Digital Equipment Corporation
1993 Annual Report

Real change comes from within.
It requires both personal and corporate commitment.

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Corporate Profile

Digital Equipment Corporation is a world leader in the development of innovative solutions for open computing environments. As a fully integrated, worldwide provider of information technology and multivendor services, Digital is committed to open systems, sharing its technology with others and adopting new technologies as they become industry standards. To this end, the Corporation has built strategic alliances with customers, other computer companies, systems integrators, and vendors to address the needs of a rapidly changing marketplace. The Corporation is organized into product and industry business units that address specific markets. Each business unit has a business model that is responsive to the market it serves. The Corporation does business in 100 countries, developing and manufacturing products in the Americas, Europe, and the Pacific Rim.

Financial Summary

Fiscal Year	*1993*	*1992*
Total operating revenues	**$14,371,369,000**	$13,930,872,000
Restructuring charges	–	$ 1,500,000,000
Net loss	**$ (251,330,000)**	$ (2,795,507,000)
Net loss per share	**$(1.93)**	$(22.39)
Total stockholders' equity	**$ 4,885,399,000**	$ 4,930,934,000
Number of stockholders	**86,611**	99,644
Stockholders' equity per share	**$36.19**	$38.58
Number of employees	**94,200**	113,800

Annual Meeting

The Annual Meeting of Stockholders will be held at 11:00 a.m. Thursday, November 4, 1993, at the World Trade Center, Commonwealth Pier, 164 Northern Avenue, Boston, Massachusetts 02210. Stockholders of record on September 7, 1993, will be entitled to vote at this meeting.

Digital Equipment Corporation

Annual report for the year ended July 3, 1993

Real change comes from within.

It requires both personal and corporate commitment.

As a corporation, and as individuals, we are committed to helping our customers succeed. Over the past three quarters, we organized the corporation into nine industry and product business units. We simplified operations so these business units are accountable and responsible for specific markets and products. Working with their customers, they develop and implement imaginative solutions to improve productivity, simplify operations, and reduce costs.

To Our Stockholders, Employees, and Customers

On October first of last year, I accepted the responsibility and privilege of leading our company as President and Chief Executive Officer. Digital had absorbed more than $3 billion in losses over the previous three years and was losing approximately $3 million per day at that time. There was widespread concern over the viability of Digital. My first priority was to reduce the losses and restore profitability, while beginning to build for the future. I promised that Digital would become competitive in several dimensions, not just in our costs, but in the price/performance of products and services we deliver and in our business practices. In addition, I committed to reorganize the company to increase customer focus, to build a superior management team, and to define and articulate a clear strategy to drive growth.

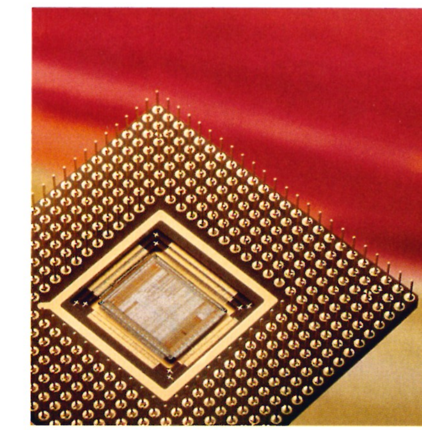
We have moved swiftly and I am encouraged by the progress that we have made. While we still have much work ahead of us, I believe we are poised for a return to industry leadership and profitable growth. Since October, we:

- Sharply reduced our losses and achieved profitability in the fourth quarter of fiscal year 1993, with a cumulative net profit of $9 million for the last three quarters of the year.
- Introduced the world's fastest workstation at any price, the most powerful personal computer in the industry, and the only 64-bit UNIX operating system in existence, all on the most advanced computing architecture available — Alpha AXP.
- Structured ourselves by customer business, to respond effectively to customer needs. Today Digital is the only open, fully integrated, information technology supplier organized by industry on a global basis.
- Attracted professional, experienced talent to head up worldwide sales and marketing, consulting services, and the new business units.
- Developed and began to implement our strategy for leadership in open client/server computing that delivers customer solutions.

Over the past year, we have made significant progress in reducing costs. As an example, while still investing to sustain technology leadership in selected areas, we have eliminated redundancies in our engineering efforts and streamlined our product offerings. This has brought our research and engineering spending more in line with competitive norms and has provided our customers with a simpler and more effective product set. Through restructuring actions taken during the year, as well as during the prior two years, we have eliminated approximately $2 billion of annual operating costs, reduced our manufacturing space by 3.3 million square feet, and reduced worldwide employee population to 94,200, the lowest level since 1986. This has been accomplished even as unit shipments have continued to increase. I encourage you to review the financial statements in this Annual Report together with Management's Discussion and Analysis of Results of Operations and Financial Condition for a full discussion of the fiscal year 1993 results.

Our strategy focuses on products and services for open, client/server computing solutions that deliver leadership performance and price/performance in systems, networks, and applications. One cornerstone of this strategy is our advanced 64-bit microprocessor architecture, Alpha AXP. With this architecture, Digital provides a universal computing platform. In addition to supporting UNIX, Alpha AXP systems support our widely used OpenVMS and the newly emerging Windows NT operating systems, thus providing our customers with the applications they need on the industry's price/performance leadership platform. Alpha AXP also delivers long-term value, with an architecture designed to last for the next 25 years.

