,366,418	$(930,464)	$8,035,673
Purchase of 3,053,000 shares of treasury stock *(Note J)*				(270,231)	(270,231)
Shares issued under stock plans *(Note I)*			(183,612)	429,915	246,303
Restricted stock plans, charge to operations		45,854			45,854
Tax benefits related to stock plans *(Note I)*		49,922			49,922
Net income–1990			74,393		74,393
June 30, 1990	$130,008	$2,565,487	$6,257,199	$(770,780)	$8,181,914
Purchase of 3,700,000 shares of treasury stock *(Note J)*				**(240,719)**	**(240,719)**
Shares issued under stock plans *(Note I)*			**(294,917)**	**524,334**	**229,417**
Restricted stock plans, charge to operations		**60,419**			**60,419**
Tax benefits related to stock plans *(Note I)*		**10,235**			**10,235**
Net income/(loss)–1991			**(617,427)**		**(617,427)**
June 29, 1991	**$130,008**	**$2,636,141**	**$5,344,855**	**$(487,165)**	**$7,623,839**

The accompanying notes are an integral part of these financial statements.

Note A—*Significant Accounting Policies*

Principles of Consolidation ☐ The consolidated financial statements of the Company include the financial statements of the parent and its domestic and foreign subsidiaries. All significant intercompany accounts and profits have been eliminated.

Translation of Foreign Currencies ☐ For foreign operations, the U.S. dollar is the functional currency. Monetary assets and liabilities of foreign subsidiaries are translated into U.S. dollars at current exchange rates. Nonmonetary assets such as inventories and property, plant and equipment are translated at historical rates. Income and expense items are translated at average exchange rates prevailing during the year, except that inventories and depreciation charged to operations are translated at historical rates. Exchange gains and losses arising from translation are included in current income.

The Company enters into forward exchange contracts to delay the short term impact of foreign currency fluctuations on operations and the asset and liability positions of foreign subsidiaries. The gains or losses on these contracts are included in income when the operating revenues and expenses are recognized and, for assets and liabilities, in the period in which the exchange rates change. The cash flows related to these gains and losses are classified in the statement of cash flows, as part of cash flows from operating activities.

Revenue Recognition ☐ Revenues from product sales are recognized at the time the product is shipped. Service and other revenues are recognized ratably over the contractual period or as the services are performed.

Warranty Costs ☐ Warranty costs are expensed as incurred. The warranty costs result in the same charge to expense as would be incurred if such warranty costs were accrued at the time of revenue recognition.

Taxes ☐ In general, the Company's practice is to reinvest the earnings of its foreign subsidiaries in those operations and repatriation of retained earnings is done only when it is advantageous to do so. Applicable taxes are provided only on amounts planned to be remitted.

Inventories ☐ Inventories are stated at the lower of cost (first-in, first-out) or market.

Property, Plant and Equipment ☐ Depreciation expense is computed principally on the following basis:

Classification	*Depreciation Lives and Methods*
Buildings	33 years (straight-line)
Leasehold Improvements	Life of assets or term of lease, whichever is shorter (straight-line)
Machinery and Equipment	3 to 10 years (accelerated methods)

Intangibles ☐ Goodwill and other acquired intangibles are amortized on the straight-line method over their estimated lives, but not in excess of 15 years.

Note B—*Net Income/(Loss) Per Share and Dividends*

Net loss per share for the year ended June 29, 1991 was calculated on the weighted average number of common shares outstanding. In the years ended June 30, 1990, and July 1, 1989, net income per share is based on the weighted average number of common shares and common share equivalents outstanding during the year. Common share equivalents were attributable to stock options.

Cash dividends have never been paid by the Company.

Note C—*International Operations*

(in thousands)			*Year Ended*
	June 29, 1991	June 30, 1990	July 1, 1989
Revenues			
United States customers	**$ 5,586,492**	$ 5,823,435	$ 5,848,975
Intercompany	**2,200,684**	1,920,254	2,103,290
	7,787,176	7,743,689	7,952,265
Europe customers	**6,216,746**	5,242,740	5,130,052
Intercompany	**278,544**	144,511	113,820
	6,495,290	5,387,251	5,243,872
Canada, Asia, Americas, Pacific Rim customers	**2,107,766**	1,876,348	1,762,929
Intercompany	**1,269,327**	1,087,099	1,065,746
	3,377,093	2,963,447	2,828,675
Eliminations	**(3,748,555)**	(3,151,864)	(3,282,856)
Net revenue	**$13,911,004**	$12,942,523	$12,741,956
Income/(Loss)			
United States	**$ (976,651)**	$ (381,450)	$ 510,364
Europe	**474,180**	478,225	815,655
Canada, Asia, Americas, Pacific Rim	**142,622**	255,051	411,267
Eliminations	**(228,536)**	(339,211)	(401,197)
Operating income/(loss)	**(588,385)**	12,615	1,336,089
Interest income	**113,221**	142,015	124,021
Interest expense	**44,556**	30,641	39,435
Income/(loss) before income taxes	**$ (519,720)**	$ 123,989	$ 1,420,675
Assets			
United States	**$ 5,124,445**	$ 5,786,798	$ 5,499,763
Europe	**4,706,122**	3,654,206	3,420,247
Canada, Asia, Americas, Pacific Rim	**1,576,413**	1,430,592	1,298,519
Corporate assets *(cash equivalents)*	**1,728,959**	1,959,201	1,469,842
Eliminations	**(1,261,236)**	(1,175,976)	(1,020,592)
Total assets	**$11,874,703**	$11,654,821	$10,667,779

Note C–*International Operations (continued)*

Industry ☐ The Company's business consists of the design, manufacture and sale of networked computer systems, software and services, and the integration of multivendor systems.

International Operations ☐ Sales and marketing operations outside the United States are conducted principally through sales subsidiaries in Canada, Europe, Central and South America, Asia and the Pacific Rim; by direct sales from the parent corporation and through various representative and distributorship arrangements. The Company's international manufacturing operations include plants in Canada, Asia, Europe and the Pacific Rim. The products of these manufacturing plants are sold to the Company's sales subsidiaries, the parent corporation or other manufacturing plants for further processing.

Intercompany transfers between geographic areas are accounted for at prices which are designed to be representative of unaffiliated party transactions.

Sales to unaffiliated customers outside the United States, including U.S. export sales, were $8.4 billion, $7.3 billion, and $7 billion for the years ended June 29, 1991, June 30, 1990, and July 1, 1989, respectively, which represented 60%, 56%, and 55%, respectively, of total operating revenues. The retained earnings of substantially all of the Company's international subsidiaries have been reinvested to support operations. These accumulated retained earnings, before elimination of intercompany transactions, aggregated $4.3 billion, $3.8 billion, and $3.4 billion at June 29, 1991, June 30, 1990, and July 1, 1989, respectively.

Note D–*Pension Plans and Other Postretirement Benefits*

The Company and its subsidiaries have defined benefit and defined contribution pension plans covering substantially all employees. The benefits are based on years of service and compensation during the employee's career. Pension cost is based on estimated benefit payment formulas.

It is the Company's policy to make contributions to the plans in accordance with local laws and to the extent that such contributions are tax deductible. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. For the U.S. pension plan, there were no contributions in any of the fiscal years 1991, 1990, or 1989 due to the full funding limit of the Omnibus Budget Reconciliation Act of 1987. The assets of the plans include corporate equity and debt securities, government securities and real estate.

As a result of restructuring activities, curtailment gains of $157,000,000 and $65,000,000 are reflected in the net amortization and deferral component of net periodic pension cost for fiscal years 1991 and 1990, respectively.

The following table provides information on the status of the U.S. pension plan and certain non-U.S. plans which, in aggregate, represent approximately 91% of the total pension expense before curtailment gains. In the year ended June 29, 1991, the net periodic pension cost for defined contribution pension plans was $11,398,000. The measurement dates for all plans were within 90 days of year-end.

Net periodic pension cost for fiscal years 1991, 1990, and 1989 included the following components:

(in thousands)	**1991**	1990	1989
Service cost-benefits earned during the period	**$ 239,238**	$ 219,499	$ 188,068
Interest cost on projected benefit obligation	**163,007**	137,850	111,095
Actual return on plan assets	**(38,524)**	(185,555)	(230,671)
Net amortization and deferral	**(317,731)**	(48,130)	84,129
Net periodic pension cost for defined benefit pension plans	**$ 45,990**	$ 123,664	$ 152,621
Total net periodic pension cost for all pension plans	**$ 67,102**	$ 137,597	$ 166,848

Note D–*Pension Plans and Other Postretirement Benefits (continued)*

The significant actuarial assumptions as of the year-end measurement date were as follows:

	1991	1990	1989
U.S. pension plan:			
Discount rate	**9.0%**	9.0%	9.0%
Expected long-term rate of return on plan assets	**9.5%**	9.5%	9.5%
Rate of increase in future compensation levels	**6.8%**	6.8%	6.8%
Non-U.S. pension plans:			
Discount rate	**5.0- 9.5%**	5.0-12.5%	5.0-12.5%
Expected long-term rate of return on plan assets	**6.0-10.0%**	5.5-10.0%	5.0-10.0%
Rate of increase in future compensation levels	**5.0- 8.0%**	5.0- 9.5%	4.0- 9.5%

The funded status as of the year-end measurement date was as follows:

(in thousands)	**1991**	1990
Actuarial present value of benefit obligations:		
Vested benefit obligation	**$ (859,130)**	$ (692,386)
Accumulated benefit obligation	**$ (972,090)**	$ (785,533)
Projected benefit obligation	**$(2,069,628)**	$(1,949,220)
Plan assets at fair value	**2,297,578**	2,219,322
Plan assets in excess of projected benefit obligation	**227,950**	270,102
Contributions made after measurement date but before end of fiscal year	**4,479**	5,983
Unrecognized net (gain)	**(158,015)**	(161,394)
Unrecognized prior service cost	**40,204**	28,388
Unrecognized transition asset, net	**(119,008)**	(128,400)
Pension cost recognized on the balance sheet	**$ (4,390)**	$ 14,679

In addition to providing pension benefits, the Company provides certain medical, dental and life insurance benefits for retired employees. Substantially all of the Company's domestic employees may become eligible for those benefits if they reach normal retirement age while working for the Company. The cost of retiree health care and life insurance benefits is recognized as an expense as claims are paid. These costs totaled $6,400,000, $3,005,000, and $1,565,000 for the years ended June 29, 1991, June 30, 1990, and July 1, 1989, respectively. The majority of the Company's foreign subsidiaries do not offer such benefits to retirees. Of those that do, the amounts are immaterial.

In December 1990, the Financial Accounting Standards Board issued a new accounting standard, Statement of Financial Accounting Standards (SFAS) No. 106–Employers' Accounting for Postretirement Benefits Other than Pensions, which will require the Company to change accounting for postretirement benefits from a pay-as-you-go (cash) basis to an accrual basis. The Company must adopt SFAS No. 106 no later than fiscal year 1994 for its U.S. plans and fiscal year 1996 for its non-U.S. plans.

On adoption, the cumulative effect of the change to the new accounting standard may be recognized either immediately or on a delayed basis over the average remaining service period of active plan participants, or 20 years if greater. The Company has not yet determined the amount of the cumulative effect or the timing of the charge resulting from the adoption of the new standard. Because the Company has relatively few retirees, however, the requirements to recognize these costs on an accrual rather than cash basis will cause the Company's reported expense for such benefits to increase significantly. There will be no cash flow impact from the adoption of SFAS No. 106.

Note E—*Income Taxes*

Income/(loss) before income taxes for domestic and foreign operations was as follows:

(in thousands)			*Year Ended*
	June 29, 1991	June 30, 1990	July 1, 1989
Domestic	**$(803,205)**	$(378,476)	$ 530,298
Foreign	**283,485**	502,465	890,377
Total	**$(519,720)**	$ 123,989	$1,420,675

The total provisions for (benefits from) income taxes were at rates different from the U.S. Federal statutory tax rate for the following reasons:

	1991	1990	1989
U.S. Federal statutory tax (benefit) rate	**(34.0)%**	34.0%	34.0%
Tax benefit of manufacturing operations in: (a)			
Puerto Rico	**(2.6)**	(49.0)	(3.9)
Ireland	**(15.6)**	(56.5)	(3.3)
Singapore	**(2.9)**	(6.7)	(0.4)
Taiwan	**(0.8)**	(4.7)	(0.4)
Benefit not recorded due to net carryforward position	**60.4**	0.0	0.0
Research and engineering credit	**(2.4)**	(6.0)	(1.5)
Foreign tax rates, net of foreign tax credits	**19.3**	90.9	1.6
Other	**(2.6)**	38.0	(1.6)
Effective tax rate	**18.8%**	40.0%	24.5%

For financial statement purposes, the Company has not recognized future deductible timing differences of approximately $1 billion. This financial reporting loss carryforward will begin to expire in 2007.

(a) The Company's manufacturing subsidiary operating in Puerto Rico is subject to tax at a rate of approximately 8% on its manufacturing earnings through fiscal year 2003. The income from products manufactured for export by the Company's Irish manufacturing subsidiary is subject to a 10% tax rate through December 2010. The income from certain products manufactured by the Company's Singaporean manufacturing subsidiary is taxed at approximately 3% through December 1993 and then at 15% through December 1995. The income from certain products manufactured by the Company's subsidiary operating in Taiwan is subject to a reduced tax rate of 20% through January 1994, while the income from certain other products continues to be taxed at 20% through March 1995.

Note E—*Income Taxes (continued)*

The components of the provisions for (benefits from) U.S. Federal and foreign income taxes were as follows:

(in thousands)			*Year Ended*
	June 29, 1991	June 30, 1990	July 1, 1989
U.S. Federal:			
Current	**$(234,968)**	$ 33,940	$136,331
Deferred	**205,905**	(113,048)	(6,775)
Total	**(29,063)**	(79,108)	129,556
Foreign:			
Current	**262,803**	187,516	211,652
Deferred	**(124,642)**	(58,781)	(10,861)
Total	**138,161**	128,735	200,791
State income taxes	**(11,391)**	(31)	17,718
Total income taxes	**$ 97,707**	$ 49,596	$348,065

Deferred tax expense results from timing differences in the recognition of revenues and expenses for tax and financial reporting purposes. The sources of these timing differences in the years ended June 29, 1991, June 30, 1990, and July 1, 1989, and the tax effect of each were as follows:

(in thousands)			*Year Ended*
	June 29, 1991	June 30, 1990	July 1, 1989
Inventory related transactions	**$(39,004)**	$ 6,068	$(26,909)
Deferred warranty revenue	**1,966**	64,621	14,687
Depreciation	**7,014**	(35,813)	(6,089)
Pension	**19,977**	(50,135)	(21,656)
Restructuring	**(233,539)**	(119,917)	–
Benefit not recorded due to net carryforward position	**347,080**	–	–
Other	**(22,231)**	(36,653)	22,331
Total	**$ 81,263**	$(171,829)	$(17,636)

In connection with its normal examinations of the Company's 1984, 1985 and 1986 tax returns, the Internal Revenue Service has proposed adjustments. The Company believes its judgments in these matters have been appropriate and intends to contest certain of the adjustments proposed by the IRS. In addition, the Company believes any adjustments which might result would not have a material effect on the financial statements.

In June 1991, the Financial Accounting Standards Board issued an Exposure Draft which would supersede SFAS No. 96—Accounting for Income Taxes. The Company has deferred adoption of Statement No. 96. The proposed new standard, which would be effective for fiscal year 1994, would liberalize the SFAS No. 96 requirements for recognition of deferred tax assets and operating loss and tax credit carryforwards by requiring their recognition when and to the extent that their realization is more likely than not. Management anticipates that neither SFAS No. 96 nor the proposed new standard would have a material impact on the Company's consolidated financial position and results of operations. There will be no cash flow impact from these adjustments.

See Note A of Notes to Consolidated Financial Statements for further explanation of the Company's income tax accounting policies.

Note F—*Cash Flow Statement*

The Company considers all highly liquid temporary cash investments with low interest rate risk to be cash equivalents. Cash equivalents are valued at cost plus accrued interest, which approximates market. None of the cash reflected on the balance sheet at June 29, 1991, and June 30, 1990, was required as compensating balances.

Income taxes paid were $186,090,000, $243,165,000, and $470,469,000 for the years ended June 29, 1991, June 30, 1990, and July 1, 1989, respectively.

Interest paid was $42,605,000, $33,431,000, and $40,902,000 for the years ended June 29, 1991, June 30, 1990, and July 1, 1989, respectively.

Note G—*Capitalized Computer Software Development Costs*

Unamortized computer software development costs which are included in other assets, net on the balance sheet, were $112,029,000 and $109,907,000 at June 29, 1991, and June 30, 1990, respectively. These costs are amortized over three years from the date the products are available for general release. Amortization expense was $44,424,000, $37,247,000, and $27,359,000 for the years ended June 29, 1991, June 30, 1990, and July 1, 1989, respectively.

Note H—*Debt*

Long-term debt, exclusive of current maturities, consisted of the following:

(in thousands)	**June 29, 1991**	June 30, 1990
Lease obligations payable 1993–2002 (5.4%–11.56%)(a)	**$ 28,447**	$ 32,335
Notes due 1994 (12⅜%)(b)	**–**	100,000
Obligation to Mannesmann AG (9%) (c)	**106,813**	–
Other debt obligations	**14,744**	17,666
	$150,004	$150,001

Principal payments during the next five fiscal years are as follows: 1992–$5,428,000; 1993–$112,618,000; 1994–$4,105,000; 1995–$6,143,000; 1996–$6,413,000.

(a) Weighted average interest rate at June 29, 1991, and June 30, 1990, of 10.5% and 10.6%, respectively.

(b) Notes were issued by the Company in April 1984, and were redeemed in April 1991 at face value.

(c) Represents a put/call stand-by arrangement, effective beginning January 1993 related to Digital-Kienzle Computersysteme GmbH & Co. KG shares retained by Mannesmann AG.

The Company has lines of credit available for short-term financing totaling $836,194,000, of which, there were unused lines of $794,922,000 at June 29, 1991, and $783,965,000 at June 30, 1990.

Note I—*Stock Plans*

Restricted Stock Options and Awards ☐ Under its Equity Plan, the Company has awarded restricted stock to certain officers and key employees. Under such Equity Plan and its Restricted Stock Option Plans, the Company has granted options to certain officers and key employees which are exercisable upon grant, to purchase common stock at a price determined by the Board of Directors. Shares purchased under the plans were issued from treasury shares and are generally subject to repurchase options and restrictions on sales which lapse over an extended time period not exceeding 10 years.