Fiscal year 1993 saw the introduction of a new organization at Digital, one that our customers were asking for, one that brought new faces, new ideas, and new energy into the company. Each of the nine business units is accountable for satisfying customers in a particular market segment. Working closely with the functional organizations — sales and marketing, consulting, engineering, manufacturing — this team is responsible for profitably growing the business, capturing market share, and successfully launching the Alpha AXP program. We have attracted professional, experienced talent from the outside to head up some of these efforts, while tapping some of our own internal talent for other positions. I am proud to head this team and invite you to acquaint yourself with it in the following pages.



During Digital's 36-year history, the information technology industry has changed dramatically. While the industry used to rely on proprietary, hardware-driven innovation for its success, today's competitive environment is characterized by standards-based products with short life cycles delivering price/performance improvements of 50 percent per year. In this environment, success depends on time-to-market, quality, openness, integration, and responsive service. To compete aggressively in this environment, we are engaged in a process we call customer value chain re-engineering. This company-wide effort is designed to make our core processes ever more competitive and to focus management talent only on those activities that add value for our customers and are critical to our success. Those that do not add value for our customers are eliminated. Activities for which we cannot achieve world-class performance or choose not to pursue will be outsourced.

As we transform Digital to re-establish industry leadership, we are re-emphasizing the core values that made us a great company. These include integrity, valuing individuals and their diversity, fiscal conservatism, innovation, and technical excellence. We are stressing new behaviors as well. We are placing a major emphasis on accountability with rewards commensurate with performance. For example, we are implementing a competitive incentive compensation program for our worldwide sales force. We are making Digital easier to do business with. We are listening more carefully to our customers and meeting our commitments to them. We are making disciplined decisions using objective data. And we are emphasizing teamwork at every level of the organization.

Since October first of last year, Digital has changed. Digital must continue to change in order to attain our goal of competitive and profitable growth. With our talented employees, our technological leadership, our financial strength, and our loyal customers, we have everything we need to compete successfully. The responsibility lies with this management team to ensure a return to profitable growth, and we are committed to doing so.

RB Palmer

Robert B. Palmer
President and Chief Executive Officer
September 1, 1993

Change Brings a New Focus on Working with the Customer

"Digital is changing the way we work with our customers so that the products and services we design and deliver help them succeed in today's competitive market."
— Adriana Stadecker, Vice President, Executive Operations, manages Digital's redesign and restructuring efforts and the development of strategic and operational plans.

"Our strategy is to be the leader in open client/server systems, building on our core competencies in silicon, software, services, and networking to meet the needs of today's marketplace."
— William D. Strecker, Vice President of Engineering and Chief Technical Officer, joined Digital in 1972 and is responsible for the corporation's technology strategy.

Real change comes from within. It requires personal commitment. Digital and its people made the commitment to put the customer first. This changed the way we do business.

This annual report shows how we are transforming Digital into a leaner, more responsive, more competitive corporation with a new organization, new technology and — most important — a new focus on the customer.

This focus wasn't just imposed by management; it bubbled up through the entire company. Digital sales representatives and marketing specialists, systems analysts and service technicians, software developers and hardware engineers recognized the need for change. They wanted to be empowered to do what's right for the customer. Digital's new organizational structure provides that empowerment. It lets the corporation focus on the things it does well, while eliminating unnecessary organizational overhead.

It recognizes that the business of selling a personal computer to a financial analyst is very different from winning the contract to automate an entire plant for Boeing, that selling components and peripherals through distributors is very different from selling a trading room system to Bankers Trust.

Customers buy from the computer company that works with them to provide the most practical and cost-effective solution to their particular problem.

There is no one right computer architecture or software system. Different applications require different solutions. As a result, most customers have multivendor computing environments.

This is creating a tremendous opportunity for Digital in the systems integration business. The very fact that we support multiple computing environments — including OpenVMS, UNIX, and Windows NT — and have developed the technologies to link disparate systems together gives us the technical capabilities needed to undertake major systems integration programs. Our systems integration business is growing more than 20 percent a year and now represents more than $2 billion a year in revenue.

Customers want their present systems to work together, and they have an insatiable demand for ever faster systems that deliver better price/performance. They demand open systems, systems that are not tied to a particular software environment. Digital is responding to these demands.

"By working with Engineering and concentrating on our core competencies, we've been able to reduce time-to-market while slashing manufacturing costs. This gives us a real competitive advantage in an industry where product life cycles are often just a matter of months."
— Edward B. McDonough, Vice President, Manufacturing and Logistics, was responsible for Digital's manufacturing operations in Asia before he assumed his present position in 1992.

"Technology is no longer enough. To succeed in this business you need people dedicated to work with the customer and committed to do whatever it takes to increase their satisfaction with Digital. Digital has those people."
— Edward E. Lucente, Vice President, Worldwide Sales and Marketing, was formerly Executive Vice President, Northern Telecom Limited, and Vice President, International Business Machines Corporation.

We developed the Alpha AXP architecture and the world's fastest 64-bit microprocessor. Unlike conventional microprocessors that are tied to a particular software system, Digital's new microprocessor is based on an open architecture. It is a universal platform that supports multiple operating systems. We introduced the first Alpha AXP systems last November, and volume shipments started the same month. By June, we were shipping 22 different Alpha AXP models — including a personal computer — which currently run more than 3,000 applications from independent software vendors, universities, and research institutions. These applications, and many more already under development, will run under OpenVMS, OSF/1, Windows NT, or NetWare on computers built by Digital and over thirty-five Digital licensees, including Olivetti, Raytheon, Encore, Cray, and Kubota.

To meet the growing demand for Alpha AXP microprocessors, Digital is investing more than $400 million to build its third semiconductor production facility. We've also licensed Mitsubishi to build Alpha AXP microprocessors, providing our Alpha AXP partners with an alternate source of supply.

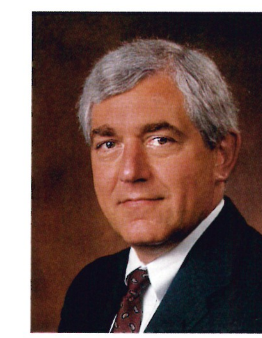
With their raw speed, true 64-bit architecture, and support for multiple operating systems, Alpha AXP microprocessors and systems play an important role in Digital's product strategy.

However, they are only a part of that strategy. We're committed to the continued development of our VAX family of systems to support existing customer applications. We are among the fastest-growing manufacturers of Intel-based PCs in the industry. And, we have agreements with Apple to sell Macintosh PCs and with Cray Research to sell massively parallel systems.

Digital is committed to developing those technologies that will enable our customers to improve productivity and respond to the demands of *their* customers. Under Digital's new organization, product strategy is tied to business strategy. Each business unit is charged with working with its customers to determine the appropriate technologies for its market.

The stories featured in this annual report show how the nine business units work with their customers to find imaginative ways to use technology to improve productivity, simplify operations, and reduce costs.

"If you're really dedicated to helping customers succeed, then you must be ready to help them plan, design, implement, manage, and maintain complex, multivendor networks. And, by definition, this is a job where you have to work with the customer and with other vendors. We're committed to doing just that."
— Gresham T. Brebach, Jr., Vice President, Digital Consulting, joined Digital in April from McKinsey & Company, where he was a Director; previously he was CEO of Information Consulting Group, and a Managing Partner at Andersen Consulting.



Goodyear for Digital — How Digital Became One of the Fastest Growing Personal Computer Companies in the Industry

Over the past year, Digital has doubled its PC business, and is now among the fastest-growing PC manufacturers in the world.

Whether you buy a DECpc from a reseller or our catalog — Digital has the largest direct marketing operation in the industry — or, like The Goodyear Tire & Rubber Company, contract with Digital to install and maintain thousands of personal computers, Digital people provide the kind of comprehensive service and support that is rarely found in the industry.

Under the $27 million contract, Digital is installing and maintaining 2,600 DECpc systems at Goodyear stores throughout North America. Sixteen hundred PCs will be installed in Goodyear-owned stores and up to 1,000 additional systems will be installed at Goodyear dealers. In addition, Digital is integrating these PCs with the third-party hardware and software components needed to implement the Goodyear Business Management System, GBMS II, at the store level.

One of Digital's greatest strengths is its ability to match PCs to each customer's needs. We re-engineered the supply chain, establishing PC assembly plants in North America, Europe, and the Pacific Rim, so we will be able to configure and ship PCs built to customer specification within 48 hours of receipt of order.

Many of these PCs and servers incorporate innovative bus, storage, microprocessor, operating system, and networking technology. For example, Digital is now delivering Microsoft Windows NT on both our Intel-based PCs and our super-fast DECpc AXP 150 microprocessor.

"We were looking for a complete solution — not just PCs but software, management services, and systems integration. Digital offered industry-standard, open technology and showed that they could integrate multivendor hardware and software and manage the complexity of staging and delivering thousands of PCs."
— Clifford Brown, Assistant Comptroller, The Goodyear Tire & Rubber Company

"Customers like Goodyear want innovative solutions built around industry-standard PC technology. Digital has people who can deliver those solutions. We've provided company- and campus-wide solutions for customers buying thousands of personal computers. That experience is invaluable to customers like Goodyear."
— Enrico Pesatori, Vice President and General Manager, Personal Computer Business Unit

Personal Computers — Vice President and General Manager, Enrico Pesatori

Pesatori, formerly President and CEO of Zenith Data Systems, joined Digital in February 1993.

Clifford Brown, Goodyear Assistant Comptroller (left), and Digital Vice President Enrico Pesatori discuss PC networking at the Goodyear Auto Service Center at Summit Mall in Akron, Ohio.

Cambex President Joseph Kruy (left) briefs Digital Vice President Charles Christ on RAID storage for the IBM RS/6000 market in the Waltham, Massachusetts, company's laboratory.

Twice Named "The Best Small Company" in the U.S., Cambex Is Making a Successful "RAID" on IBM's Installed Base

Storage — Vice President, Charles Christ

Christ came to Digital in 1990. He was formerly a partner in Coopers & Lybrand's Management Consulting Services group, President and CEO of Digital Sound Corporation, and President of the Reprographics Manufacturing Group of Xerox Corporation.