Information concerning activity during the three years ended June 29, 1991, was as follows:

		Options Outstanding	
	Shares Reserved For Future Grants	*Shares*	*Average Price Per Share*
July 2, 1988	11,986,051	14,762,223	$62.25
Options Granted	(3,491,580)	3,491,580	73.00
Options Exercised	–	(1,081,871)	29.75
Options Cancelled	307,370	(307,370)	66.99
Options Terminated	(142,472)	–	–
July 1, 1989	8,659,369	16,864,562	$66.47
Options Granted	(3,365,390)	3,365,390	75.18
Options Exercised	–	(1,297,584)	33.90
Options Cancelled	321,362	(321,362)	70.91
Options Terminated	(131,656)	–	–
June 30, 1990	5,483,685	18,611,006	$70.24
Options Granted	**(2,130,860)**	**2,130,860**	**77.62**
Shares Awarded	**(316,830)**	**–**	**–**
Options Exercised	**–**	**(838,391)**	**29.71**
Options Cancelled	**597,652**	**(597,652)**	**83.11**
Options Terminated	**(351,837)**	**–**	**–**
June 29, 1991	**3,281,810**	**19,305,823**	**$72.42**

The excess of the fair market value of shares on the award or grant date over the exercise price is charged to operations each year as the restrictions lapse.

Employee Stock Purchase Plans ☐ Under the Company's Employee Stock Purchase Plans, all United States and certain international employees may be granted the opportunity to purchase common stock at 85% of market value on the first or last business day of the six-month payment period, whichever is lower. Common stock reserved for future grants aggregated 2,265,179 shares at June 29, 1991. There were 4,619,793 shares issued from treasury shares at an average price of $44.34 per share during the year ended June 29, 1991, 2,797,296 shares at $73.13 per share during the year ended June 30, 1990, and 2,417,459 shares at $78.87 per share during the year ended July 1, 1989. There have been no charges to income in connection with these Plans other than incidental expenses related to the issuance of the shares. Federal income tax benefits relating to such Plans have been credited to additional paid-in capital.

Stock Option Plan for Non-Employee Directors ☐ The Stock Option Plan for Non-Employee Directors provides for a one-time grant of an option to purchase 5,000 shares of the Company's Common Stock to non-employee directors. The exercise price of an option is 100% of the fair market value per share of Common Stock of the Company on the date the option is granted. An aggregate of 100,000 shares of common stock was authorized under the Plan, of which 35,000 were granted at an average purchase price of $50.99 per share. The options become exercisable at the rate of 20% per year, with credit given for past service. None of these options had been exercised as of June 29, 1991.

Note J—*Treasury Stock*

The Company purchased on the open market 3,700,000 shares of its common stock at an aggregate purchase price of $240,719,000, or $65.06 per share, during the year ended June 29, 1991; 3,053,000 shares at an aggregate purchase price of $270,231,000, or $88.51 per share, during the year ended June 30, 1990; and 8,247,000 shares at an aggregate purchase price of $814,958,000, or $98.82 per share, during the year ended July 1, 1989. All of the acquired shares are held as common stock in treasury, less shares issued to employees under the Stock Plans. The difference between the average acquisition cost of the shares and the proceeds from issuance is charged to retained earnings.

Note K—*Leases*

Minimum annual rentals under noncancelable leases (which are principally for leased real estate, vehicles and equipment) for the fiscal years listed are as follows:

Fiscal Years	*(in thousands)*
1992	$ 314,051
1993	239,869
1994	178,864
1995	148,224
1996	138,498
Later years	514,288
Total minimum lease payments	$1,533,794

Total rental expense for the years ended June 29, 1991, June 30, 1990, and July 1, 1989, amounted to $535,159,000, $512,052,000 and $452,078,000, respectively.

Note L—*Off-Balance-Sheet Risk and Concentrations of Credit Risk*

Off-Balance-Sheet Risk ☐ The Company enters into forward foreign exchange contracts to hedge foreign currency transactions on a continuing basis for periods consistent with its committed exposures. It does not engage in speculation. The Company's foreign exchange contracts do not subject the Company to risk due to exchange rate movements because gains and losses on these contracts offset losses and gains on the assets, liabilities, and transactions being hedged. As of June 29, 1991 and June 30, 1990, the Company had $2.7 billion and $2.5 billion, respectively, of net foreign exchange contracts outstanding, substantially all of which were in European currencies. The foreign exchange contracts generally have maturities which do not exceed six months. See Note A for information on the Company's accounting policy on foreign exchange contract gains and losses.

Concentrations of Credit Risk ☐ Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of temporary cash investments and trade receivables.

The Company places its temporary cash investments with high credit qualified financial institutions and, by policy, limits the amount of credit exposure to any one financial institution. Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers comprising the Company's customer base, and their dispersion across many different industries and geographies.

As of June 29, 1991, the Company had no significant concentrations of credit risk.

Note M—*Restructuring Charges*

In fiscal year 1991, the Company recorded net restructuring charges of $1.1 billion. Included in the charge were $550,000,000 for employee separations and $550,000,000 for facility consolidations, equipment retirements and related programs.

In fiscal year 1990, the Company recorded net restructuring charges of $550,000,000.

Note N—*Stockholder Rights Plan*

The Company's Board of Directors adopted a Stockholder Rights Plan on December 11, 1989. Under the Plan, the Company distributed to stockholders a dividend of one Common Stock Purchase Right for each outstanding share of Common Stock. Each Right initially will entitle holders of Common Stock to buy one share of Common Stock of the Company at an exercise price of $400, subject to adjustment. The Plan contains detailed provisions regarding under what conditions the Rights will become exercisable and the consideration to be received upon exercise. Until they become exercisable, the Rights will be evidenced by the Common Stock certificates and will be transferred only with such certificates. The Company will generally be entitled to redeem the rights at $.01 per Right at any time until the Board determines a 10% or more stockholder to be an Adverse Person (as defined in the Plan) or the tenth day following public announcement that a 20% equity interest in the Company has been acquired. The Plan will expire on December 21, 1999, unless the Rights are earlier redeemed by the Company.

Note O—*Acquisition*

As of January 1, 1991, the Company's results reflect the full consolidation of Digital-Kienzle Computersysteme GmbH & Co. KG, a German entity in which Digital acquired a 65% interest from Mannesmann AG for $233,261,000. The acquisition has been accounted for as a purchase.

Note P—*Subsequent Event*

Shortly after the close of the fiscal year, the Company reached an agreement in principle with Philips Electronics N.V. of the Netherlands to acquire most of Philips' Information Systems Division, subject to receipt of necessary regulatory approvals and negotiation and execution of final agreements.

Supplementary Financial Information

Quarterly Financial Data *(unaudited)*

Selected quarterly financial data for the years ended June 29, 1991, and June 30, 1990, is set forth below:

(in millions except per share data)	*Total Operating Revenues*	*Gross Profit*	*Income/ (Loss) Before Income Taxes*	*Net Income/ (Loss)*	*Net Income/ (Loss) Per Share*[1]
1991					
First Quarter	**$ 3,093**	**$1,435**	**$ 35**	**$ 26**	**$ .21**
Second Quarter	**3,353**	**1,606**	**156**	**111**	**.92**
Third Quarter	**3,520**	**1,671**	**179**	**117**	**.94**
Fourth Quarter[2]	**3,945**	**1,921**	**(890)**	**(871)**	**(7.08)**
Total Year	**$13,911**	**$6,633**	**$(520)**	**$(617)**	**$(5.08)**
1990					
First Quarter	$ 3,131	$1,519	$ 198	$ 150	$ 1.20
Second Quarter	3,185	1,525	194	155	1.25
Third Quarter[3]	3,262	1,557	25	25	.20
Fourth Quarter[3]	3,365	1,547	(293)	(256)	(2.11)
Total Year	$12,943	$6,148	$ 124	$ 74	$ .59

[1]Earnings per share is computed independently for each of the quarters presented and therefore do not sum to the total for the year.
[2]Includes restructuring charges of $1,100M.
[3]Includes restructuring charges of $150M and $400M for the third quarter and fourth quarter, respectively.

Officers

*Kenneth H. Olsen
President and Director

*Winston R. Hindle, Jr.
Senior Vice President

*John F. Smith
Senior Vice President, Operations

John L. Alexanderson
Vice President, U.S. Sales and Support Training

George A. Chamberlain, 3d
Vice President, Marketing Finance

Henry J. Crouse
Vice President, Strategic Relations

James G. Cudmore
Vice President, Operations Staff

William R. Demmer
Vice President, VAX/VMS Systems and Servers

*Pier Carlo Falotti
Vice President, President and Chief Executive Officer – Europe

Samuel H. Fuller
Vice President, Corporate Research

Rose Ann Giordano
Vice President, U.S. Marketing

Robert M. Glorioso
Vice President

David W. Grainger
Vice President, Corporate Channels

Russell A. Gullotti
Vice President, Digital Services

William C. Hanson
Vice President, Manufacturing Operations

William J. Heffner
Vice President, Image/Voice/Video

*Martin R. Hoffmann
Vice President, General Counsel, Secretary and Clerk

Robert C. Hughes
Vice President, U.S. Sales

Donato A. Infante, Jr.
Vice President, Information Management and Technology

*Ilene B. Jacobs
Vice President and Treasurer

*William R. Johnson, Jr.
Vice President, Corporate Marketing Planning

Domenic J. Lacava
Vice President, UNIX-based Software and Systems

John C. MacKeen
Vice President, International Accounts Marketing

Edward B. McDonough
Vice President, General International Area Manufacturing and Engineering

Albert E. Mullin, Jr.
Vice President, Corporate Relations

*James M. Osterhoff
Vice President, Finance

Robert B. Palmer
Vice President, Manufacturing

*Richard Poulsen
Vice President, President – General International Area

*Bruce J. Ryan
Vice President and Corporate Controller

F. Grant Saviers
Vice President, PC Systems and Peripherals

Godfrey S. Shingles
Vice President, Country Group Manager – U.K., Ireland and Nordic

*John L. Sims
Vice President, Strategic Resources

*Peter J. Smith
Vice President, Application/Industry Marketing

David L. Stone
Vice President, Software Product Group

*William D. Strecker
Vice President, Engineering

Richard H. Yen
Vice President, General International Area Manufacturing and Engineering

*Donald P. Zereski
Vice President, U.S. Area

*"Executive officer" under the Securities Exchange Act of 1934.

Directors

Vernon R. Alden
Director and Trustee of several organizations
Former Chairman, The Boston Company, Inc.

Philip Caldwell
Senior Managing Director of Shearson Lehman Brothers Inc. and Director of several corporations

Colby H. Chandler
Director of several corporations
Retired Chairman of the Board and Chief Executive Officer, Eastman Kodak Company

Arnaud de Vitry
Engineering consultant and Director and Trustee of several organizations

Robert R. Everett
Retired President of The MITRE Corporation

William H. McLean
Engineering consultant and Director of several corporations

Kenneth H. Olsen
President, Digital Equipment Corporation

Thomas L. Phillips
Director of several corporations
Retired Chairman of the Board and Chief Executive Officer, Raytheon Company

Corporate Consulting Engineers

Fernando Colon-Osorio
Corporate Consultant, Information Systems Business Engineering

Richard J. Hollingsworth
Corporate Consultant, Semiconductor and Interconnect Technology

Richard I. Hustvedt
Corporate Consultant, New Software Group

Alan Kotok
Corporate Consultant, Application/Industry Marketing

Butler W. Lampson
Corporate Consultant, Corporate Research and Architecture

Richard Lary
Corporate Consultant, PC Systems and Peripheral Engineering

Anthony G. Lauck
Corporate Consultant, Telecommunications and Networks

Jesse Lipcon
Corporate Consultant, VMS Systems and Servers

Mahendra R. Patel
Corporate Consultant, Technical Director, Telecommunications and Networks

John Shebell
Corporate Consultant, Customer Services Worldwide Headquarters

Robert E. Stewart
Corporate Consultant, UNIX-based Software and Systems

William D. Strecker
Senior Corporate Consultant, Central Group

Robert M. Supnik
Corporate Consultant, VMS Systems and Servers

Charles P. Thacker
Corporate Consultant, Corporate Research and Architecture

Headquarters

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100 Herzberg Road
Kanata, Ontario, Canada K2K 2A6
Telephone: (613) 592-5111
Fax: (613) 591-4375

Investor Information

The Company's common stock is listed and traded on the:

Midwest Stock Exchange
New York Stock Exchange
Pacific Stock Exchange
(Ticker Symbol "DEC")

In Europe: Swiss Stock Exchanges of Zurich, Geneva and Basel; and the German Stock Exchanges of Frankfurt, Munich and Berlin.

Unlisted trading privileges have been granted by the:

Boston Stock Exchange
Cincinnati Stock Exchange
Philadelphia Stock Exchange
In Europe: Luxembourg Stock Exchange

The Company maintains an Investor Relations office to assist stockholders. Investors' inquiries are welcome, by telephone or letter.

Correspondence may be directed to:

Albert E. Mullin, Jr.
Vice President, Corporate Relations
Digital Equipment Corporation
111 Powdermill Road (MSO1-1/N9)
Maynard, MA 01754-1418

Requests for specific information are handled as follows:

Digital Equipment Corporation's Annual Report on Form 10-K for the fiscal year ended June 29, 1991, including schedules thereto, which is filed with the Securities and Exchange Commission, will be sent without charge upon written request. The Company's annual report, filings with the Securities and Exchange Commission, interim reports and additional information about the Company and its products can be obtained by addressing:

Digital Equipment Corporation, Inquiry Section
444 Whitney Street (NRO2/H3)
Northboro, MA 01532-2599
(508) 351-4401

Information about Digital's environmental, health, and safety programs and policies can be obtained by addressing:

Digital Equipment Corporation
Corporate Environmental Health & Safety
111 Powdermill Road (MSO2-3/B16)
Maynard, MA 01754-1418

Financial community information and requests to be placed on the Company's mailing list should be directed to:

Mark A. Steinkrauss
Director, Investor Relations
Digital Equipment Corporation
146 Main Street (MLO3-2/T98)
Maynard, MA 01754-1418
(508) 493-7182; Fax: 508-493-7633

Investor Information *(continued)*

Inquiries of an administrative nature relating to stockholder accounting records, stock transfer, change of address, and employee purchases should be directed to:

Digital Equipment Corporation
Investor Services
111 Powdermill Road (CMS01-1/L12)
Maynard, MA 01754-1418
(508) 493-5213

Transfer Agent and Registrar
for Common Stock

First Chicago Trust Company of New York is the principal stock transfer agent and registrar, and maintains the stockholder accounting records. The agent will respond to questions on change of ownership, lost stock certificates, consolidation of accounts and change of address.

Digital Equipment Corporation is also a stock transfer agent and registrar, and maintains employees stockholder accounting records.

A change of address should be reported promptly by sending a signed and dated note or postcard to First Chicago Trust Company of New York. Stockholders should state the name in which the stock is registered, account number, as well as the old and new addresses.

First Chicago Trust Company of New York
30 West Broadway
New York, NY 10007

Customer Inquiries

Digital Equipment Corporation customers who have questions and/or problems relating to their account should contact Corporate Customer Relations at 800-332-4636.

Eliminating Duplicate Mailings

To maintain more than one account, but eliminate duplicate mailings of annual and quarterly reports to the same address, send the labels (or a copy of the labels) from a company mailing to the Investor Services Department, P.O. Box 490, Maynard, MA 01754, indicating the names you wish to keep on the mailing list for annual and quarterly reports and the names you wish to delete. This will affect only these mailings; proxy materials will continue to be sent to each account.

Consolidating Accounts

To consolidate separate accounts into one account, contact the Investor Services Department, P.O. Box 490, Maynard, MA 01754, to obtain the necessary forms and instructions.

Auditors
Coopers & Lybrand
One Post Office Square
Boston, MA 02109
(617) 574-5000

Legal Counsel
Testa, Hurwitz & Thibeault
53 State Street
Exchange Place
Boston, MA 02109-2809
(617) 248-7000

As part of Digital's corporate commitment to the environment, this annual report was printed totally on recycled paper.

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digital

Digital Equipment Corporation
Maynard, Massachusetts 01754

Digital Equipment Corporation
1992 Annual Report

digital

The Computer and The Changing Marketplace

Contents

Digital Equipment Corporation is the leading worldwide supplier of networked computer systems, software, and services. Digital pioneered and leads the industry in interactive, distributed and multivendor computing. An international company, Digital does more than half its business outside the United States, developing and manufacturing products and providing customer services in the Americas, Europe, Asia, and the Pacific Rim. Digital offers a full range of desktop, client/server, production, and mainframe systems for multivendor computing environments. Applications include transaction processing, data management, telecommunications, finance, realtime data acquisition and control, vector processing, education, publishing, manufacturing, software development, and health care.

Cover Photograph
This street market in Prague reflects the vitality of the free and open markets of Central and Eastern Europe. Digital subsidiaries in Czechoslovakia, Hungary, Poland, Russia, and Ukraine are playing a key role in helping local businesses compete in a global market.

Financial Summary

Fiscal Year	1992	1991
Total operating revenues	**$13,930,872,000**	$13,911,004,000
Restructuring charges	**$ 1,500,000,000**	$ 1,100,000,000
Net (loss)	**$ (2,795,507,000)**	$ (617,427,000)
Net (loss) per share	**$(22.39)**	$(5.08)
Total stockholders' equity	**$ 4,930,934,000**	$ 7,623,839,000
Number of stockholders	**99,644**	98,023
Stockholders' equity per share	**$38.58**	$61.18
Number of employees	**113,800**	121,000

Annual Meeting

The Annual Meeting of Stockholders will be held at 11:00 a.m. Thursday, November 5, 1992, at the World Trade Center, Commonwealth Pier, 264 Northern Avenue, Boston, Massachusetts 02210. Stockholders of record on September 8, 1992, will be entitled to vate at this meeting.

Digital Equipment Corporation

Annual Report for the year ended
June 27, 1992

The Open Market

The marketplace is changing. Every business faces new technologies, new competitors, and shifting markets. Digital is working with its customers to respond to these changes. We see change as opportunity.