The storage business can be very profitable when you get it all together as Cambex Corporation did. For two years in a row, *Forbes* magazine rated Cambex as the best small company in the United States. Packaging Digital storage subsystems with its own software, Cambex markets a series of highly reliable RAID (Redundant Array of Inexpensive Disks) systems for the IBM RS/6000 market.

Working in partnership with companies like Cambex, one of Digital's first OEM storage subsystem customers, Digital's OEM storage business has increased over 100 percent a year for the past three years. In addition to selling to OEMs like Cambex, Digital sells disk, tape, and solid state storage products to other computer companies and to industrial distributors like Arrow and Avnet. In addition, we license our storage and bus technologies to other manufacturers, recognizing that the market is looking for open solutions and that customers want to be able to choose the best technologies without being locked in to a particular vendor.

One key initiative in the quest for open storage technology was the establishment of Rocky Mountain Magnetics, Inc. This joint venture between Digital and Storage Technology Corporation (StorageTek) will produce thin-film heads for disk drives. Digital's OEM thin-film head business has grown over 600 percent in volume during the past two years.

"To succeed in the storage business, you have to find imaginative ways to deliver exceptional price/performance while providing a higher level of system reliability and data availability than the competition. Our success has come from working as a partner with both customers and suppliers. When everyone works together, everything comes together."
— Joseph F. Kruy, Chairman, President and Chief Executive Officer, Cambex Corporation

"Computer companies no longer have a captive market for their storage systems. They have to sell price/performance. This has created an opportunity for Digital. Working with companies like Cambex, we can sell storage subsystems into virtually any computing environment."
— Charles Christ, Vice President, Storage Business Unit

How Digital "Invented" the OEM Market and Forged a Billion-Dollar Partnership with Avnet

According to industry analysts, Digital just about invented the OEM market. We broadened the computer market by selling systems, services, components, and peripherals through distributors and value-added resellers.

The idea was an enormous success. We built many business relationships that go back more than 25 years. And, together with our third-party resellers, we created an enormous customer base and developed the business practices and the effective training, marketing, technical support, and service programs needed to meet the needs of both our resellers and our customers.

The Components and Peripherals Business Unit plays a key role in developing Digital sales to third parties. They sell Alpha AXP systems, microprocessors, and single-board computers to 40 different companies including Cray, Kubota, and Raytheon on an OEM basis. They supply custom controls and design-in systems via our technical OEM business to Hughes-Avicom for the world's first interactive airborne audio and visual system.

In addition, the Components and Peripherals Business Unit sells printers, terminals, network devices, Alpha AXP products, and peripherals through mass merchandisers and retailers like Merisel and Lechmere. Components and Peripherals builds terminals and printers that major computer manufacturers like Olivetti sell under their own names. And they have the largest direct marketing operation in the industry, selling a broad range of components and peripherals from Digital and from other manufacturers through our *DECdirect* catalog.

Digital's goal is to channel more than 60 percent of its business through third parties — OEMs, distributors, value-added resellers, and mass retailers. Much of the responsibility for achieving this goal rests with the Components and Peripherals Business Unit.

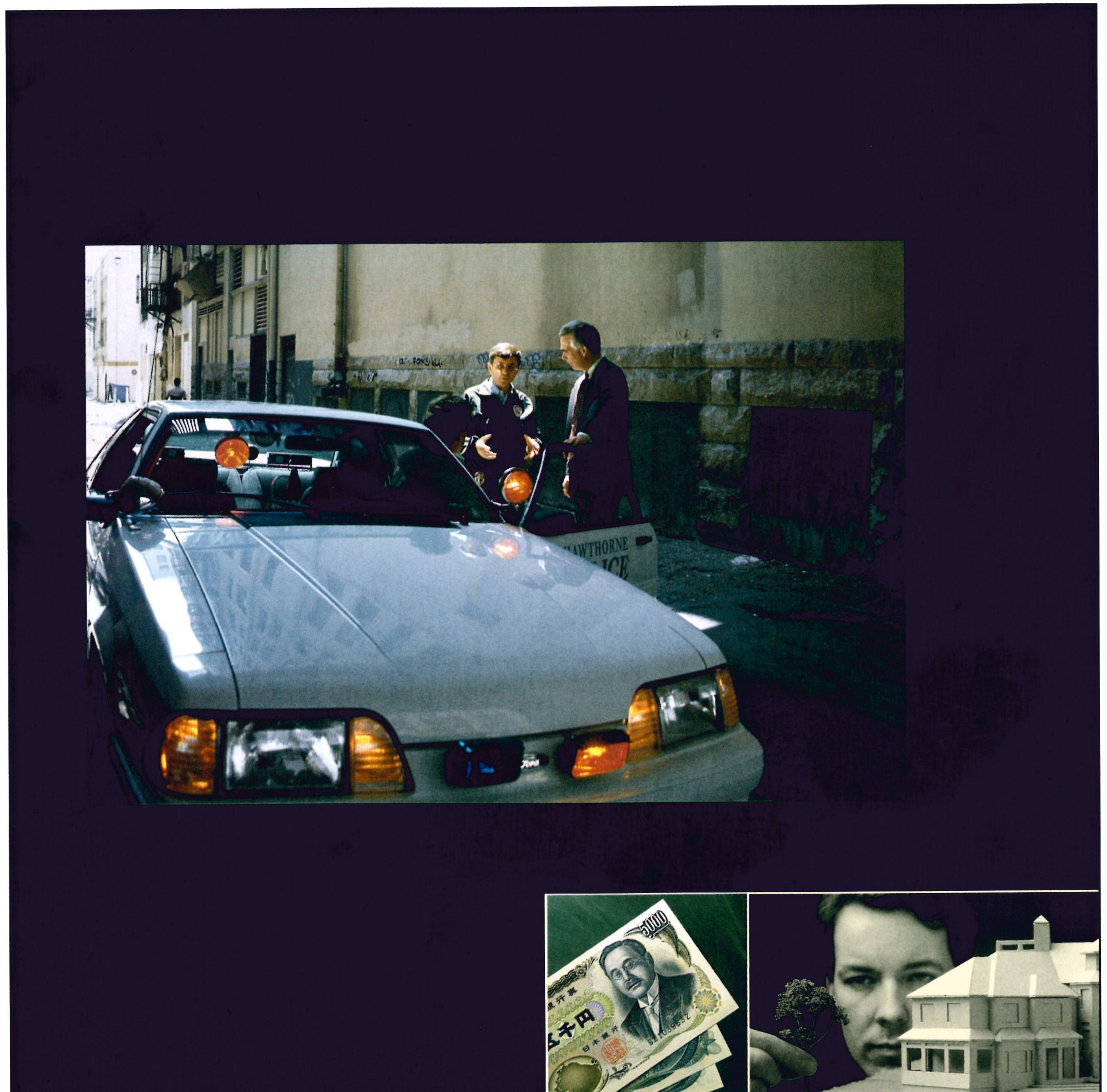
"The Digital brand means something to our customers. They recognize leadership technology, quality, value, service, and the importance of a manufacturer who stands behind all its products and services. Digital clearly understands their market and the partnership we have. We've been business partners for more than 15 years, and together we've sold more than a billion-and-a-half dollars' worth of Digital systems and services."
— Rich Ward, Executive Vice President, Avnet Computer Group

"The components and peripherals business is significantly different from traditional end-user sales. We sell components and peripherals by the truck- and container-load to other computer companies, distributors, two-tier value-added resellers, and mass retailers. And we do more than provide better technology at lower prices — we work closely with our business partners to help them provide the best solutions to the problems of their customers."
— Larry Cabrinety, Vice President, Components and Peripherals Business Unit

Components and Peripherals — Vice President, Larry Cabrinety

Cabrinety joined Digital in 1984 from Control Data Corporation, where he was Vice President and President of their Computer Peripherals subsidiary.

Avnet Executive Vice President Rich Ward (right) tells Digital Vice President Larry Cabrinety how Avnet was able to cut monthly computer operating expenses in half at Westinghouse's Energy Center (Monroeville) data center using their exclusive TMMS℠ program.



Digital Vice President Bruce Ryan (right) and Michael A. Barnes (center), Executive Director, L.A. County Regional Criminal Information Clearinghouse, meet with Detective Douglas L. Owsley of the L.A. IMPACT Drug Task Force to discuss the SINS program.

Ryan's business unit is also responsible for sales to financial institutions and professional markets.

Financial, Professional, and Public Services — Vice President, Bruce Ryan

Ryan was formerly Vice President and Controller, responsible for Digital's financial planning and controls. Prior to joining the Corporation, Ryan held senior financial management positions with GTE/Sylvania.

On City Streets — A Statewide Computer Network Helps Identify, Investigate, and Apprehend Drug Traffickers

SINS — California's Statewide Integrated Narcotics System — combines relational databases, a geographic information system, computer imaging, remote and mobile access, state-of-the-art security, and other advanced technologies in a single, integrated network system.

As local jurisdictions are linked to the network, law enforcement agencies expect to enhance officer safety and maximize the effectiveness of scarce narcotics enforcement personnel by increasing the efficiency of their investigations and prosecutions. Currently, approximately 43 percent of a narcotics investigator's time is spent locating and acquiring information on a subject.

SINS will store, compile, correlate, analyze, and integrate information gathered from jurisdictions throughout the state. This will make it easier for local law enforcement officers to identify distribution patterns and channels, obtain police and motor vehicle records, and trace money-laundering operations.

Dozens of federal, state, and local agencies — both in California and in neighboring states — cooperated in the development effort. Many are planning to join the California network, and the state has agreed to distribute SINS software nationwide.

SINS represents $500 million in potential sales for Digital. Multivendor integration efforts of this scope cut across political, geographic, and corporate boundaries. When you work with governmental agencies, banks, stock exchanges, and insurance companies, you find that they are not looking for someone to sell them something; they're looking for ways to put information into the hands of the people who need it, when they need it. That's why Digital's Financial, Professional, and Public Services Business Unit built its business model around multivendor integration services. These services account for more than 70 percent of the unit's business.