To Our Stockholders,
Employees, and Customers:

Digital had a very large net loss for the year. In addition to an $800 million loss from operations, we had to take a $500 million charge to implement the new accounting standard for postretirement benefits and we took a $1.5 billion restructuring charge to cover the cost of employee separations, facility consolidations, and related costs.

However, we had positive cash flow from operations and we have a strong balance sheet.

Where we have made specific investments in target markets, applications, and services we have been successful. However, in the past, we have shown a tendency to concentrate on technology and to follow too many technological paths. We are changing that. Customer needs are now determining our products. By limiting technological paths, we will cut our engineering and manufacturing costs. At the same time, by eliminating complexity in our sales system, we will reduce selling costs.

We are committed to implementing a flexible manufacturing strategy. Our goal is to produce a complete range of systems — from desktop computers to mainframes — in a single plant. As we make products that are easier to build, sell, configure, and bid, we will reduce our selling costs. And we will be doing more to satisfy customer demands for a new style of computing.

Today, desktop computers have the speed and storage to do large corporate computing applications. Most of these applications are critical, and security is of the utmost importance. However, security and desktop computing are inconsistent with each other. You can't have a secure computing environment with cables on the floor, keyboards on the desk, floppy disks tucked away in drawers, and people in and out of the environment. Critical applications have to be run on computers that are in a locked, secure, safe environment. We demonstrated how we could do this at DECWORLD this past May. We showed our customers how they could secure large numbers of computers and a large amount of storage in a computer room or in a single locked cabinet. We showed them how modular computing lets them add processors and storage devices to both computer room and office environments as they are needed.

Developing these systems and the flexible manufacturing facilities needed to build them is an expensive and continuing process. It results in large write-offs for earlier technology and staff cuts. But, at the same time, it opens exciting new markets.

We are also continuing to invest heavily in services, software, and semiconductor technology. In services, systems integration continues to be one of our growing markets. Among the highlights of the year was winning a long-term contract valued at one billion Australian dollars to provide information technology and services to Optus Communications, Australia's second national telecommunications network.

Another highlight was the introduction of Digital's Alpha architecture and the Alpha microprocessor — the fastest 64-bit microprocessor available in the world today. This same advanced semiconductor technology enabled us to introduce a new generation of VAX computers based on our new NVAX chip. These new computers match RISC systems in both price and performance while maintaining the security and reliability for which VAX is known.

We introduced OpenVMS which is compliant with all the standards used by customers to define open systems. This means that customers no longer have to choose between an "open system" and the reliability and functionality of a VAX.

We also designed, manufactured, and introduced a family of personal computers that made us — according to industry analysts — the fastest growing personal computer company in the industry.

In July, I announced my plans to retire on October 1, 1992 and started turning over the management of the company to the President-Elect, Bob Palmer. Bob is committed to continue the initiatives I've outlined and the programs Digital has in place to reduce costs, increase quality, and open new markets with the goal of returning the company to profitability. I am sure he will do a job that will make us all proud.

Kenneth H. Olsen
President
September 1, 1992

Delivering the Open Advantage In a Changing Market

Digital succeeds when its customers succeed. And you can't help customers succeed unless you have a real understanding of their needs and the changes that are occurring in their markets. You have to be willing to take ownership of programs that are going to meet those needs and address those changes.

> *"Whether we're providing a single application or taking total responsibility for a multi-million dollar systems integration program, we're committed to making everything work to customer specifications."*
>
> Russell A. Gullotti, Vice President,
> Digital Services,
> Digital Equipment Corporation

"Taking ownership" is really another name for systems integration. It is taking full responsibility for seeing that everything works the way it is supposed to. "Everything" means the application as well as the hardware it runs on. It means that the application works when it is installed and keeps working year-in and year-out. It means training and supporting the people who use the system. It may involve building a new network or tying into an existing network. In many cases, it means integrating new applications with existing applications; integrating new equipment with existing equipment that may have been built by many different manufacturers. It means protecting the customer's current and future computer investments by providing an open environment where everything works together.

Digital will do all this and more.

We will do whatever it takes to plan, design, implement, manage, and maintain the systems our customers need for their success. Those systems can be anything from a local area PC network for a five-person office to a system for automating an entire factory or a network linking all the generating stations on a national power grid.

Of course, many customers don't need the complete range of services Digital offers, but the availability of these services and the core competencies and technologies on which they are based are critical to every Digital customer.

To the customer, a computer is only the means to an end, a way to solve a business problem. And to solve a problem you have to understand it.

Digital has that understanding. We gained it by working closely with customers who are acknowledged leaders in their industries — companies like DuPont, Northeast Utilities, British Telecom, Boeing, BMW, Bankers Trust, and Aetna Insurance.

It is an understanding shared by Digital engineering and manufacturing managers because both work with the customer.

"Customers like DHL know the importance of service. It's delivering what you promise, when you promise it. It's being there wherever you do business."

Peter J. Smith
Vice President, Sales, Marketing & Corporate
Business Units — Europe, Digital Equipment Corporation

Kiwi Dairies in Hawera, New Zealand, and CNN, in Atlanta, Georgia, are just two of the companies featured in this annual report to show how Digital is focusing its resources on industry marketing.

With the announcement of Digital's new Alpha microprocessor, it is easy to think of Engineering in terms of semiconductor technology. But, the major emphasis is on streamlining our product set to support customers interested in downsizing their computer operations by eliminating duplication and reducing costs. There is a major emphasis on bringing applications down to smaller systems and in developing new solutions that address major customer needs.

When you develop software, you have to understand who is going to use it and what it is supposed to do. This understanding is not something you get from reading a marketing report. You have to work on the shop floor to understand manufacturing, you have to clerk at the check-out counter to understand retailing, and you have to visit a trading room to understand how a money-center bank works. Even the chip designer working with Digital's Alpha architecture needs to understand how advanced technology can be used to create better solutions for the customer.

"Marketing is the art of listening to the customer. You have to understand the problem in customer terms before you can propose the solution."

William R. Johnson, Jr., Vice President,
Corporate Marketing,
Digital Equipment Corporation

At Digital, Marketing is organized into business units by industry, by product, and by service. There's a separate business unit for each of the major industries we serve and we've recruited senior people from those industries to staff these business units. We've given each industry marketing vice president the lead responsibility to build alliances with software developers, hardware manufacturers, and industry consultants so that, together, we can offer complete, integrated solutions to all kinds of customer problems.

In this annual report, you will meet some of these industry marketing managers. These Digital vice presidents, and the people who work with them, are responsible for adding value to base products and services to meet the specialized requirements of each industry. The needs of a public utility are very different from those of a college or university. Health care is very different from manufacturing automobiles.

Each industry has its own language, its own business practices, and its own needs.

That's why we have organized sales, marketing, and application development from the customer up. We've created a new management system that pushes responsibility down to the team that services each account. They make the decisions. They are empowered to act on the customer's behalf.

They see to it that customers have the service and support they need. This may involve a training program for customer personnel, either on-site or at Digital facilities. It may involve the installation, maintenance, and sometimes even the operation of systems and applications. Each account team is expected to provide whatever services and support are needed to plan, design, implement, manage, and maintain the information their customer's business depends on for both its day-to-day operations and for new initiatives designed to give a competitive advantage.

"Before you can develop software, you have to know who is going to use it, how it is going to be used, and what it is supposed to do. The only way a software engineer can get that knowledge is by talking to, and working with, the customer."

David L. Stone, Vice President,
Software Engineering,
Digital Equipment Corporation

In this annual report, we highlight companies in eight key industries who have chosen Digital as their business partner. We discuss some of the specific solutions we have developed to address the business needs of companies in each of those industries and show how we work with our customers to integrate their computer resources into an open computing environment.

This industry focus reflects a strategy that Ken Olsen developed, a strategy that Bob Palmer is committed to carry on, a strategy designed to help Digital return to profitability.

Banking

Currency Trading, Branch Automation, and Digital's Competence in Transaction Processing

Funds Transfer

Branch Office Automation

Custodian and Trust Accounting

Automatic Teller Systems

DDA Accounting

Loan Processing and Administration

In Prague, you can see the emergence of an open market and free enterprise.

Prague is alive with street vendors, art galleries, sidewalk cafes, and the bustle of air freight delivery companies serving the city's growing export/import business. Banks are helping make it all happen.

A branch of Investicni Banka, Czechoslovakia's principal trade and investment bank, is located in the heart of old Prague on Namesti Republiky (Republic Square). Although, presently, Investicni Banka is only a fraction of the size of money-center banks like Chase, Barclays, and Fuji, it is being called upon to play a key role in building a market economy, trading currency, and financing imports and exports for growing businesses.

> *"A strong economy is built on small- and medium-sized enterprises. Digital's emphasis on this market is one of the reasons we have been welcomed in Central and Eastern Europe."*
>
> Jack Schweizer, General Manager, Digital Equipment Czechoslovakia

To fund its investment activities, Investicni is expanding its retail banking business, aggressively applying technology to network its branches so that it can offer new services and attract new customers. To do this, the bank had to have the same business systems and data processing capabilities as banks in London, New York, and Tokyo. Not surprisingly, Investicni Banka turned to the company that provided the computer systems which support sixty percent of all interbank trades worldwide.

Like many financial institutions in Central and Eastern Europe, Investicni Banka wanted to work with a computer company willing to establish a local presence. Digital has established subsidiaries in Czechoslovakia, Poland, Hungary, Russia, and Ukraine to help local businesses plan and implement the systems they need to compete in a newly-freed economy.

> *"There's a big difference between buying computers and finding a computer company that can provide the turnkey solutions and consulting services we need to build a market economy. In Digital, we found a partner in change management."*
>
> Aladar Blaas, Deputy General Manager, Investicni Banka Praha, a.s.

Currency trading, branch office automation, automatic teller networks, and other transaction processing applications require specialized software and high-availability or fault-tolerant hardware to ensure the integrity of every transaction.

Digital's approach to transaction processing is unique in that the same systems used for transaction processing will also run financial and office applications. This is important to small- and medium-sized banking institutions which cannot afford to dedicate equipment to one particular application. The same system that handles currency trading will also run LOTUS 1-2-3 spreadsheets, Digital's ALL-IN-1 office software, and other popular applications.

Just-In-Time Inventory Management

Manufacturing Resource Planning

Production Management and Scheduling

Statistical Process Quality Control

Shop Floor Control

Equipment Tracking and Asset Utilization

Quality Control and Digital's Network of Alliances

"For Motorola, Digital is a strategic partner, a key supplier, and an exacting customer. We have a lot of respect for Digital because they know semiconductor technology."

Jim Norling, President of Motorola's Semiconductor Products Sector, knows Digital. Motorola and Digital participate together in Sematech, MCC, and other semiconductor industry research consortia. Motorola uses steppers, furnaces, and ion-deposition systems that incorporate Digital controllers. And many Digital systems include Motorola chips.

Both companies have a passion for quality. Jim Norling spoke for Digital as well as Motorola when he said, "While this industry is driven by performance, quality is the key to success. It is one thing to design a faster chip, quite another to build it in quantity and maintain strict quality controls — what we call Six Sigma quality."

A passion for quality is one reason Motorola asked Digital to provide the production and quality control systems for its new Austin, Texas MOS-11 facility, the world's first eight-inch commercial wafer fab. Motorola was looking for a complete solution. That meant choosing a computer vendor who understood its business and had strong working relationships with software developers and semiconductor equipment manufacturers.

According to Bill Walker, MOS-11's director, "Digital did the job. They helped us implement an effective statistical process control program that accurately tracks and monitors small lots so we can run a mix of products on the same fab line. Major steps in the manufacturing process are monitored and alarmed, providing notification of any potential problem.

"Our equipment tracking program (S.E.P.T.) also provides feedback to enable us to fine-tune existing processes and improve yields through the optimization of highly technical capital equipment," Bill Walker continued. "Digital's CIM (Computer Integrated Manufacturing) system is a key reason MOS-11 is hailed as one of the world's finest fabs."

As a company that designs and builds semiconductors and as a manufacturer of computer systems built around microprocessors, Digital understands the importance of total quality management. Whether you're talking about personal computers, workstations, or Digital's advanced 64-bit Alpha architecture, the performance and reliability of the microprocessor largely determines the performance of the system you're building. And system performance and reliability are critical to Digital.

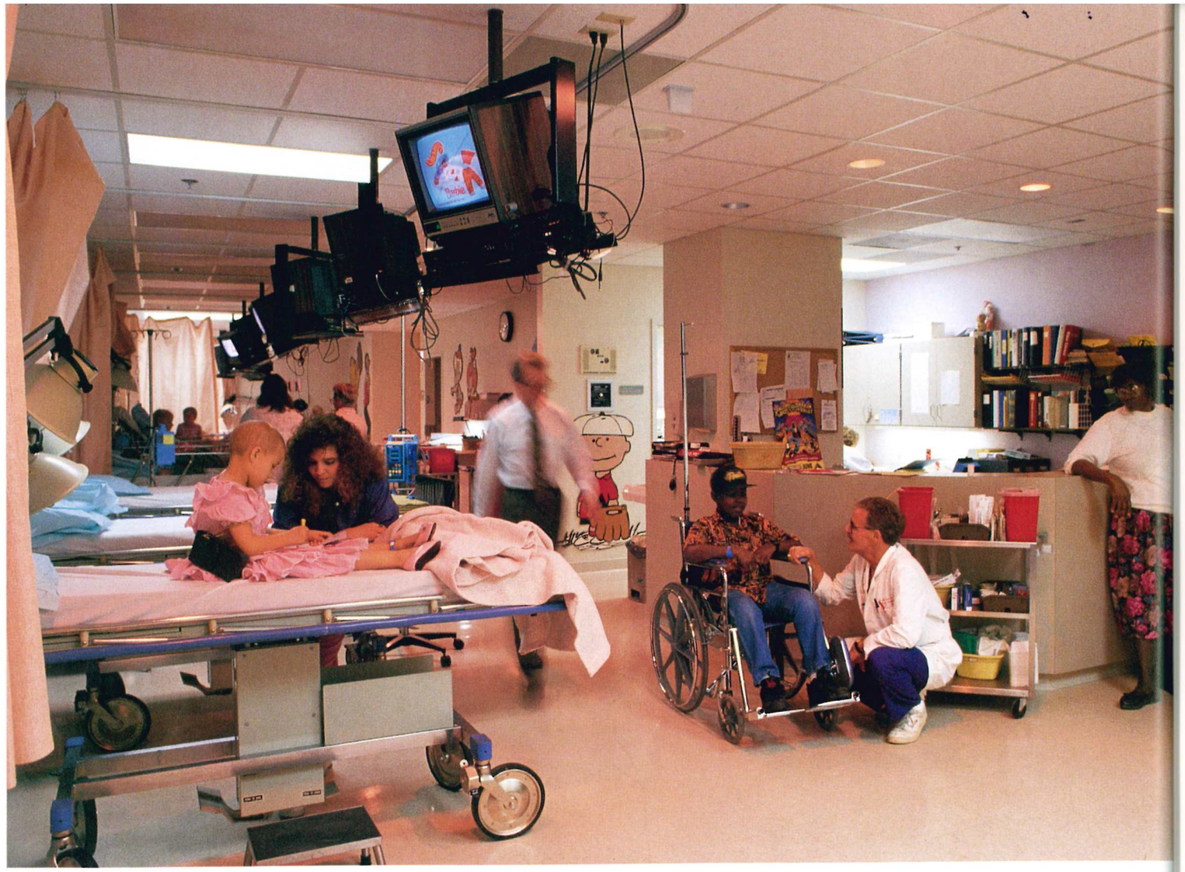
"No single company can do it all. If you are going to provide your customers with advanced systems, you have to build strategic alliances and share technology."

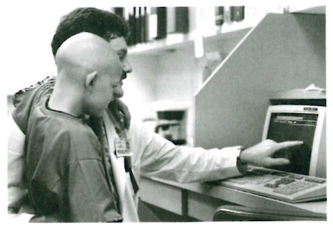
Robert E. Caldwell, Vice President,
Semiconductor Operations,
Digital Equipment Corporation

"In this business, increasing yields by a few percent can be the difference between making money and losing it."

Jim Norling, President,
Motorola Semiconductor Products Sector

Teamwork helped Motorola win the coveted Baldrige Award for total quality management.





"Here at St. Jude, cancer research has a human face. I don't see our patients as statistics, but as normal children who are coping with abnormal illnesses. Our responsibility is to return them to normal life."

Dr. Craig Hurwitz,
Hematology-Oncology,
St. Jude Children's Research Hospital

Cost Containment and Digital's Competence in Data Management

Integrated Hospital Information Systems

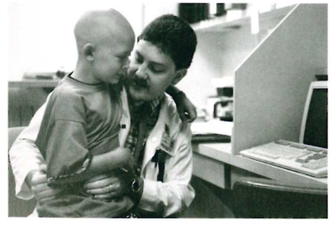
Managed Care Information Systems

Departmental Solutions

Electronic Medical Record

Telemedicine

Clinical Information Systems



At St. Jude, research and patient care go hand-in-hand.

C. Everett Koop, former Surgeon General (chief public health officer) of the United States was one of the distinguished speakers at DECWORLD '92. Dr. Koop addressed the issue of cost containment. "Morally, we cannot permit needless suffering. Economically, we cannot afford it; we can no longer spend more than half our health care budget on illnesses that might have been prevented."

Cancer is an example. According to Dr. Allan Granoff, Deputy Director of St. Jude Children's Research Hospital in Memphis, Tennessee, it's been suggested that many cancers could be prevented by eliminating carcinogens from the environment. "We're learning what causes cancer, how to detect it in its early stages, and how to treat it. In fact, today, most cancers offer an expectation for cure and in some cases that chance is eighty percent."

Research is key. But medical and pharmaceutical research — like routine patient care — creates reams of paperwork. Handling this paper requires specialized data management tools. Digital, working with strategic partners like Shared Medical Systems and Cerner Corporation, provides the integrated hospital information systems, electronic medical systems, and telemedicine systems that health care professionals need to organize, access, and share information.

While the St. Jude Children's Research Hospital is hardly a typical health care facility, it does provide a powerful demonstration of how computers can help medical researchers and health care professionals manage information.

"At St. Jude, computer systems have been instrumental in breaking down the interdepartmental and inter-organizational barriers that used to separate clinicians from Pharmacy, Radiology, Molecular Biology, and Clinical Research."

Dr. William Evans, Chairman,
Pharmacokinetics,
St. Jude Children's Research Hospital

Primarily supported by public donations, St. Jude Hospital is dedicated to fighting cancer in children. It is a battle that is slowly being won. But there is no quick cure. According to St. Jude Physician-in-Chief Dr. Elizabeth Thompson, "Most of our patients don't stay in the hospital for long periods of time; we try to get them back home with their families and in many cases we work with the family doctor and the local hospital to monitor the child's progress. Typically, by the time a cancer is in remission, we'll have collected enough data to fill several hundred typewritten pages. This information is invaluable. Of course, there was a time when we didn't have the tools to organize and analyze massive amounts of data. Computerization has changed that."

"The accessibility of information for health care institutions greatly improves the quality of care. Data Management tools such as integrated voice, image, and text, assist health care providers in making life and death decisions."

Willow Shire, Vice President, Health Care Marketing, Digital Equipment Corporation

Changing Tastes and Digital's Competence in Manufacturing and Distribution

CPG Supply Chain Management
Integrated Dairy Manufacturing System
Beverage Route Accounting
Trade Promotion Management
Distributed Plant Accounting
Retail Scanner Data Analysis
Consumer Goods Warehouse Management

At Kiwi Dairies a quart of raw milk can be turned into any one of a hundred different products.

In a business where most operations are relatively small and physically close to the markets they serve, Kiwi Dairies is unique. Located in Hawera, New Zealand, it is approximately 10,000 miles away from the east coast of the United States where much of its production is sold. It is also unique in terms of its sheer size. Kiwi is the world's largest dairy operation located on a single site, processing up to six million liters (13 million pounds) of milk a day.

"We may be located in Hawera, New Zealand, but we're close to our markets in Europe, Southeast Asia, and the U.S. We know we have to be able to change our product mix as the market changes."

Howard Moore, Commercial Manager,
Kiwi Co-Operative Dairies Ltd.

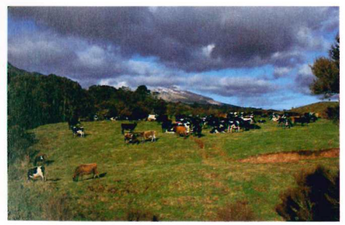
In the food business, flexibility is a competitive advantage. It lets Kiwi change its product mix to maximize profits and to keep pace with market change and fluctuations in the supply of milk. (During winter "Down Under," May 20 to July 20, the cows are dried off. Then the volume of milk builds to a peak in early November.) But flexibility requires a highly automated operation that integrates manufacturing, quality assurance, warehousing, and distribution.

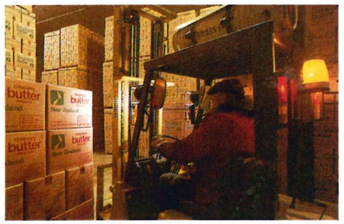
According to Kiwi's Commercial Manager, Howard Moore, Digital's first-hand knowledge of manufacturing and distribution systems made a big difference. "Digital didn't sell us equipment, they took the time to learn our needs and then they gave us a solution. They helped us plan, design, and install the systems we needed. They worked with our software supplier to make sure everything worked the way it was supposed to. They provided us with training and support. They learned the dairy business."

Digital also learned the cereal, the soap, and the meat packaging businesses. Digital is working with accounts like Lever, Birds Eye Walls, Heinz, Coors, Scottish and Newcastle, and Gervais Danone to integrate sales, distribution, and manufacturing so food and beverage companies can respond to the marketplace.

"In the food and beverage business, sales and distribution systems have to be linked to production, so you can respond to a market that is constantly changing."

Eli Lipcon, Vice President,
Sales and Distribution Systems Marketing,
Digital Equipment Corporation





At Kiwi Dairies, production, processing, and distribution are closely integrated in response to a changing marketplace.

Public and Private Network Management

Customer Care and Billing

Plant Information Systems

Cellular Billing and Trouble Shooting

Intelligent Networks

Voice Mail Systems

Today when you pick up the phone you can choose the carrier you want to use to reach family, friends, and business associates around the world.

Deregulation, Denationalization, and Digital's Competence in Application Development

In the past ten years, almost every nation has either deregulated or denationalized telecommunications. The industry will never be the same. Competition has become a way of life.

Established carriers are expanding beyond national borders and competing with each other and with start-up companies by offering value-added telecommunications services for both business and residential subscribers.

As Adolph Ogi, the cabinet minister in charge of Switzerland's telephone and postal service stated in a speech at Telecom '91, "It's a very exciting time. Telecommunication services provide an infrastructure for economic growth. We simply can't afford to be less competitive than other countries."

As the telephone industry becomes more and more competitive, many telephone companies are finding that business systems and practices that worked so well in the old days, stand in the way of introducing new products and services. More than one carrier has had to delay the introduction of a new service simply because they needed additional time to update their centralized computer systems.

According to Karl Wuhrmann, Managing Director, Swiss PTT-Telecom, "We're no longer just a telephone company. It's only a matter of time before we will be carrying more data transmissions than voice transmissions on international links. And we're becoming more and more dependent on cellular telephone service and other value-added services for incremental revenue."

Digital is working closely with many large telecommunications carriers to implement these new services. With Deutsche Telekom, Pacific Bell, British Telecom, Mercury, and MCI; and with small operating companies in the Channel Islands, Cyprus, and Fiji.

We're working with operating companies and equipment manufacturers to implement X.25, X.400, GSM, and ISDN networks. We also integrate telephony and computers to support telemarketing, customer information, and voice response systems, and to provide network-management control centers.

> *"In a competitive market you don't have the luxury of time. If you don't provide new value-added services your competition is sure to."*
>
> Felix Rosenberg, Director General, CEO, Swiss PTT-Telecom

Many of these systems include PBXs from Northern Telecom and Siemens, PCs from IBM, workstations from Sun, and UNIX systems from dozens of different manufacturers. Multivendor integration is a software problem. As the networking leader, we developed the Network Application Support (NAS) software needed to integrate systems built by different manufacturers so they can share software and interoperate across the same network.

Deadlines, Datelines, and Digital's Presence in 97 Countries

Print and Broadcast News Production

Space and Time Sales/Traffic/Billing

Subscriber Management

Signal Scrambling/Descrambling

Demand Printing Systems

Database Publishing

Royalty Tracking

Online Information Services

Television put you on the front line in Iraq. It gave you a chance to watch Alberto Tomba barrel down the mountain to win "The Gold" at Albertville. It let you follow Kinnock and Major along a campaign trail that led from John o' Groats to Land's End.

Bringing the news into your living room is a complex business.

CNN, the Cable News Network of Turner Broadcasting Corporation, reaches 64 percent of all homes in the U.S. It was CNN's Peter Arnett who reported live from Baghdad to give the world a first-hand picture of the Gulf War.

Digital and its partners provide the network behind the network. General Instrument provides scrambling/descrambling software; Jefferson Pilot Data Services, the software to manage, track and bill spot sales; and BASYS, a Digital subsidiary, the newsroom systems to create, produce, schedule, store, retrieve, and air stories as they break.

The media business is different. It is an industry where the competition for viewers, listeners, readers, subscribers, and advertisers is fierce. There's nothing easier than hopping from one television channel to the next. Nothing simpler than picking up *The Guardian* rather than *The Times* on the way to work in the morning.

It is a business where rating points and readership studies can be translated into dollars. It is a business where deadlines have to be met. You can't publish Monday's paper on Tuesday, or broadcast the morning news at 6 p.m. Digital understands deadlines. And in a business where there are no yesterdays and no tomorrows, Digital's strength in building high-availability and fault-tolerant systems and networks is a real competitive advantage.

"In the news business there's nothing like being right on the spot. Digital's presence in over 90 countries is one reason we were chosen to supply networked computers to CNN, Reuters, the BBC, Dow-Jones, and other news services."

Robert J. Farquhar, Vice President,
Media Industry Marketing,
Digital Equipment Corporation

Digital accounts include advertising agencies like Ketchum Communications, Inc.; newspapers like *The Wall Street Journal* and *Le Figaro;* networks like CNN, NBC, ABC, and the BBC; wire services like Reuters and AP; magazine publishers like Time, Inc.; and book publishers like Simon and Schuster, and MacMillan. While different segments of the industry have different needs, they're all competing for the consumer's attention and the advertiser's dollar.

"Breaking the news 24 hours a day is CNN's business. We simply can't afford to have our computers down, limiting our ability to report what's happening, as it happens."

V. R. "Bob" Furnad, CNN Executive Vice President, Senior Executive Producer

Atlanta, Georgia —
At CNN studios and newsrooms, Digital systems help create, produce, and air the news as it breaks.

"The time to think about service is before you buy equipment or start to build your network — better yet, before you design your buildings. And, if possible, you want to make the people who build your network responsible for maintaining it. That way, everyone involved will be clearly accountable to your institution."

Professor Chia-Wei Woo, President,
Hong Kong University of Science and Technology

Education

Campus-wide Desktop Integration

Open Multi-campus Networks

Campus-wide Information Systems

School District Information Management

Library, Instructional, and Administrative Solutions

Research Computing Solutions

Digital is helping the Hong Kong University of Science and Technology build a campus-wide network to support teaching, research, and administration.

Learning from Experience, Digital's Competence in Customer Service

There are college and university computer networks that would put many large corporations to shame. The network at MIT supports 10,500 users. The TAFE (New South Wales Technical and Further Education) network in Australia supports 450,000 students at 111 colleges. And the network at Tilburg University in The Netherlands is using Digital network management software to support systems and applications from scores of different manufacturers.

Service is the key component in campus computing. That's why the Hong Kong University of Science and Technology (HKUST) came to Digital when it wanted to build a fiber-optic local area network that, in its initial phase, will support 1,500 personal computers and workstations.

According to President Chia-Wei Woo, "There is no substitute for experience. Digital, for example, understands what's involved in campus computing. It's not enough for a campus network to work, it has to keep working even when you're constantly adding new equipment, educating new users, and finding new ways to use computers as research tools."

Servicing multivendor and multinational computing environments is nothing new to Digital. We support more than 10,000 hardware and software products from more than 1,000 different manufacturers. We have accounts where the customer has little or no Digital equipment; and accounts where Digital does the whole job, literally running the customer's data processing facilities and networks.

"Service today means doing whatever it takes to make your customers successful. It means total support for virtually any product, any application, and any platform — from desktop to data center. It means listening to your customers, understanding their business challenges, and pledging to them your commitment for their success."

John Rando, Vice President,
Digital Product Services,
Digital Equipment Corporation

When we talk about multivendor service and multivendor integration, we're not talking about servicing some products, in some locations, some of the time. We're talking about taking total responsibility for all, or any part, of the customers' data processing operations. We can help them plan, design, implement, maintain, and manage the applications and systems on which they depend.

We've learned a lot about dependability working with colleges and universities like the HKUST, Stanford, Carnegie-Mellon, Edinburgh, and Salamanca. We know the importance of research and advanced technology as well as preventive maintenance, training, and having spare parts where and when they're needed.

Today, services account for more than 40 percent of Digital's revenue. Systems integration is one of the fastest growing segments of our service business, growing at a rate of 25-30 percent a year. It accounts for $2 billion in Digital revenues.

Store Systems

Merchandise Management Systems

Point of Sale Systems

Headquarters and Distribution Center Systems

Merchandising and Digital's Ability To Do The Whole Job

Although Malmesbury is the oldest borough in England with an abbey that dates back to 676 A.D., this market town is very much a part of the present as anyone who visits the W H Smith shop on High Street will discover.

It's not just that the W H Smith shop in Malmesbury has today's newspapers, this week's magazines, and the current best-selling books. It's that a unique computer network helps the 950 W H Smith Retail, Waterstone's, Our Price Music, and Our Price Video shops in the U.K., and over 300 hotel and airport shops and nearly 200 music stores in the U.S. stock the papers and books people are reading and the music they are listening to.

W H Smith is in the retail and distribution business, a business where yesterday's newspaper is only good for wrapping fish and last month's "sure" best seller is already on the remainder table.

They didn't want to go into the computer business; didn't want the expense of planning, designing, building, managing, and maintaining the network they needed to control inventories and run their growing business. Like Eastman Kodak and The Bank of International Settlements, W H Smith decided to outsource its network operations to Digital.

Under a five-year, 14-million-pound (US$28 million) contract, Digital gave W H Smith a ready-made network, piggy-backed or layered on Digital's 77,000 node corporate network. This frees W H Smith from all the concerns and costs that go with managing a network. They don't have to deal with telecommunications companies, hassle with communications protocols, or worry about tariffs. And the bottom line — W H Smith expects to save about three million pounds (US$6 million).

Digital's networking strength is one reason why — according to industry analysts — we have become one of the top three systems integrators in the world. Customers are turning to Digital to plan, design, implement, maintain, and manage their computer resources. They're outsourcing their computer and network operations, turning to Digital for turnkey applications, for automating entire manufacturing plants, and for integrating existing systems so they can share applications and data.

> *"W H Smith spoke for many firms in retailing and distribution when they told us that networking and systems integration were the two key criteria in choosing a computer vendor."*
>
> Abbott Weiss, Vice President,
> Retail and Distribution Industry Marketing,
> Digital Equipment Corporation

This does not mean that we do it all by ourselves. We partner with other systems integrators. Sometimes we're the prime contractor, sometimes we provide technical support to an Anderson Consulting or an Electronic Data Systems. While networking is critical to large chains like W H Smith, Digital systems are also used by thousands of small- and medium-sized retailers like Friendly's restaurants in Massachusetts and Fortunoff jewelers in New York.

A Digital computer network helps W H Smith monitor and control inventories in its W H Smith Retail, Waterstone's, Our Price Music, and Our Price Video shops.

"We don't want to be aware that the network is there. We just want computers in different sites to work together as if they were a single system sitting in the same room."

Martin Cutler, Group IS Director,
W H Smith

Digital and Its People

Because computers play an important role in providing better health care services, protecting the environment, and improving social and public services, Digital and Digital people are able to make significant contributions to a wide range of community, civic, and educational programs.

Some of these programs affect the whole world, others deal with individuals. For example, when the UN sponsored Earth Summit '92 to address global warming and other environmental issues, the 20,000 delegates, officials, and journalists used Digital computers and a Digital computer network to access, exchange, process, manage, and report information. On the local level, Digital is working with the Pine Street Inn and other social service organizations that provide food, shelter, and support services to the homeless and the needy.

"We rely on support from the community. Digital's contribution stands out. Digital donates money to The Inn, but they go far beyond that. The computer system they gave The Inn helps us provide health care and the support the homeless need to make a transition out of the shelter. And, a number of Digital people volunteer their time to The Inn. They're a tremendous group."

Ralph Hughes, Acting Executive Director,
The Pine Street Inn, Boston

Another area of particular concern to the company and its employees and their families is education. Anyone working in the computer industry recognizes the need to improve educational standards and

Making A Contribution To The Community

to provide educational opportunities to all of our children.

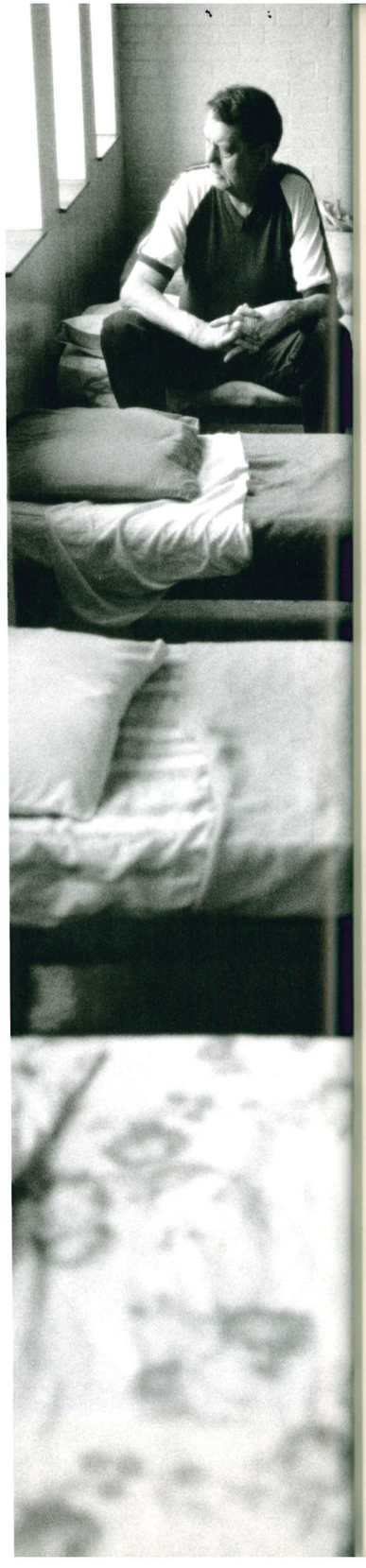
Digital supports a number of innovative programs in our inner cities designed to keep children in school. More is involved in these programs than financial and equipment grants. Digital employees go into the schools and work, one-on-one, with individual students who, without support and encouragement, might drop out of school.

"We're heavily involved with urban issues. We support housing, health, and educational initiatives that make a difference for individuals and families living in our inner cities."

Nancy Dube, Manager,
Corporate Community Relations,
Digital Equipment Corporation

Education is also an important component in fighting AIDS. Digital is the only company in the United States to maintain a full-time HIV/AIDS Program Office to educate its employees.

Our contributions to the community are leveraged because Digital is able to provide both technical and financial support to educational, health care, civic, social, and cultural programs at the national, regional, and local level. By supporting programs to provide shelter for the homeless, to revitalize our neighborhoods, to protect the environment, and to support families at risk, Digital is keeping its commitment to use its resources and its technology responsibly — to work with other corporations and community groups for the common good.