"Narcotics traffickers pay no attention to jurisdictional boundaries and have been using sophisticated technology to attempt to defeat local law enforcement agencies. That's why we needed a multi-jurisdictional network to fight the war on drugs. Digital helped us build it."
— Michael Barnes, Executive Director, L.A. County Regional Criminal Information Clearinghouse

"It took lots of hard work on the part of both Digital people and California officials to create a multi-jurisdictional network. They had to show federal, state, and local law enforcement agencies how this innovative system would help keep drugs off the streets."
— Bruce Ryan, Vice President, Financial, Professional, and Public Services Business Unit

How a Partnership with Rockwell Collins Helped Develop Avionics for the Ilyushin IL-96M

Moscow is a long way from Cedar Rapids, Iowa. Yet, Rockwell Collins had to replicate their Cedar Rapids software development lab in the Russian capital so they could develop avionics systems for the wide-bodied Ilyushin IL-96M.

Rockwell Collins turned to Digital.

Together we built the lab, installed a state-of-the-art software development environment, established local- and wide-area network links to other Rockwell facilities, and trained 200 Russian engineers. Digital's Moscow office even provided a Russian-speaking systems manager.

Partnerships of this sort are not unusual in the manufacturing and defense industries. Digital and Boeing are partners in a long-term Advanced Research Projects Agency (ARPA)-funded project. The two companies are developing a systems engineering environment where commercial off-the-shelf systems and reusable software components can be used in defense and aerospace, as well as business, applications.

Digital and Raytheon worked together to produce militarized versions of Alpha AXP and VAX systems for Grumman, Siemens, Thorn-EMI, Thomson CSF, and other U.S. and European defense contractors. Close working relationships like these are critical in the discrete manufacturing and defense industries where aerospace, automotive, heavy equipment, machine tool, and electronics companies are looking for ways to use advanced technologies in both their products and manufacturing processes.

Many of the concepts on which we are working with our customers have been tested in Digital's own manufacturing and product development operations.

Today it is no longer enough to deliver a solution. We have to work with our customers to improve and enhance that solution. In the manufacturing and defense industries, change is the only constant, and continuous improvement is the name of the game.

"If you want to do business in Central and Eastern Europe, you have to establish a presence in the market. Digital helped us do just that. We were able to replicate our product development lab right here in Moscow."
— Robert Tibor, Vice President and General Manager, Collins Air Transport Division, Rockwell International Corporation

"We hear a lot about the need to speed product development, about lean or agile manufacturing, and total quality control. We've developed a business model that addresses these issues."
— Frank McCabe, Vice President, Discrete Manufacturing and Defense Business Unit

Discrete Manufacturing and Defense — Vice President, Frank McCabe

Prior to joining Digital in 1979, McCabe served as General Electric's Managing Director, European Operations.

Digital Vice President Frank McCabe (center) discusses business opportunities in Central and Eastern Europe with Igor Katyrev (left), Chief Designer, Ilyushin Aircraft Association, and Robert Tibor (right), Vice President and General Manager, Collins Air Transport Division, Rockwell International Corporation.

Mats Weibull (left), Vice President Control and Finance, Tetra Pak, and Digital Vice President John Klein talk as a shopper in Lund, Sweden, brings home Tetra Pak containers of juice. Klein's business unit also supports Digital customers in the utility, chemical, oil and gas, and transportation industries.

Consumer, Process, and Transportation — Vice President, John Klein

Klein joined Digital this year from IBM where he was Vice President, Worldwide Market Selection/Market Development, Industrial Sector Division.

Imagination Helped Tetra Laval Invent a Whole New Way to Package Milk and Juice

Imagine nonrigid containers that keep milk and other perishable liquids fresh for months without refrigeration. Tetra Laval did. They developed the processing and packaging technology that made it possible. This idea helped them win a 47 percent share of the European market for liquid food packaging, and it accounts for two-thirds of Tetra Laval's $7.8 billion turnover. It's ideas and imagination that fuel growth. And when it comes to computing, Tetra Laval looks to Digital for ideas.

The objective is to find ways to solve business problems. For the last 30 years, we have been developing ever faster — ever more sophisticated — technology. Now the focus is on finding imaginative ways to apply this technology. For Digital, this means a focus on collaborative business planning. We provide customers like Tetra Laval with the professional and consulting services they need to assess the ways technology can be used to solve business problems.

Consultative selling is particularly important in the consumer, process, and transportation industries. We work with electric, gas, and water utilities; distributors and retailers; transportation companies; chemical, oil and gas, mining, forest products, metals, and glass companies; and manufacturers of consumer packaged goods. These customers are all concerned with speeding product through the supply chain at the lowest possible cost to gain a competitive edge in the marketplace.

They are no longer interested in simply automating existing processes; they are looking for imaginative ways to re-engineer their businesses to remove bottlenecks in the pipeline.

As the only worldwide, fully integrated information technology and services provider in today's marketplace committed to open systems and organized along customer/industry lines, Digital is more than a supplier of technology. We work in partnership with our customers so we understand their needs. We provide professional services that address those needs and deliver solutions that solve their business problems.

"We deal with many different computer companies. Some are strictly hardware and software suppliers. Digital is something more. They've shown a real understanding of our business and a willingness to work with us to find imaginative ways to use technology to our competitive advantage."
— Mats Weibull, Vice President, Control and Finance, Tetra Pak, Tetra Laval

"By focusing on consulting, we get closer to the customer and gain a real understanding of their business objectives. This allows us to be more effective in working with them in a true partnership, matching our skills and 'core competencies' with their objectives."
— John Klein, Vice President, Consumer, Process, and Transportation Business Unit

In Australia, the World's Most Advanced Telecommunications Network Will Provide New Customer Services

Digital has joined with Australia's Optus Communications to build the Operational Support Systems — the network operating, billing, and administrative systems — that will control and manage a fully digital telecommunications network. (A digital network provides higher bandwidth, faster switching, and better transmission quality than traditional analog technologies, opening the way for the introduction of new customer services.)

Acting as the IT prime contractor and systems integrator for Australia's Optus Communications — a joint venture among Australian companies, Britain's Cable and Wireless, and BellSouth — Digital will be responsible for a multimillion-dollar investment program.

Projects of this scope are not unusual in the telecommunications industry. But it is unusual for a computer company to join with a telecommunications provider to help build a transcontinental network from the ground up.

Digital has the experience and resources to do the job. Our systems are used by leading telecommunications companies including Pacific Bell, Deutsche Telekom, British Telecom, MCI, and NTT. By *The Wall Street Journal* and *Le Figaro*. By CNN, NBC, ABC, PBS, and the BBC. By Reuters and AP. By McGraw-Hill and Bertlesmann.

Communications are also essential in education. Digital helped MIT, Carnegie-Mellon, Stevens Institute, the Hong Kong University of Science and Technology, and the University of Edinburgh build campus-wide computer networks.

All these accounts are involved with communications in one form or another. They're exploring computer imaging, data transmission over cable networks, campus-wide networking, virtual reality, and multimedia applications. We learn from them even as we work with them.

"Value-added customer services are going to be key to our success. And a fully digital network gives us a competitive advantage. We're giving Australia a telecommunications network that other countries will emulate."
— Robert Mansfield, Chief Executive Officer, Optus Communications

"Our strategy is to form alliances with key telecommunications companies and invest on a risk-sharing basis with strategic partners. Our relationship with Optus is based on this model. We expect to export the Operational Support Systems technology we will develop with Optus. It could become a major revenue earner for both companies."
— Paul Kozlowski, Vice President, Communications, Education, and Media Business Unit

Communications, Education, and Media — Vice President, Paul Kozlowski

Founder of Contel Cellular, Inc. and former President of GTE Mobil Communication, America's second largest cellular telephone company, Kozlowski joined Digital in 1993.

Optus CEO Robert Mansfield (right) and Digital Vice President Paul Kozlowski get a firsthand view of the growing Australian telecommunications marketplace from the top of the Optus Centre in North Sydney. Kozlowski is also responsible for Digital sales to educational institutions and to the media.

Digital Vice President Willow Shire (center) discusses the Digital internship program with Dr. Jennifer Jackman (left), President, Chedoke-McMaster Hospitals, and Dr. Frank Baillie, Associate Professor, Department of Surgery and Program Director, Critical Care Transport Unit.

When You Intern at a Hospital, You Begin to Understand How Information Technology Can Help Solve the Healthcare Crisis

Health Industries — Vice President, Willow Shire

A sixteen-year Digital veteran, Shire has volunteered as director of a community ambulance service and as an emergency medical technician.

It's not enough to have the best technology, or even a portfolio of over 600 applications from 120 business partners. Healthcare providers want to work with a computer company that understands health care and the way it is delivered.

Digital has that understanding.

This past year, Digital employees interned at four hospitals: Hamilton, Ontario's Chedoke-McMaster Hospitals, Children's Hospital in Boston, the Dartmouth-Hitchcock Medical Center in New Hampshire, and the University of Massachusetts Medical Center. During intensive, week-long programs, Digital account managers and healthcare marketing specialists met with senior administrative and medical staff and visited departments to gain a firsthand knowledge of how the system worked from the perspective of the patient, the caregiver, and the hospital.

These institutions opened their doors to Digital because they recognized the importance of working with people who understand their business. That understanding is one reason Digital has been able to help over 8,000 healthcare institutions develop programs to improve the quality of care while implementing effective cost-containment programs.

These programs cover the entire healthcare field. Digital is working with St. Jude Children's Research Hospital in Memphis, Tennessee, on pediatric AIDS and cancer research; with Eemland Hospital in Amersfoort, the Netherlands, to integrate clinical and administrative applications; with TakeCare of Colorado, applying electronic interchange technology to standardize claims processing; and with Emory University System of Healthcare in Georgia on telemedicine and computer-based patient record keeping.

"In October, last year, Digital asked if we'd be interested in setting up an 'internship' program for their marketing people. The idea was to spend a week here learning how a hospital and its staff work — how we interact, the issues we face, our goals, and our concerns. With this understanding, Digital becomes a fully informed partner who can help provide solutions to the problems facing our industry."
— Dr. Jennifer Jackman, President, Chedoke-McMaster Hospitals

"If you're going to be a partner with your customer, you have to understand their problems and how information technology can solve those problems. You have to understand the mission of a healthcare organization, and how it accomplishes it."
— Willow Shire, Vice President, Health Industries Business Unit

"On Time" Means a Lot to an Airline — Digital Multivendor Services Help Keep Sabena's Computer Systems Up and Running

Airlines — and airline travelers — don't like it when equipment problems cause delays and mix-ups. Like many airlines, Sabena had an eclectic collection of old and new PCs, printers, terminals, and data communications equipment. These systems were built by Olivetti, Compaq, Apple, IBM, Hewlett-Packard, and other manufacturers — some of whom are no longer in business. And they were scattered from Brussels to Berlin, from London to Kinshasa, over the 85 destinations in 49 countries served by Sabena.