Financial Statements

Notes to Consolidated Financial Statements

Supplementary Information

(in millions except per share data)	**1992**	1991	1990	1989	1988	1987	1986	1985	1984	1983	1982
Revenues											
Product sales	**$ 7,696**	$ 8,299	$ 8,146	$ 8,190	$ 7,541	$ 6,254	$ 5,103	$ 4,530	$ 3,804	$ 2,828	$ 2,739
Service and other revenues	**6,235**	5,612	4,797	4,552	3,934	3,135	2,487	2,156	1,780	1,444	1,142
Total operating revenues	**13,931**	13,911	12,943	12,742	11,475	9,389	7,590	6,686	5,584	4,272	3,881
Costs and Expenses											
Cost of product sales, service and other revenues	**8,132**	7,278	6,795	6,242	5,468	4,514	4,282	4,087	3,379	2,606	2,188
Research and engineering expenses	**1,754**	1,649	1,614	1,525	1,306	1,010	814	717	631	472	350
Selling, general and administrative expenses[1]	**6,181**	5,572	4,521	3,639	3,066	2,253	1,665	1,432	1,179	831	758
Operating income/(loss)	**(2,136)**	(588)	13	1,336	1,635	1,612	829	450	395	363	585
Interest income	**96**	113	142	124	144	122	116	63	41	61	103
Interest expense	**38**	45	31	39	38	45	88	82	35	13	15
Income/(loss) before income taxes and cumulative effect of change in accounting principle	**(2,078)**	(520)	124	1,421	1,741	1,689	857	431	401	411	673
Provision for income taxes	**232**	97	50	348	435	552	240	(16)[4]	72	127	256
Income/(loss) before cumulative effect of change in accounting principle	**(2,310)**	(617)	74	1,073	1,306	1,137	617	447	329	284	417
Cumulative effect of change in accounting principle, net of tax	**486**	–	–	–	–	–	–	–	–	–	–
Net income/(loss)	**$ (2,796)**	$ (617)	$ 74	$ 1,073	$ 1,306	$ 1,137	$ 617	$ 447	$ 329	$ 284	$ 417
Income/(loss) before cumulative effect of change in accounting principle per share [2,3]	**$ (18.50)**	$ (5.08)	$ .59	$ 8.45	$ 9.90	$ 8.53	$ 4.81	$ 3.71	$ 2.87	$ 2.50	$ 3.76
Cumulative effect of change in accounting principle per share [2]	**(3.89)**	–	–	–	–	–	–	–	–	–	–
Net income/(loss) per share [2,3]	**$ (22.39)**	$ (5.08)	$ .59	$ 8.45	$ 9.90	$ 8.53	$ 4.81	$ 3.71	$ 2.87	$ 2.50	$ 3.76
Weighted average shares outstanding	**125**	122	125	127	132	133	131	124	115	113	111
Financial position *(in millions except per share data)*											
Inventories	**$ 1,614**	$ 1,595	$ 1,538	$ 1,638	$ 1,575	$ 1,453	$ 1,200	$ 1,756	$ 1,852	$ 1,354	$ 1,137
Accounts receivable, net of allowance	**$ 3,594**	$ 3,317	$ 3,207	$ 2,965	$ 2,592	$ 2,312	$ 1,903	$ 1,539	$ 1,527	$ 1,125	$ 808
Property, plant and equipment, at cost	**$ 7,673**	$ 7,429	$ 7,027	$ 6,249	$ 5,210	$ 3,859	$ 3,263	$ 2,828	$ 2,352	$ 1,961	$ 1,605
Total assets	**$ 11,284**	$ 11,875	$ 11,655	$ 10,668	$ 10,112	$ 8,407	$ 7,173	$ 6,369	$ 5,593	$ 4,541	$ 4,024
Long-term debt	**$ 42**	$ 150	$ 150	$ 136	$ 124	$ 269	$ 333	$ 837	$ 441	$ 93	$ 92
Stockholders' equity	**$ 4,931**	$ 7,624	$ 8,182	$ 8,036	$ 7,510	$ 6,294	$ 5,728	$ 4,555	$ 3,979	$ 3,541	$ 3,165
Stockholders' equity per share [3]	**$ 38.58**	$ 61.18	$ 66.76	$ 66.12	$ 59.47	$ 49.87	$ 44.54	$ 38.43	$ 34.42	$ 31.42	$ 28.65
General Information and Ratios *(dollars in millions except stock prices)*											
Current ratio	**1.4:1**	2.0:1	2.3:1	2.9:1	2.9:1	3.4:1	4.9:1	4.9:1	3.8:1	3.9:1	4.1:1
Quick ratio	**1.0:1**	1.4:1	1.6:1	1.9:1	2.0:1	2.4:1	3.5:1	2.8:1	1.9:1	2.0:1	2.3:1
Working capital	**$ 2,015**	$ 3,777	$ 4,332	$ 4,501	$ 4,516	$ 4,377	$ 4,223	$ 3,694	$ 3,001	$ 2,377	$ 2,181
Investments in property, plant and equipment	**$ 710**	$ 738	$ 1,028	$ 1,223	$ 1,518	$ 748	$ 564	$ 572	$ 452	$ 419	$ 511
Depreciation	**$ 733**	$ 772	$ 759	$ 659	$ 516	$ 435	$ 384	$ 315	$ 253	$ 203	$ 153
Total debt as a percentage of total debt plus equity	**1.8%**	2.2%	2.0%	2.0%	3.6%	4.2%	5.9%	15.7%	10.3%	3.0%	3.2%
Operating income/(loss) as a percentage of revenues	**(15.3)%**	(4.2)%	.1%	10.5%	14.2%	17.2%	10.9%	6.7%	7.1%	8.5%	15.1%
Income/(loss) before income taxes as a percentage of revenues	**(14.9)%**	(3.7)%	1.0%	11.2%	15.2%	18.0%	11.3%	6.4%	7.2%	9.6%	17.3%
Effective tax rate	**11.2%**	18.8%	40.0%	24.5%	25.0%	32.7%	28.0%	(3.7%)[4]	18.0%	31.0%	38.0%
Net income/(loss) as a percentage of revenues	**(20.1)%**	(4.4)%	.6%	8.4%	11.4%	12.1%	8.1%	6.7%	5.9%	6.6%	10.7%
Net income/(loss) as a percentage of average stockholders' equity	**(44.5)%**	(7.8)%	.9%	13.8%	18.9%	18.9%	12.0%	10.5%	8.7%	8.5%	14.3%
Net income/(loss) as a percentage of average total assets	**(24.1)%**	(5.2)%	.7%	10.3%	14.1%	14.6%	9.1%	7.5%	6.5%	6.6%	11.2%
Number of days sales of accounts receivable outstanding	**83**	76	86	76	75	78	79	75	83	82	73
Inventory turns	**5.1**	4.6	4.3	3.9	3.6	3.4	2.9	2.3	2.1	2.1	2.0
Number of employees at year-end	**113,800**	121,000	124,000	125,800	121,500	110,500	94,700	89,000	85,600	73,000	67,100
Common shares outstanding *(in thousands)*	**127,815**	124,623	122,555	121,537	126,290	126,187	128,591	59,253	57,811	56,357	55,227
Stockholders at year-end	**99,644**	98,023	92,934	99,084	103,162	99,379	76,860	68,810	44,389	40,903	44,706
Common stock yearly high and low sales prices	**$ 72-33**	$ 87-45	$ 103-70	$ 122-86	$ 199-99	$ 174-82	$ 94-46	$ 63-39	$ 61-33	$ 65-32	$ 55-34

[1] *Includes restructuring charges of $1,500M in 1992, $1,100M in 1991 and $550M in 1990.*

[2] *See Note B of Notes to Consolidated Financial Statements.*

[3] *Per share data adjusted to reflect two-for-one stock split in May 1986.*

[4] *Includes elimination of DISC taxes of $63M accrued prior to 1984.*

Income and Expense Items as a Percentage of Total Operating Revenues				Percentage Changes		
1990	1991	**1992**	**Income and Expenses Items**	**1991-92**	1990-91	1989-90
62.9%	59.7%	**55.2%**	Product sales	**(7%)**	2%	(1%)
37.1%	40.3%	**44.8%**	Service and other revenues	**11%**	17%	5%
100.0%	100.0%	**100.0%**	Total operating revenues	**–**	7%	2%
47.0%	47.1%	**55.2%**	Cost of product sales	**9%**	2%	10%
61.9%	60.1%	**62.3%**	Service expense and cost of other revenues	**15%**	14%	7%
52.5%	52.3%	**58.4%**	Total cost of operating revenues	**12%**	7%	9%
12.5%	11.9%	**12.6%**	Research and engineering expenses	**6%**	2%	6%
30.7%	32.1%	**33.6%**	Selling, general and administrative expenses	**5%**	13%	9%
4.2%	7.9%	**10.8%**	Restructuring charges	**36%**	100%	–
0.1%	(4.2%)	**(15.3%)**	Operating income/(loss)	**(100+%)**	(100+%)	(99%)
1.1%	0.8%	**0.7%**	Interest income	**(15%)**	(20%)	15%
0.2%	0.3%	**0.3%**	Interest expense	**(14%)**	45%	(22%)
1.0%	(3.7%)	**(14.9%)**	Income/(loss) before income taxes and cumulative effect of change in accounting principle	**(100+%)**	(100+%)	(91%)
0.4%	0.7%	**1.7%**	Provision for income taxes	**100+%**	97%	(86%)
0.6%	(4.4%)	**(16.6%)**	Income/(loss) before cumulative effect of change in accounting principle	**(100+%)**	(100+%)	(93%)
–	–	**3.5%**	Cumulative effect of change in accounting principle, net of tax benefits	**–**	–	–
0.6%	(4.4%)	**(20.1%)**	Net income/(loss)	**(100+%)**	(100+%)	(93%)

Overview

The Company's operations in fiscal 1992 resulted in a net loss of $2.8 billion, including charges of $1.5 billion for restructuring and $485 million for a one-time accounting change.

The Company's fiscal 1992 total revenues, which were $13.9 billion, remained essentially unchanged from the prior year, while total operating expenses, excluding restructuring charges, increased by $1.2 billion. Although the Company's service revenues continued to grow year-to-year, product sales declined as a result of continued intense competition in the information technology industry, as well as a continued shift in customer demand from high-end, higher-priced products to low-end, lower-priced products. Worldwide economic weakness and price competition also contributed to the Company's flat year-to-year revenues.

The Company has several programs in place to promote revenue growth. The Company continues to focus resources on its growing systems integration and other services businesses, as well as software products and services. In addition, the Company has significantly improved the price/performance of its computer systems, and continues to enhance its existing products. During fiscal 1992, the Company announced a new open computing product architecture known as "Alpha." Alpha is designed to run multiple operating systems and to be the foundation for a leading high-performance computer system family. The Company also has defined a path to facilitate the migration of its existing installed base of customers to Alpha-based systems. The Company views the Alpha program as a key element of its future revenue prospects.

The Company is in the process of restructuring operations to meet the demands of its changing business. The Company continues to derive a lesser proportion of revenues and profits from hardware sales and a greater proportion from sources such as software, networking and systems integration, while the Company also experiences a shift in mix of product revenues from larger systems to lower-priced, lower-margin products. In fiscal 1992, the Company provided $1.5 billion for restructuring actions (see Note M) to address these changes.

Revenues

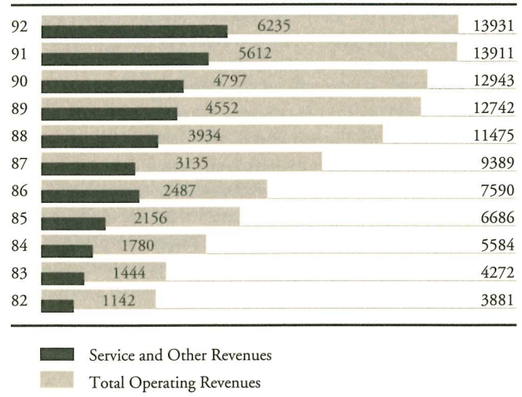
In fiscal 1992, the Company's total operating revenues were $13.9 billion, representing an increase of $20 million over the prior year. International revenues accounted for 63% of the Company's total fiscal 1992 revenues, up from 60% in fiscal 1991 and 56% in fiscal 1990. The Company has increased its presence in European markets primarily through two acquisitions (see Note O) completed in fiscal 1991 and 1992. As a result, European revenues increased to $6.8 billion or 49% of total operating revenues in fiscal 1992 from $6.3 billion or 45% of revenues in fiscal 1991 (see Note C).

Product sales for fiscal 1992 totaled $7.7 billion and accounted for 55% of total operating revenues. Product sales were down 7% compared with the prior year, following 2% growth in fiscal 1991 and essentially no growth in fiscal 1990. Although the Company shipped substantially more computer systems in fiscal 1992 compared with the prior year, they were shipped at a lower average price per system, which was a result of a pervasive change in industry demand towards lower-priced personal computers and workstations. Persistent weakness in the U.S. and overseas economies and price competition also contributed to the Company's product revenue decline.

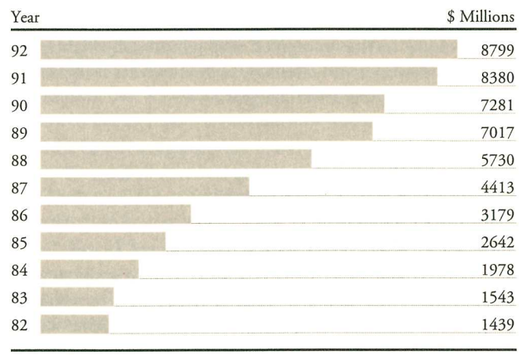
In addition to the initiatives described in the Overview, the Company has taken other actions to restore product revenue growth. In fiscal 1992, the Company introduced a number of new computer products for UNIX and VMS operating systems, as well as a broad range of multivendor client/server software, service and hardware products. The Company also launched new catalog sales and telemarketing efforts for personal computers, increased its focus on selling products and licensing Digital technology to original equipment manufacturers, and directed sales and marketing efforts to meet the needs of small- and medium-sized businesses. Shortly after the close of the fiscal year, the Company announced new "OpenVMS" VAX computer systems which are designed to upgrade easily to future Alpha-based systems.

In fiscal 1992, service and other revenues, which totaled $6.2 billion or 45% of total operating revenues, grew by $622 million or 11%, following increases of 17% in fiscal 1991 and 5% in fiscal 1990. The Company's service revenues principally are derived from hardware and software product services and systems integration services. Systems integration represents a growing source of revenue for the Company. The Company's traditional hardware product service business, which constitutes a significant percentage of total service revenues, was essentially flat year-to-year. This was due in part to increased product reliability, which generates lower maintenance service revenues, and the shift in the mix of product sales away from larger systems toward low-end and desktop products, which generally present less service revenue opportunity.

Total Operating Revenues



Non-United States Revenues



Expenses and Profit Margins

The Company's total gross profit for fiscal 1992 was $5.8 billion (42% of total operating revenues), compared with $6.6 billion in fiscal 1991 (48% of total operating revenues) and $6.1 billion in fiscal 1990 (48% of total operating revenues).

The Company's gross profit on fiscal 1992 product sales was $3.4 billion (45% of product revenues), compared with $4.4 billion (53% of product revenues). The decline in gross profit was due to several factors including an overall decrease in product sales and a continued shift in the Company's mix of product revenues from larger systems toward low-end systems which typically carry lower margins. Competitive pricing pressures also contributed to the decline in gross profit.

Gross profit on service revenues for fiscal 1992 was $2.4 billion (38% of service revenues), compared with $2.2 billion in fiscal 1991 (40% of service revenues) and $1.8 billion in fiscal 1990 (38% of service revenues). The increase in gross profit was a result of higher service revenues. The decline in gross profit as a percentage of service revenues was due in part to slow growth in higher margin hardware maintenance and other product services compared with substantially higher growth in newer service offerings, such as systems integration, which have relatively lower margins.

Research and engineering (R&E) expenses grew 6% to $1.8 billion or 12.6% of total operating revenues in fiscal 1992, compared with $1.6 billion or 11.9% of revenues in fiscal 1991 and $1.6 billion or 12.5% of revenues in fiscal 1990. The increase in R&E expenses was due to several factors, including development of the Company's Alpha architecture and products. The Company believes a focused investment program is critical to maintaining a strong competitive position and fostering future growth. At the same time, the Company is addressing the level of R&E expenses by identifying redundancies in R&E programs and ways to make the product design process more efficient.

Selling, general and administrative (S,G&A) expenses increased 5% to $4.7 billion or 33.6% of total operating revenues in fiscal 1992, compared with $4.5 billion or 32.1% of revenues in fiscal 1991 and $4.0 billion or 30.7% of revenues in fiscal 1990. The increase in S,G&A expenses in fiscal 1992 was due principally to the acquisitions of Digital-Kienzle and the Philips Information Systems Division (see Note O). The Company is addressing the level of S,G&A expenses by realigning and streamlining its selling and administrative practices, reducing overhead costs and increasing its emphasis on selling through indirect channels, where appropriate.

Research and Engineering

Year	$ Millions
92	1754
91	1649
90	1614
89	1525
88	1306
87	1010
86	814
85	717
84	631
83	472
82	350

Employee Population

Year	Thousands
92	114
91	121
90	124
89	126
88	122
87	111
86	95
85	89
84	86
83	73
82	67

The total operating loss for fiscal 1992, including restructuring charges of $1.5 billion, was $2.1 billion. The European acquisitions (see Note O) had essentially no effect on the total operating loss.

The Company has taken several restructuring charges to address a cost structure which evolved over the years to support relatively high-margin hardware revenues. The Company absorbed restructuring charges of $550 million in fiscal 1990, $1.1 billion in fiscal 1991 and $1.5 billion in fiscal 1992 associated with actions intended to improve profitability. These charges cover the cost of employee separations, facility consolidations, asset retirements, relocations and related costs (see Note M). The Company estimates that nearly two-thirds of the fiscal 1992 restructuring charge will be spent on employee separations.

The impact of restructuring actions taken through June, 1992 has resulted in the elimination of an estimated $1 billion of annualized operating costs related to salaries, facilities and associated items, approximately $500 million of which were realized in fiscal 1992. Restructuring actions associated with the fiscal 1992 charge are expected to result in the further elimination of a comparable amount of annualized operating costs. A significant portion of the restructuring actions related to the fiscal 1992 $1.5 billion charge is expected to occur in fiscal 1993, with the benefits of these actions having full impact on the Company's financial results in fiscal 1994 and beyond.

At the end of fiscal 1992, the Company had approximately 113,800 employees, down from 125,800 at the end of fiscal 1989. Over the last three years the Company has reduced headcount by approximately 23,000, but also added approximately 11,000 employees through acquisitions.

Interest income in fiscal 1992 decreased to $96 million from fiscal 1991 levels of $113 million, reflecting lower interest rates and lower average cash balances. Interest expense also decreased, to $39 million in fiscal 1992 from $45 million in fiscal 1991, due to a lower level of debt outstanding during the year.

In fiscal 1992, the Company's income tax expense was $232 million on a pre-tax loss of $2.1 billion (see Note E). The tax expense reflects several factors, including taxes provided for profitable foreign operations, an inability to recognize currently U.S. tax benefits from operating losses and charges to earnings, and tax expenses related to restructuring actions. In fiscal 1991 the Company's income tax expense was $98 million on a pre-tax loss of $520 million.

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 106 - Employers' Accounting for Postretirement Benefits Other Than Pensions (see Note D) in fiscal 1992. SFAS No. 106 requires recognition in the Company's financial statements of the cost of postretirement benefits other than pensions during employees' service with the Company. These costs represent primarily the cost of health care and life insurance benefits. The Company implemented SFAS No. 106 on the "immediate recognition" basis, and thus absorbed a one-time charge of $485 million, $3.89 on a per share basis. The one-time charge, or transition obligation, represents the benefits earned by employees prior to the implementation of SFAS No. 106. Fiscal 1992 quarterly results have been restated to reflect the change in accounting (see Supplementary Information, Quarterly Financial Data). There is no cash flow impact from the adoption of SFAS No. 106.

In February, 1992, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 109 - "Accounting for Income Taxes," which the Company is required to adopt no later than fiscal 1994. SFAS No. 109 requires, among other things, the recognition of a deferred tax asset or liability for estimated future tax effects attributable to temporary differences and carryforwards. The effect of the new accounting standard will depend in large part on the facts and circumstances when adopted and in periods thereafter. The Company did not adopt SFAS No. 109 in fiscal 1992; however, adoption of the standard is not presently expected to have a material impact on the Company's consolidated financial position or results of operations. Adoption of SFAS No. 109 will have no cash flow impact on the Company.

Availability of Funds to Support Current and Future Operations and Spending for Operations

Cash and cash equivalents totaled $1.3 billion, $1.9 billion and $2.0 billion at the end of fiscal 1992, 1991 and 1990, respectively. Total debt was $91 million, $173 million and $163 million for the same respective periods, resulting in total debt to total debt plus equity ratios of 1.8%, 2.2% and 2.0%, respectively. Unused lines of credit at the end of fiscal 1992 were $898 million.

Net cash flows from operating activities declined to $446 million in fiscal 1992 from $1.0 billion and $1.4 billion in fiscal 1991 and 1990, respectively. The fiscal 1992 decline in cash flows from operating activities was primarily a result of operating losses and increased accounts receivable.

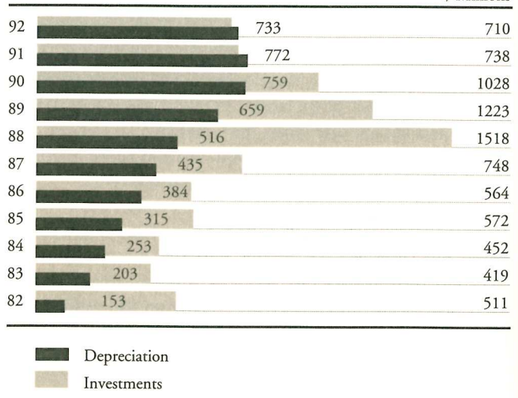
Net cash used for investing activities was essentially flat from the prior year; in fiscal 1992, 1991 and 1990 it was $996 million, $1.0 billion and $1.1 billion, respectively. Capital expenditures totaled $710 million in fiscal 1992, compared with $738 million in fiscal 1991 and $1.0 billion in fiscal 1990. The Company anticipates that its capital expenditures for fiscal 1993 will be at approximately the same level as fiscal 1992. The Company also spent $146 million in fiscal 1992 and $233 million in fiscal 1991 for acquisitions (see Note O).

The Company anticipates that its uses of cash in fiscal 1993 will include restructuring actions, capital expenditures and other investing activities. The Company estimates that between $700 million and $1 billion of the fiscal 1992 restructuring reserve of $1.5 billion will be paid out in fiscal 1993. The Company has begun construction of a new semiconductor fabrication facility in Hudson, Massachusetts and plans to make other capital expenditures to support future generations of semiconductor technology in connection with the Company's Alpha program. The Hudson project has a currently anticipated cost of $425 million over 4 years. Approximately $160 million of this amount is expected to be spent in fiscal 1993. In addition, the Company expects to consummate a portion of its purchase of a minority interest (29,750,000 shares) in Ing. Olivetti & C. S.p.A. in fiscal 1993, which will result in an approximate cash out-flow of $175 million (see Note K). The investment is intended to further strengthen the business relationship between Olivetti and the Company; the parties' agreements provide for Alpha to become a strategic architecture for future Olivetti products.

Cash flows from financing activities for each of the last three years were ($36) million, ($99) million and $23 million for fiscal 1992, 1991 and 1990, respectively. Principal financing activities during fiscal 1992 included the retirement of $108 million of debt and the repurchase during the first half of the year of 3 million shares of the Company's common stock at a cost of $185 million, offset by $232 million received from the issuance of shares under the Company's employee stock plans.

On August 27, 1992, the Company filed a shelf registration statement on Form S-3 under the Securities Act of 1933, as amended, covering the registration of debt securities in an aggregate principal amount of $1 billion. The debt securities may be offered from time to time in amounts, at prices and on terms to be determined in light of market conditions at the time of sale. The Company believes the shelf registration provides additional financial flexibility to meet future funding requirements and to take advantage of attractive market conditions. The Company historically has maintained a conservative capital structure, and believes that its current cash position, substantial debt capacity and strong balance sheet leave it well-positioned to support current and future operations.

Investments in Property, Plant and Equipment
Depreciation Expense



Common Stock Information

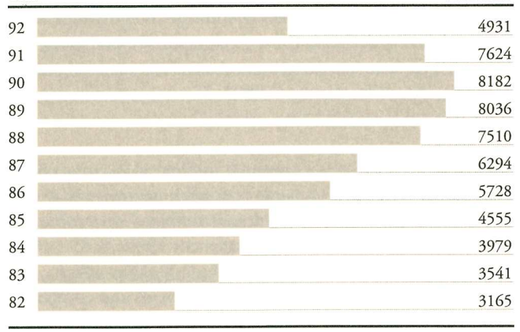
The Company's common stock is listed and traded on the Midwest Stock Exchange, New York Stock Exchange, Pacific Stock Exchange, Montreal Exchange and several European stock exchanges. There were 99,644 shareholders of record as of June 27, 1992. The high and low quarterly sales prices for the past three fiscal years are presented below:

	1992	
Fiscal Quarter	*High*	*Low*
First	$ 71¼	$ 53⅞
Second	65	48½
Third	65½	49¼
Fourth	54⅞	33¼

	1991	
Fiscal Quarter	*High*	*Low*
First	$ 86⅞	$ 49⅞
Second	59½	45½
Third	83	50⅜
Fourth	74¼	58¾

	1990	
Fiscal Quarter	*High*	*Low*
First	$103⅜	$ 91
Second	94½	79¾
Third	90¼	69½
Fourth	95⅛	76¼

Total Stockholders' Equity



Report of Management

The Company's management is responsible for the preparation of the financial statements in accordance with generally accepted accounting principles and for the integrity of all the financial data included in this annual report. In preparing the financial statements, management makes informed judgments and estimates of the expected effects of events and transactions that are currently being reported.

Management maintains a system of internal accounting controls that is designed to provide reasonable assurance that assets are safeguarded and that transactions are executed and recorded in accordance with management's policies for conducting its business. This system includes policies which require adherence to ethical business standards and compliance with all laws to which the Company is subject. The internal controls process is continuously monitored by direct management review and an internal audit program under which periodic independent reviews are made.

The Company's independent public accountants annually review the accounting and control systems of the Company. Their audit includes a review of the internal control structure to the extent they consider necessary and selective tests of transactions to support their report.

The Board of Directors, through its Audit Committee, is responsible for determining that management fulfills its responsibility with respect to the Company's financial statements and the system of internal accounting controls.

The Audit Committee meets regularly with representatives of management, the independent accountants and the Company's internal auditors to review audits, financial reporting, and internal control matters, and also meets with the Company's outside counsel on related matters. The independent accountants and the internal auditors have full and free access to the Audit Committee and regularly meet privately with the Audit Committee.

Coopers & Lybrand, independent accountants, have been engaged by the Audit Committee of the Board of Directors, with the approval of the stockholders, to audit the Company's financial statements. Their report follows.

Kenneth H. Olsen
President

William M. Steul
Vice President, Finance

Report of Independent Accountants

To The Stockholders and Directors,
Digital Equipment Corporation

We have audited the accompanying consolidated balance sheets of Digital Equipment Corporation as of June 27, 1992 and June 29, 1991 and the related consolidated statements of operations, cash flows, and stockholders' equity for each of the three fiscal years in the period ended June 27, 1992. 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Digital Equipment Corporation as of June 27, 1992 and June 29, 1991, and the consolidated results of its operations and cash flows for each of the three fiscal years in the period ended June 27, 1992, in conformity with generally accepted accounting principles.

As discussed in Note D to the consolidated financial statements, the Company changed its method of accounting for postretirement benefits other than pensions in fiscal 1992.

Coopers & Lybrand

Boston, Massachusetts
July 23, 1992

Consolidated Statements of Operations

(in thousands except per share data)	Year Ended		
	June 27, 1992	June 29, 1991	June 30, 1990
Revenues *(Notes A and C)*			
Product sales	**$ 7,696,029**	$ 8,298,515	$ 8,145,491
Service and other revenues	**6,234,843**	5,612,489	4,797,032
Total operating revenues	**13,930,872**	13,911,004	12,942,523
Costs and Expenses *(Notes A, D and I)*			
Cost of product sales	**4,248,118**	3,905,355	3,825,897
Service expense and cost of other revenues	**3,883,705**	3,373,025	2,968,529
Research and engineering expenses	**1,753,898**	1,649,380	1,614,423
Selling, general and administrative expenses	**4,680,822**	4,471,629	3,971,059
Restructuring charges *(Note M)*	**1,500,000**	1,100,000	550,000
Operating income/(loss)	**(2,135,671)**	(588,385)	12,615
Interest income	**96,176**	113,221	142,015
Interest expense	**38,517**	44,556	30,641
Income/(loss) before income taxes and cumulative effect of change in accounting principle	**(2,078,012)**	(519,720)	123,989
Provision for income taxes *(Notes A and E)*	**232,000**	97,707	49,596
Income/(loss) before cumulative effect of change in accounting principle	**(2,310,012)**	(617,427)	74,393
Cumulative effect of change in accounting principle, net of tax *(Note D)*	**485,495**	–	–
Net income/(loss)	**$ (2,795,507)**	$ (617,427)	$ 74,393
Per Share *(Note B)*			
Income/(loss) before cumulative effect of change in accounting principle	**$ (18.50)**	$ (5.08)	$ .59
Cumulative effect of change in accounting principle	**(3.89)**	–	–
Net income/(loss) per share *(Note B)*	**$ (22.39)**	$ (5.08)	$ .59
Weighted average shares outstanding *(Note B)*	**124,864**	121,558	125,222

The accompanying notes are an integral part of these financial statements.

Consolidated Balance Sheets

(in thousands)	**June 27, 1992**	June 29, 1991
Assets		
Current Assets		
Cash and cash equivalents *(Note F)*	**$ 1,337,172**	$ 1,924,050
Accounts receivable, net of allowance of $129,686 and $84,999	**3,594,268**	3,316,677
Inventories *(Note A)*		
Raw materials	**264,871**	360,367
Work-in-process	**495,632**	501,394
Finished goods	**853,531**	733,389
Total inventories	**1,614,034**	1,595,150
Prepaid expenses	**352,570**	395,478
Net deferred federal and foreign income tax charges	**222,794**	422,685
Total current assets	**7,120,838**	7,654,040
Property, Plant and Equipment, at Cost *(Note A)*		
Land	**372,989**	376,071
Buildings	**1,871,710**	1,836,323
Leasehold improvements	**592,971**	573,378
Machinery and equipment	**4,835,454**	4,642,820
Total property, plant and equipment, at cost	**7,673,124**	7,428,592
Less accumulated depreciation	**4,103,422**	3,650,762
Net property, plant and equipment	**3,569,702**	3,777,830
Other assets, net *(Notes A and G)*	**593,769**	442,833
Total assets	**$ 11,284,309**	$ 11,874,703
Liabilities and Stockholders' Equity		
Current Liabilities		
Bank loans and current portion of long-term debt *(Note H)*	**$ 49,061**	$ 23,344
Accounts payable	**1,041,300**	722,534
Federal, foreign and state income taxes	**63,725**	272,567
Salaries, wages and related items	**551,727**	361,907
Deferred revenues and customer advances *(Note A)*	**1,208,635**	1,052,260
Restructuring reserve *(Note M)*	**1,546,904**	1,036,704
Other current liabilities	**644,696**	407,507
Total current liabilities	**5,106,048**	3,876,823
Net deferred federal and foreign income tax credits	**23,033**	9,829
Long-term debt *(Note H)*	**41,636**	150,004
Postretirement benefits *(Note D)*	**1,182,658**	214,208
Total liabilities	**6,353,375**	4,250,864
Commitments and contingencies *(Note K)*		
Stockholders' Equity *(Notes I and J)*		
Common stock, $1.00 par value; authorized 450,000,000 shares; issued 130,008,231 shares	**130,008**	130,008
Additional paid-in capital	**2,692,444**	2,636,141
Retained earnings	**2,282,688**	5,344,855
Treasury stock at cost; 2,193,014 shares and 5,385,197 shares	**(174,206)**	(487,165)
Total stockholders' equity	**4,930,934**	7,623,839
Total liabilities and stockholders' equity	**$ 11,284,309**	$ 11,874,703

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Cash Flows

(in thousands)	Year Ended		
	June 27, 1992	June 29, 1991	June 30, 1990
Cash Flows from Operating Activities			
Net income/(loss)	**$(2,795,507)**	$ (617,427)	$ 74,393
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:			
Depreciation	**732,536**	772,310	758,954
Amortization	**100,292**	56,250	37,247
Other adjustments to income	**284,236**	189,077	92,329
(Increase)/decrease in accounts receivable	**(86,163)**	105,977	(241,357)
Decrease in inventories	**155,881**	18,616	99,743
(Increase)/decrease in prepaid expenses	**42,908**	(47,239)	(90,602)
Increase/(decrease) in accounts payable	**277,918**	(17,694)	107,001
Increase/(decrease) in taxes	**55,142**	(105,614)	(201,560)
Increase in salaries, wages, benefits and related items *(Note D)*	**1,115,240**	74,982	171,760
Increase in deferred revenues and customer advances	**101,421**	92,222	69,207
Increase in restructuring reserve	**510,200**	593,160	443,544
Increase/(decrease) in other current liabilities	**(48,259)**	(73,719)	113,415
Total adjustments	**3,241,352**	1,658,328	1,359,681
Net cash flows from operating activities	**445,845**	1,040,901	1,434,074
Cash Flows from Investing Activities			
Purchase of plant, property, and equipment	**(710,436)**	(737,548)	(1,027,625)
(Increase) in other assets, net	**(139,459)**	(55,782)	(75,489)
Business acquisitions, net of cash acquired *(Note O)*	**(146,387)**	(233,261)	–
Net cash flows from investing activities	**(996,282)**	(1,026,591)	(1,103,114)
Net cash flows from operating and investing activities	**(550,437)**	14,310	330,960
Cash Flows from Financing Activities			
Proceeds from issuance of debt	**25,821**	14,249	17,661
Payments to retire debt	**(108,472)**	(112,426)	(20,896)
Purchase of treasury shares	**(185,292)**	(240,719)	(270,231)
Issuance of treasury shares, including tax benefits	**231,502**	239,653	296,225
Net cash flows from financing activities	**(36,441)**	(99,243)	22,759
Net increase/(decrease) in cash and cash equivalents	**(586,878)**	(84,933)	353,719
Cash and cash equivalents at beginning of year	**1,924,050**	2,008,983	1,655,264
Cash and cash equivalents at end of year	**$ 1,337,172**	$1,924,050	$ 2,008,983

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Stockholders' Equity

(in thousands)	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total Stockholders' Equity
July 1, 1989	$130,008	$2,469,711	$6,366,418	$(930,464)	$ 8,035,673
Purchase of 3,053,000 shares of treasury stock *(Note J)*				(270,231)	(270,231)
Shares issued under stock plans *(Note I)*			(183,612)	429,915	246,303
Restricted stock plans, charge to operations		45,854			45,854
Tax benefits related to stock plans *(Note I)*		49,922			49,922
Net income—1990			74,393		74,393
June 30, 1990	$130,008	$2,565,487	$6,257,199	$(770,780)	$ 8,181,914
Purchase of 3,700,000 shares of treasury stock *(Note J)*				(240,719)	(240,719)
Shares issued under stock plans *(Note I)*			(294,917)	524,334	229,417
Restricted stock plans, charge to operations		60,419			60,419
Tax benefits related to stock plans *(Note I)*		10,235			10,235
Net (loss)—1991			(617,427)		(617,427)
June 29, 1991	$130,008	$2,636,141	$5,344,855	$(487,165)	$ 7,623,839
Purchase of 3,014,083 shares of treasury stock *(Note J)*				(185,292)	(185,292)
Shares issued under stock plans *(Note I)*			(266,660)	498,251	231,591
Restricted stock plans, charge to operations		56,303			56,303
Net (loss)—1992			(2,795,507)		(2,795,507)
June 27, 1992	**$130,008**	**$2,692,444**	**$2,282,688**	**$(174,206)**	**$ 4,930,934**

The accompanying notes are an integral part of these financial statements.

Note A—Significant Accounting Policies

Principles of Consolidation The consolidated financial statements of the Company include the financial statements of the parent and its domestic and foreign subsidiaries. All significant intercompany accounts and profits have been eliminated. Certain prior years' amounts have been reclassified to conform to the current year presentation.

Translation of Foreign Currencies For foreign operations, the U.S. dollar is the functional currency. Monetary assets and liabilities of foreign subsidiaries are translated into U.S. dollars at current exchange rates. Nonmonetary assets such as inventories and property, plant and equipment are translated at historical rates. Income and expense items are translated at average exchange rates prevailing during the year, except that inventories and depreciation charged to operations are translated at historical rates. Exchange gains and losses arising from translation are included in current income.

The Company enters into forward exchange contracts to delay the short term impact of foreign currency fluctuations on operations and the asset and liability positions of foreign subsidiaries. The gains and losses on these contracts are included in income when the operating revenues and expenses are recognized and, for assets and liabilities, in the period in which the exchange rates change. The cash flows related to these gains and losses are classified in the statement of cash flows, as part of cash flows from operating activities.

Revenue Recognition Revenues from product sales are recognized at the time the product is shipped. Service and other revenues are recognized ratably over the contractual period or as the services are performed.

Warranty Warranty revenue is recognized ratably over the warranty period. Warranty costs are expensed as incurred.

Taxes In general, the Company's practice is to reinvest the earnings of its foreign subsidiaries in those operations and repatriation of retained earnings is done only when it is advantageous to do so. Applicable taxes are provided only on amounts planned to be remitted.

Inventories Inventories are stated at the lower of cost (first-in, first-out) or market.

Property, Plant and Equipment Depreciation expense is computed principally on the following basis:

Classification	*Depreciation Lives and Methods*
Buildings	33 years (straight-line)
Leasehold Improvements	Life of assets or term of lease, whichever is shorter (straight-line)
Machinery and Equipment	3 to 10 years (accelerated methods)

Intangibles Goodwill and other acquired intangibles are amortized on the straight-line method over their estimated lives, but not in excess of 15 years.

Capitalized Computer Software Development Costs It is the Company's policy to capitalize software development costs beginning at the time that technical feasibility is established. These costs are amortized over three years from the date the products are available for general release.

Note B—Net Income/(Loss) per Share and Dividends

Net loss per share for the years ended June 27, 1992 and June 29, 1991, is calculated based on the weighted average number of common shares outstanding. For the year ended June 30, 1990, net income per share is based on the weighted average number of common shares and common share equivalents outstanding during the year. Common share equivalents were attributable to stock options.

Cash dividends have never been paid by the Company.

Note C—International Operations

(in thousands)	Year Ended		
	June 27, 1992	June 29, 1991	June 30, 1990
Revenues			
United States customers	**$ 5,154,159**	$ 5,586,492	$ 5,823,435
Intercompany	**1,900,455**	2,200,684	1,920,254
	7,054,614	7,787,176	7,743,689
Europe customers	**6,751,222**	6,216,746	5,242,740
Intercompany	**520,953**	278,544	144,511
	7,272,175	6,495,290	5,387,251
Canada, Asia, Americas, Pacific Rim customers	**2,025,491**	2,107,766	1,876,348
Intercompany	**1,168,956**	1,269,327	1,087,099
	3,194,447	3,377,093	2,963,447
Eliminations	**(3,590,364)**	(3,748,555)	(3,151,864)
Net revenue	**$13,930,872**	$13,911,004	$ 12,942,523
Income/(Loss)			
United States	**$(1,971,032)**	$ (976,651)	$ (381,450)
Europe	**(184,951)**	474,180	478,225
Canada, Asia, Americas, Pacific Rim	**68,313**	142,622	255,051
Eliminations	**(48,001)**	(228,536)	(339,211)
Operating income/(loss)	**(2,135,671)**	(588,385)	12,615
Interest income	**96,176**	113,221	142,015
Interest expense	**38,517**	44,556	30,641
Income/(loss) before income taxes and cumulative effect of change in accounting principle	**$(2,078,012)**	$ (519,720)	$ 123,989
Assets			
United States	**$ 4,766,206**	$ 5,124,445	$ 5,786,798
Europe	**5,195,715**	4,706,122	3,654,206
Canada, Asia, Americas, Pacific Rim	**1,854,167**	1,576,413	1,430,592
Corporate assets (cash equivalents)	**1,183,387**	1,728,959	1,959,201
Eliminations	**(1,715,166)**	(1,261,236)	(1,175,976)
Total assets	**$11,284,309**	$11,874,703	$ 11,654,821

Note C—International Operations *(continued)*

Industry The Company operates in one business segment: the design, manufacture, and service of networked computer systems.

International Operations Sales and marketing operations outside the United States are conducted principally through sales subsidiaries in Canada, Europe, Central and South America, Asia and the Pacific Rim; by direct sales from the parent corporation and through various representative and distributorship arrangements. The Company's international manufacturing operations include plants in Canada, Asia, Europe and the Pacific Rim. The products of these manufacturing plants are sold to the Company's sales subsidiaries, the parent corporation or other manufacturing plants for further processing.

Intercompany transfers between geographic areas are accounted for at prices which are intended to be representative of unaffiliated party transactions.

Sales to unaffiliated customers outside the United States, including U.S. export sales, were $8.8 billion, $8.4 billion and $7.3 billion for the years ended June 27, 1992, June 29, 1991, and June 30, 1990, respectively, which represented 63%, 60%, and 56%, respectively, of total operating revenues. The retained earnings of substantially all of the Company's international subsidiaries have been reinvested to support operations. These accumulated retained earnings, before elimination of intercompany transactions, aggregated $3.6 billion, $4.3 billion, and $3.8 billion at June 27, 1992, June 29, 1991, and June 30, 1990, respectively.

Note D—Pension Plans and Other Postretirement Benefits

Pension Plans The Company and its subsidiaries have defined benefit and defined contribution pension plans covering substantially all employees. The benefits are based on years of service and compensation during the employee's career. Pension cost is based on estimated benefit payment formulas.

It has been the Company's policy to make contributions to the plans in accordance with local laws and to the extent that such contributions are tax deductible. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. For the U.S. pension plan, there were no contributions in the fiscal years 1992, 1991 or 1990 due to the full funding limit of the Omnibus Budget Reconciliation Act of 1987. The assets of the plans include corporate equity and debt securities, government securities and real estate.

The following table provides information on the status of the U.S. and certain non-U.S. pension plans. Approximately 95% of the Company's pension expense before curtailment gains is reported under Statement of Financial Accounting Standard No. 87—Employers' Accounting for Pensions. The net periodic pension cost for defined contribution pension plans was $11,202,000 and $11,398,000 for the years ended June 27, 1992 and June 29, 1991, respectively. The Company also recognized a one-time charge of $161,658,000 in fiscal year 1992 for special early retirement pension benefits as a component of restructuring costs. The measurement dates for all plans were within 90 days of year-end.

Components of net periodic pension cost *(in thousands)*

Year Ended	**June 27, 1992**	June 29, 1991	June 30, 1990
Service cost-benefits earned during the period	**$ 234,842**	$ 239,238	$ 219,499
Interest cost on projected benefit obligation	**180,898**	163,007	137,850
Actual return on plan assets	**(166,055)**	(38,524)	(185,555)
Net amortization and deferral	**(47,927)**	(160,731)	16,870
Curtailment gains	**(138,100)**	(157,000)	(65,000)
Net periodic pension cost for defined benefit pension plans	**$ 63,658**	$ 45,990	$ 123,664
Total net periodic pension cost for all pension plans	**$ 87,833**	$ 67,102	$ 137,597

Note D—Pension Plans and Other Postretirement Benefits *(continued)*

Significant actuarial assumptions for pension plans as of the year ended

	June 27, 1992	June 29, 1991	June 30, 1990
U.S. pension plan:			
Discount rate	**8.5%**	9.0%	9.0%
Expected long-term rate of return on plan assets	**9.0%**	9.5%	9.5%
Rate of increase in future compensation levels	**6.5%**	6.8%	6.8%
Non-U.S. pension plans:			
Discount rate	**5.0-9.0%**	5.0-9.5%	5.0-12.5%
Expected long-term rate of return on plan assets	**6.0-10.0%**	6.0-10.0%	5.5-10.0%
Rate of increase in future compensation levels	**4.8-8.0%**	5.0-8.0%	5.0-9.5%

Funded status of pension plans as of the year-end measurement date *(in thousands)*

	June 27, 1992	June 29, 1991
Actuarial present value of benefit obligations:		
Vested benefit obligation	**$ (1,397,318)**	$ (859,130)
Accumulated benefit obligation	**$ (1,582,385)**	$ (972,090)
Projected benefit obligation	**$ (2,761,783)**	$ (2,069,628)
Plan assets at fair value	**2,671,657**	2,297,578
Plan assets in excess of projected benefit obligation	**(90,126)**	227,950
Contributions made after measurement date but before end of fiscal year	**3,811**	4,479
Unrecognized net (gain)	**(130,372)**	(158,015)
Unrecognized prior service cost	**47,842**	40,204
Unrecognized transition asset, net	**(107,443)**	(119,008)
Pension cost recognized on the balance sheet	**$ (276,288)**	$ (4,390)

Postretirement Benefits Other Than Pensions In fiscal year 1992, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 106–Employers' Accounting for Postretirement Benefits Other Than Pensions.

The Company has defined benefit postretirement plans that provide medical, dental, and life insurance for domestic retirees and their eligible dependents. Substantially all of the Company's domestic employees may become eligible for postretirement benefits if they reach normal retirement age while working for the Company. The majority of the Company's foreign subsidiaries do not offer postretirement benefits other than pensions to retirees.

Postretirement benefit costs totaled $6,400,000 and $3,005,000 for the years ended June 29, 1991 and June 30, 1990, respectively, and were recognized as expense as claims were paid. SFAS No. 106 requires that the cost of these benefits be accrued during an employee's period of employment rather than expensed as paid.

The Company elected to recognize the cumulative effect immediately for its U.S. and material non-U.S. plans, which resulted in a charge of $485,495,000, net of tax benefits of $4,188,000, to fiscal year 1992 results. The Company also recognized a one-time charge of $142,985,000 in fiscal year 1992 for special early postretirement benefits other than pensions as a component of restructuring costs.

There is no cash flow impact associated with the adoption of SFAS No. 106. The Company's postretirement benefits plans other than pensions are unfunded.

Note D—Pension Plans and Other Postretirement Benefits *(continued)*

Components of net periodic other postretirement benefit costs *(in thousands)*

Year Ended	June 27, 1992
Service cost-benefit earned during the period	$ 37,543
Interest cost on accumulated postretirement benefit obligation	42,525
Actual return on plan assets	–
Net amortization and deferral	–
Net periodic postretirement benefit cost	$ 80,068

Funded status of other postretirement benefit plans as of the year-end measurement date *(in thousands)*

	June 27, 1992
Accumulated postretirement benefit obligation:	
Retirees	$ (351,489)
Fully eligible plan participants	(25,383)
Other active plan participants	(371,956)
Unfunded accumulated postretirement benefit obligation	(748,828)
Unrecognized actuarial net (gain)/loss	46,311
Postretirement benefits cost recognized on the balance sheet	$ (702,517)

Significant actuarial assumptions for other postretirement benefits plans as of the year ended *(dollars in thousands)*

	June 27, 1992
U.S. plan:	
Discount rate	8.5%
Health care cost trend rate, current year	13.8%
Health care cost trend rate, ultimate year	6.0%
Trend rate decreases to the ultimate rate in the year	2005
Effect of a 1% increase in the trend rate:	
Increase in accumulated postretirement benefit obligation	$ 148,386
Increase in net periodic postretirement benefit cost	$ 19,674
Non-U.S. plans:	
Discount rate	5.0-8.5%
Health care cost trend rate, current year	5.0-14.0%
Health care cost trend rate, ultimate year	5.0-7.0%
Trend rates decrease to the ultimate rates in the years	1992-2050
Effect of a 1% increase in the trend rate:	
Increase in accumulated postretirement benefit obligation	$ 4,280
Increase in net periodic postretirement benefit cost	$ 578

Note E—Income Taxes

Income/(loss) before income taxes for domestic and foreign operations *(in thousands)*

Year Ended	June 27, 1992	June 29, 1991	June 30, 1990
Domestic	$(1,934,186)	$(803,205)	$(378,476)
Foreign	(143,826)	283,485	502,465
Total	$(2,078,012)	$(519,720)	$ 123,989

Reconciliation of U.S. federal statutory rate to actual tax rate

Year Ended	June 27, 1992	June 29, 1991	June 30, 1990
U.S. federal statutory tax (benefit) rate	(34.0)%	(34.0)%	34.0%
Tax benefit of manufacturing operations in: (a)			
Puerto Rico	1.7	(2.6)	(49.0)
Ireland	(3.4)	(15.6)	(56.5)
Singapore	0.0	(2.9)	(6.7)
Taiwan	(0.1)	(0.8)	(4.7)
Benefit not recorded due to net loss carryforward position	31.5	60.4	0.0
Research and engineering credit	(0.3)	(2.4)	(6.0)
Foreign tax rates, net of foreign tax credits	16.7	19.3	90.9
Other	(0.9)	(2.6)	38.0
Effective tax rate	11.2%	18.8%	40.0%

At June 27, 1992, the Company had net operating loss carryforwards of approximately $4.4 billion for financial reporting purposes which will generally begin to expire in 2007. In addition the Company has not recognized income tax credits of approximately $100,000,000 which will begin to expire in 2001.

(a) The income from products manufactured for export by the Company's Irish manufacturing subsidiary is subject to a 10% tax rate through December, 2010. The income from certain products manufactured by the Company's Singapore manufacturing subsidiary is taxed at approximately 3% through December, 1993 and then at 15% through December, 1995. The income from certain products manufactured by the Company's subsidiary operating in Taiwan is subject to a reduced tax rate of 20% through January, 1994, while the income from certain other products continues to be taxed at 20% through March, 1995.

Note E—Income Taxes *(continued)*

Components of provisions for (benefits from) U.S. federal and foreign income taxes *(in thousands)*

Year Ended	**June 27, 1992**	June 29, 1991	June 30, 1990
U.S. federal:			
Current	**$ (155,883)**	$(234,968)	$ 33,940
Deferred	**107,249**	205,905	(113,048)
Total	**(48,634)**	(29,063)	(79,108)
Foreign:			
Current	**92,794**	262,803	187,516
Deferred	**183,998**	(124,642)	(58,781)
Total	**276,792**	138,161	128,735
State income taxes	**3,842**	(11,391)	(31)
Total income taxes	**$ 232,000**	$ 97,707	$ 49,596

Deferred tax expense results from timing differences in the recognition of revenues and expenses for tax and financial reporting purposes.

Sources of timing differences and their tax effect *(in thousands)*

Year Ended	**June 27, 1992**	June 29, 1991	June 30, 1990
Inventory related transactions	**$ 81,840**	$ (39,004)	$ 6,068
Deferred warranty revenue	**12,882**	1,966	64,621
Depreciation	**90,269**	7,014	(35,813)
Postretirement benefits	**(26,151)**	19,977	(50,135)
Restructuring	**(193,834)**	(233,539)	(119,917)
Benefit not recorded due to net loss carryforward position	**246,872**	347,080	–
Other	**79,369**	(22,231)	(36,653)
Total	**$ 291,247**	$ 81,263	$(171,829)

In connection with its normal examinations of the Company's 1989, 1990 and 1991 tax returns, the Internal Revenue Service has proposed adjustments. The Company believes its judgments in these matters have been appropriate and intends to contest certain of the adjustments proposed by the IRS. In addition, the Company believes any adjustments which might result would not have a material effect on the financial statements.

In February, 1992, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 109–Accounting for Income Taxes, which the Company is required to adopt no later than fiscal year 1994.

SFAS No. 109 requires, among other things, the recognition of a deferred tax asset or liability for the estimated future tax effects attributable to temporary differences and carryforwards. The effect of the new accounting standard will depend on the facts and circumstances when adopted and in periods thereafter. The Company did not adopt SFAS No. 109 in fiscal 1992; however, adoption of the standard is not presently expected to have a material impact on the Company's consolidated financial position or results of operations. Adoption of SFAS No. 109 will have no cash flow impact on the Company.

See Note A for further explanation of the Company's income tax accounting policies.

Note F—Cash Flow Statement

The Company considers all highly liquid temporary cash investments with maturities of three months or less at date of acquisition to be cash equivalents. Cash equivalents are valued at cost plus accrued interest, which approximates market. None of the cash reflected on the balance sheet at June 27, 1992, and June 29, 1991, was required as compensating balances.

Income taxes paid were $144,620,000, $186,090,000, and $243,165,000 for the years ended June 27, 1992, June 29, 1991, and June 30, 1990, respectively.

Interest paid was $43,494,000, $42,605,000, and $33,431,000 for the years ended June 27, 1992, June 29, 1991, and June 30, 1990, respectively.

Note G—Capitalized Computer Software Development Costs

Unamortized computer software development costs which are included in other assets, net on the balance sheet, were $133,800,000 and $112,029,000 at June 27, 1992 and June 29, 1991, respectively. Amortization expense was $63,956,000, $44,424,000, and $37,247,000 for the years ended June 27, 1992, June 29, 1991, and June 30, 1990, respectively. Accumulated amortization was $186,051,000 and $122,095,000 at June 27, 1992, and June 29, 1991, respectively.

Note H—Debt

Long-term debt, exclusive of current maturities, consisted of the following:

(in thousands)	**June 27, 1992**	June 29, 1991
Lease obligations payable 1994–2002 (5.4%–11.56%) (a)	**$ 27,405**	$ 28,447
Obligation to Mannesmann AG (9%) (b)	**–**	106,813
Other debt obligations	**14,231**	14,744
Total	**$ 41,636**	$150,004

(a) Weighted average interest rate at June 27, 1992 and June 29, 1991, of 10.7% and 10.5%, respectively.

(b) Represents a put/call arrangement on shares of Digital-Kienzle Computersysteme GmbH & Co. KG retained by Mannesmann AG, which was exercised in December, 1991.

Principal payments during the next five fiscal years are as follows: 1993—$7,353,000; 1994—$5,913,000; 1995—$5,856,000; 1996—$6,131,000; 1997—$5,880,000.

The Company has lines of credit available for short-term financing totaling $941,207,000, of which there were unused lines of $898,033,000 at June 27, 1992, and $794,922,000 at June 29, 1991. The commitment fees on the Company's unused lines of credit are neither material nor significant.

Note I—Stock Plans

Stock Options and Awards Under its Equity Plan, the Company has awarded restricted stock to certain officers and key employees. Under such Equity Plan and its Restricted Stock Option Plans, the Company has granted options to certain officers and key employees which are exercisable upon grant, to purchase common stock at a price determined by the Board of Directors. Shares purchased under the plans were issued from treasury shares and are generally subject to repurchase options and restrictions on sales which lapse over an extended time period not exceeding 10 years. In fiscal year 1992, certain options were granted under such Equity Plan which become exercisable ratably over five years, but only if the common stock achieves certain price performance criteria.

Information concerning activity during the three years ended June 27, 1992, was as follows:

		Options Outstanding	
	Shares Reserved For Future Grants	Shares	Average Price Per Share
July 1, 1989	8,659,369	16,864,562	$66.47
Options Granted	(3,365,390)	3,365,390	$75.18
Options Exercised	–	(1,297,584)	$33.90
Options Cancelled	321,362	(321,362)	$70.91
Options Terminated	(131,656)	–	–
June 30, 1990	5,483,685	18,611,006	$70.24
Options Granted	(2,130,860)	2,130,860	$77.62
Shares Awarded	(316,830)	–	–
Options Exercised	–	(838,391)	$29.71
Options Cancelled	597,652	(597,652)	$83.11
Options Terminated	(351,837)	–	–
June 29, 1991	3,281,810	19,305,823	$72.42
Additional Shares Available for Grant	**1,950,123**	–	–
Options Granted	**(2,901,830)**	**2,901,830**	**$58.00**
Shares Awarded	**(623,490)**	–	–
Options Exercised	–	**(795,879)**	**$29.73**
Options Cancelled	**493,879**	**(493,879)**	**$82.47**
Options Terminated	**(428,994)**	–	–
June 27, 1992	**1,771,498**	**20,917,895**	**$71.81**

The excess, if any, of the fair market value of shares on the measurement date over the exercise price is charged to operations each year as the restrictions lapse.

Employee Stock Purchase Plans Under the Company's Employee Stock Purchase Plans, all United States and certain international employees may be granted the opportunity to purchase common stock at 85% of market value on the first or last business day of the six-month payment period, whichever is lower. Common stock reserved for future employee purchases aggregated 8,976,360 shares at June 27, 1992. There were 4,788,819 shares issued from treasury shares at an average price of $43.21 per share during the year ended June 27, 1992; 4,619,793 shares at $44.34 per share during the year ended June 29, 1991; and 2,797,296 shares at $73.13 per share during the year ended June 30, 1990. There have been no charges to income in connection with these Plans other than incidental expenses related to the issuance of the shares. Federal income tax benefits relating to such Plans, if any, have been credited to additional paid-in capital.

Stock Option Plan for Non-Employee Directors The Stock Option Plan for Non-Employee Directors provides for a one-time grant of an option to purchase 5,000 shares of the Company's Common Stock to non-employee directors. The exercise price of an option is 100% of the fair market value per share of Common Stock of the Company on the date the option is granted. An aggregate of 100,000 shares of common stock are authorized for issuance under the Plan, of which 40,000 were granted at an average purchase price of $51.27 per share. The options become exercisable at the rate of 20% per year, with credit given for past service. None of these options had been exercised as of June 27, 1992.

Note J—Treasury Stock

The Company purchased on the open market 3,014,083 shares of its common stock at an aggregate purchase price of $185,292,000, or $61.48 per share, during the year ended June 27, 1992; 3,700,000 shares at an aggregate purchase price of $240,719,000, or $65.06 per share, during the year ended June 29, 1991; and 3,053,000 shares at an aggregate purchase price of $270,231,000, or $88.51 per share, during the year ended June 30, 1990. All of the acquired shares are held as common stock in treasury, less shares issued to employees under the Stock Plans. The difference between the average acquisition cost of the shares and the proceeds from issuance is charged to retained earnings.

Note K—Commitments and Contingencies

Minimum annual rentals under noncancelable leases (which are principally for leased real estate, vehicles and equipment) for the fiscal years listed are as follows:

Fiscal Years	*(in thousands)*
1993	$ 341,900
1994	258,624
1995	206,482
1996	173,046
1997	121,900
Later years	421,600
Total minimum lease payments	$ 1,523,552

Total rental expense for the years ended June 27, 1992, June 29, 1991, and June 30, 1990, amounted to $544,811,000, $535,159,000, and $512,052,000, respectively.

On June 26, 1992, the Company entered into an agreement to acquire 20,250,000 shares of Ing. Olivetti & C. S.p.A. common stock for 172.125 billion Italian lire, and an agreement to form a strategic alliance. Payment of approximately $152,000,000, based on the July 31, 1992 rate of exchange, is expected to be made in the first quarter of fiscal year 1993. The Company also has agreed to purchase another 9,500,000 shares of Olivetti common stock on the open market by June, 1993. Provided that certain conditions of the agreements are met, the Company has agreed to purchase an additional 20,250,000 shares of Olivetti common stock, for 172.125 billion Italian lire, by the end of 1994.

Note L—Off-Balance-Sheet Risk and Concentrations of Credit Risk

Off-Balance-Sheet Risk The Company enters into forward foreign exchange contracts to hedge foreign currency transactions on a continuing basis for periods consistent with its committed exposures. It does not engage in speculation. The Company's foreign exchange contracts do not subject the Company to risk due to exchange rate movements because gains and losses on these contracts offset losses and gains on the asset, liabilities, and transactions being hedged. As of June 27, 1992 and June 29, 1991, the Company had $1.3 billion and $2.7 billion, respectively, of net foreign exchange contracts outstanding, substantially all of which were in European currencies. The lower amount of outstanding contracts is principally a result of lower net monetary assets and a reduced hedge period for transactional exposure in response to shorter product delivery cycles. The foreign exchange contracts generally have maturities which do not exceed six months. See Note A for information on the Company's accounting policy on foreign exchange contract gains and losses.

Concentration of Credit Risk Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of temporary cash investments and trade receivables.

The Company places its temporary cash investments with high credit qualified financial institutions and, by policy, limits the amount of credit exposure to any one financial institution. Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers comprising the Company's customer base, and their dispersion across many different industries and geographies.

As of June 27, 1992, the Company had no significant concentrations of credit risk.

Note M—Restructuring Charges

In the fourth quarter of fiscal year 1992, the Company recorded net restructuring charges of $1.5 billion. Included in the charges are the expected costs of employee separations, facility consolidations, asset retirements, relocations and related costs.

During fiscal year 1992, the Company took a number of actions consistent with the previously recorded charges. Approximately 10,000 employees were separated from the Company, including approximately 3,700 employees who elected early retirement through a special program offered to eligible individuals in the United States. The Company announced the closing of several plants in the United States and Western Europe. Other operations were moved from leased to owned facilities, and consolidated where appropriate.

The Company recorded net restructuring charges of $1.1 billion and $550,000,000 in fiscal years 1991 and 1990, respectively.

Note N—Stockholder Rights Plan

The Company's Board of Directors adopted a Stockholder Rights Plan on December 11, 1989. Under the Plan, the Company distributed to stockholders a dividend of one Common Stock Purchase Right for each outstanding share of Common Stock. Each Right initially will entitle holders of Common Stock to buy one share of Common Stock of the Company at an exercise price of $400, subject to adjustment. The Plan contains detailed provisions regarding under what conditions the Rights will become exercisable and the consideration to be received upon exercise. Until they become exercisable, the Rights will be evidenced by the Common Stock certificates and will be transferred only with such certificates. The Company generally will be entitled to redeem the rights at $.01 per Right at any time until the Board determines a 10% or more stockholder to be an Adverse Person (as defined in the Plan) or the tenth day following public announcement that a 20% equity interest in the Company has been acquired. The Plan will expire on December 21, 1999, unless the Rights are earlier redeemed by the Company.

Note O—Acquisitions

On November 11, 1991, the Company signed an agreement with Philips Electronics N.V. of The Netherlands to acquire most of the Philips Information Systems Division. The purchase price for the acquired business was equal to the net asset value of the business as at October 27, 1991, and was $146,387,000, net of cash acquired in the purchase. The fiscal year 1992 operating results and statement of financial position reflect the full consolidation of the acquired business as at October 28, 1991, including purchase price adjustments made in the fourth quarter of fiscal year 1992.

The acquisition included the Division's activities for financial institutions, small and medium enterprises, image and document management systems, and all related customer service activities. The acquisition has been accounted for as a purchase, and accordingly, the assets and liabilities have been recorded at their estimated fair value at the date of acquisition.

As of January 1, 1991, the Company's results reflect the full consolidation of Digital-Kienzle Computersysteme GmbH & Co. KG, a German entity in which Digital acquired a 65% interest from Mannesmann AG for $233,261,000. The acquisition has been accounted for as a purchase. On December 20, 1991, the Company acquired the remaining 35% interest in Digital-Kienzle. The consolidated results of operations include the full-year operating results of Digital-Kienzle for fiscal year 1992, and six-months results for fiscal year 1991.

The acquisitions had no material effect on the total operating losses for fiscal years 1992 and 1991.

Note P—Subsequent Event

On July 16, 1992, Kenneth H. Olsen, age 66, the Company's founder and President, announced his intention to retire effective October 1, 1992. On July 22, 1992, the Company's Board of Directors elected Robert B. Palmer, Vice President, Manufacturing, Logistics and Component Engineering, as the Company's Chief Executive Officer and President, effective October 1, 1992. The Board of Directors also elected Mr. Palmer to serve as a member of the Board, effective July 22, 1992.

Quarterly Financial Data *(unaudited)*

(in millions except per share data)	Total Operating Revenues	Gross Profit	Income/ (Loss) Before Income Taxes	Income/ (Loss) After Income Taxes[5]	Net Income/ (Loss)	Net Income/ (Loss) Per Share[1]
For the year ended June 27, 1992						
First Quarter[2]	**$ 3,293**	**$ 1,490**	**$ 40**	**$ 12**	**$ (474)**	**$ (3.80)**
Second Quarter[2]	**3,479**	**1,441**	**(153)**	**(155)**	**(155)**	**$ (1.25)**
Third Quarter[2]	**3,253**	**1,268**	**(291)**	**(312)**	**(312)**	**$ (2.50)**
Fourth Quarter[3]	**3,906**	**1,600**	**(1,674)**	**(1,855)**	**(1,855)**	**$ (14.76)**
Total Year	**$13,931**	**$ 5,799**	**$ (2,078)**	**$ (2,310)**	**$ (2,796)**	**$ (22.39)**
For the year ended June 29, 1991						
First Quarter	$ 3,093	$ 1,435	$ 35	$ 26	$ 26	$ .21
Second Quarter	3,353	1,606	156	111	111	$ .92
Third Quarter	3,520	1,671	179	117	117	$ .94
Fourth Quarter[4]	3,945	1,921	(890)	(871)	(871)	$ (7.08)
Total Year	$13,911	$ 6,633	$ (520)	$ (617)	$ (617)	$ (5.08)

[1] *Earnings per share is computed independently for each of the quarters presented and therefore do not sum to the total for the year.*
[2] *Restated to reflect the adoption of SFAS No. 106–Employers' Accounting for Postretirement Benefits Other Than Pensions.*
[3] *Includes restructuring charges of $1,500M.*
[4] *Includes restructuring charges of $1,100M.*
[5] *Before cumulative effect of change in accounting principle.*

Officers

*Kenneth H. Olsen
President and Director[1]

* Robert B. Palmer
Vice President and Director; CEO- and President-Elect[2]

* Winston R. Hindle, Jr.
Senior Vice President

* John F. Smith
Senior Vice President, Operations

John L. Alexanderson
Vice President, U.S. Sales and Sales Support Training

William R. Demmer
Vice President, Alpha & VAX Systems

Samuel H. Fuller
Vice President, Corporate Research

Rose Ann Giordano
Vice President, U.S. Marketing

Robert M. Glorioso
Vice President, Executive Consulting

Russell A. Gullotti
Vice President, Digital Services

William C. Hanson
Vice President, Co-Director MIT Leaders for Manufacturing Program

* Martin R. Hoffman
Vice President, General Counsel, Secretary and Clerk

Donato A. Infante, Jr.
Vice President, Information Management and Technology

* Ilene B. Jacobs
Vice President and Treasurer

* William R. Johnson, Jr.
Vice President, Corporate Marketing

John C. MacKeen
Vice President, Aerospace, Defense Electronics and Government

Edward B. McDonough
Vice President, Manufacturing and Logistics

* Richard Poulsen
Vice President, President–General International Area

* Bruce J. Ryan
Vice President and Corporate Controller

Godfrey S. Shingles
Vice President, Country Group Manager–U.K. and Ireland

* John L. Sims
Vice President, Strategic Resources

Peter J. Smith
Vice President, Sales, Marketing & Corporate Business Units – Europe

* William M. Steul
Vice President, Finance

David L. Stone
Vice President, Software Engineering

* William D. Strecker
Vice President, Chief Technology Officer

* Donald P. Zereski
Vice President, U.S. Area

[1] Retires effective October 1, 1992.
[2] Elected CEO and President effective upon Mr. Olsen's retirement.
* "Executive officer" under the Securities Exchange Act of 1934.

Directors

Vernon R. Alden
Director and Trustee of several organizations
Former Chairman, The Boston Company, Inc.

Philip Caldwell
Senior Managing Director of Shearson Lehman Brothers Inc. and Director of several corporations

Colby H. Chandler
Director of several corporations
Retired Chairman of the Board and Chief Executive Officer, Eastman Kodak Company

Arnaud de Vitry
Engineering consultant and Director and Trustee of several organizations

Robert R. Everett
Retired President of the MITRE Corporation

Thomas P. Gerrity
Dean, Wharton School of the University of Pennsylvania and Director of several corporations

William H. McLean
Engineering consultant and Director of several organizations

Kenneth H. Olsen
President, Digital Equipment Corporation

Robert B. Palmer
Vice President and CEO- and President-Elect

Thomas L. Phillips
Director of several corporations
Retired Chairman of the Board and Chief Executive Officer, Raytheon Company

Corporate Consulting Engineers

Fernando Colon-Osorio
Corporate Consultant, Fault Tolerant Business Unit Manager, VMS Systems and Servers

Daniel W. Dobberpuhl
Corporate Consultant, Semiconductor Engineering

Richard J. Hollingsworth
Corporate Consultant, Semiconductor Operations

Richard I. Hustvedt
Corporate Consultant, The New Software Group

Alan Kotok
Corporate Consultant, Application/Industry Marketing

Butler W. Lampson
Corporate Consultant, Corporate Research and Architecture

Richard Lary
Corporate Consultant, Mass Storage

Anthony G. Lauck
Corporate Consultant, Networks and Communications

Jesse Lipcon
Corporate Consultant, VMS Systems and Servers

Alan G. Nemeth
Corporate Consultant, UNIX Systems Software Group

Mahendra R. Patel
Corporate Consultant, Technical Director, Systems Engineering

John Shebell
Corporate Consultant, Digital Services Engineering

Robert E. Stewart
Corporate Consultant, Workstations and Servers

William D. Strecker
Senior Corporate Consultant, Chief Technology Officer

Robert M. Supnik
Corporate Consultant, VMS Systems and Servers

Charles P. Thacker
Corporate Consultant, Corporate Research and Architecture

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Investor Information

The Company's common stock (Ticker Symbol "DEC") is listed and traded on the:

Midwest Stock Exchange
Montreal Exchange
New York Stock Exchange
Pacific Stock Exchange

Swiss Stock Exchanges of Zurich, Geneva and Basel; and the German Stock Exchanges of Frankfurt, Munich and Berlin.

Unlisted trading privileges have been granted by the:

Boston Stock Exchange
Cincinnati Stock Exchange
Philadelphia Stock Exchange
Luxembourg Stock Exchange.

The Company maintains an Investor Relations office to assist stockholders. Investors' inquiries are welcome, by telephone or letter. Financial community information and requests to be placed on the Company's mailing list should be directed to:

Bradley D. Allen
Director, Investor Relations
Digital Equipment Corporation
146 Main Street (MLO3-2/T98)
Maynard, Massachusetts 01754-2571
Telephone: (508) 493-7182
Fax: (508) 493-7633

Requests for specific information are handled as follows:

Digital Equipment Corporation's annual report on Form 10-K for the fiscal year ended June 27, 1992, including schedules thereto, which is filed with the Securities and Exchange Commission, will be sent without charge upon *written* request. The Company's annual report, filings with the Securities and Exchange Commission, interim reports and additional information about the Company and its products can be obtained by *addressing:*

Digital Equipment Corporation, Inquiry Section
444 Whitney Street (NRO2–1/L3)
Northboro, Massachusetts 01532-2599
Telephone: (508) 351-4401

Information about Digital's environmental, health, and safety programs and policies can be obtained by *addressing:*

Digital Equipment Corporation
Corporate Environmental Health & Safety
111 Powdermill Road (MSO2-3/B16)
Maynard, Massachusetts 01754-1418

Investor Information *(continued)*

Inquiries of an administrative nature relating to stockholder accounting records, stock transfer, change of address, and employee purchases should be directed to:

Digital Equipment Corporation
Investor Services
111 Powdermill Road (MSO1-1/L12)
Maynard, Massachusetts 01754-1418
Telephone: (508) 493-1655
Telephone: (508) 493-5213

Transfer Agent and Registrar
for Common Stock

First Chicago Trust Company of New York is the principal stock transfer agent and registrar, and maintains the stockholder accounting records. The agent will respond to questions on change of ownership, lost stock certificates, consolidation of accounts and change of address.

Digital Equipment Corporation is also a stock transfer agent and registrar, and maintains employees stockholder accounting records.

A change of address should be reported promptly by sending a signed and dated note or postcard to First Chicago Trust Company of New York. Stockholders should state the name in which the stock is registered, account number, social security (if available), as well as the old and new addresses.

First Chicago Trust Company of New York
30 West Broadway
New York, New York 10007

Eliminating Duplicate Mailings

To maintain more than one account, but eliminate duplicate mailings of annual and quarterly reports to the same address, send the labels (or a copy of the labels) from a company mailing to the Investor Services Department, P.O. Box 490, Maynard, Massachusetts 01754, indicating the names you wish to keep on the mailing list for annual and quarterly reports and the names you wish to delete. This will affect only these mailings; proxy materials will continue to be sent to each account.

Consolidating Accounts

To consolidate separate accounts into one account, contact the Investor Services Department, P.O. Box 490, Maynard, Massachusetts 01754, to obtain necessary forms and instructions.

Auditors
Coopers & Lybrand
One Post Office Square
Boston, Massachusetts 02109
Telephone: (617) 574-5000

Legal Counsel
Testa, Hurwitz & Thibeault
53 State Street
Exchange Place
Boston, Massachusetts 02109-2809
Telephone: (617) 248-7000

Customer Inquiries

Digital Equipment Corporation customers who have questions and/or problems relating to their accounts should contact Corporate Customer Relations at (800) 332-4636.

As part of Digital's corporate commitment to the environment, this annual report was printed totally on recycled paper.

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Maynard, Massachusetts 01754