Maintenance used to be a problem. The airline's help desk had to provide end-user support and parcel out service requests among different vendors. There was little accountability; no one vendor was responsible for keeping PCs and printers up and running to support Sabena's information systems.

At the time, Sabena was not a Digital customer. But when they saw that they needed a single, worldwide service organization that could maintain 4,100 systems and support thousands of users, they started with Digital, outsourcing the maintenance of desktop equipment — PCs, printers, communications modules — in Belgium.

Digital was one computer company that could provide multivendor services on a worldwide basis. Digital does business in 100 different countries and supports products from thousands of other computer companies, including virtually every brand of PC and peripheral and more than 80 percent of the most commonly used software applications. From Microsoft Windows NT to Novell NetWare. From PC software to transaction processing networks for trading currencies and securities across international boundaries. From point-of-sale terminals to workstations that rival a supercomputer in power.

We support customers who have little or no equipment built by Digital as well as customers who have built their networks around VAX systems. We have customers who are looking to protect their existing computer investments and customers who are downsizing their computer operations. We support customers on Wall Street and Main Street, on rue du Marechal Leclerc and Leinfelderstrasse. Building a multibillion-dollar-a-year service organization took a real commitment to providing customers with the comprehensive multivendor support they need to protect their investments in information technology.

"Sabena wanted a single company that would be responsible and accountable for multivendor support, not just fixing equipment when it failed. We wanted one source for scheduled maintenance — one company that could do everything needed to keep our PCs and printers up and running."
— Claude Palmero, Executive Vice President, Information Systems, Sabena Belgian World Airlines

"At Digital, multivendor support is the entire spectrum of services. Planning and design services. Installation. Predictive maintenance. Training. Hardware and software support. Integration services. And it means the global infrastructure to provide these services consistently. Our commitment is to give customers the service and support they need for business success."
— John Rando, Vice President, Multivendor Customer Services Business Unit

Multivendor Customer Services — Vice President, John Rando

Rando joined Digital in 1976 and is responsible for Hardware Product Services, Software Product Services, and Systems Support Services. Before assuming his present position, he was Vice President, Product Services.

Claude Palmero (left), Sabena's Executive Vice President, Information Systems, and Digital Vice President John Rando meet at Brussels Airport to see some of the ways Digital is helping reduce computer downtime.

The Values That Characterize Digital's Customer Relationships Are Carried into the Community

The Digital story is about people as well as technology. As individuals, we show the same concern for the community as we do for our customers. Gigi Ramage, an account manager in Digital's Seattle, Washington, office, shows that concern.

When someone in her personal life died from AIDS, she got involved with the Bailey-Boushay House, the first hospice in the nation designed and built from the ground up specifically for people with AIDS.

When Gigi found that the hospice didn't have the money to buy the computer systems they needed, she helped them put together a proposal to Digital's Corporate Contributions Committee. Thanks to that proposal, Bailey-Boushay was one of the 38 nonprofit organizations worldwide to share in a $10 million equipment program created as part of Digital's corporate contributions strategy to support HIV/AIDS and Alzheimer's education and awareness programs and research.

When the grant was approved, Gigi worked as a volunteer, pulling Ethernet cable through ceilings and installing drop lines. But her involvement didn't stop with equipment installation; she's now helping Bailey-Boushay build a research database.

Making that extra effort on behalf of the customer and the community is part of the Digital culture. When an explosion shut down New York's World Trade Center, Digital people worked around the clock and through the weekend to help customers continue operations with minimum disruption. They didn't wait for someone to tell them what to do. They pitched in and did what needed to be done. Digital employees took the initiative. Overnight, one group converted two classrooms in our downtown New York training site into a temporary office for Zim-American Israeli Shipping Co. so they could continue operations.

This sort of extra effort and involvement is not unusual. Digital people recognize that they can make a difference. Because we're concerned about the environment, we've eliminated the use of ozone-depleting substances, including CFCs, from our manufacturing processes. Because we care about our communities, we provide technical and financial support to educational, health-care, civic, social, and cultural programs. Some of these programs are based in the community, while others are regional, national, or even international in scope.

"Thanks to Gigi Ramage we now have the computer equipment we need to support clinical, financial, evaluative, and research applications. People do make a difference. And knowing that people care is so very important to anyone living with AIDS."
— Christine Hurley, Director, Bailey-Boushay House, Seattle, Washington

"What I did is not unusual. Most people are ready to lend a helping hand when it is needed. What may be unusual is working for a company that goes out of its way to support its employees when they try to go that extra yard for their customer or their community."
— Gigi Ramage, Digital Account Manager, Seattle, Washington

Digital's leadership in the fight against AIDS received national recognition in *Business Week.*

Financial Statements

Eleven-Year Financial Summary

(dollars in millions except per share data and stock prices)	1993	1992	1991	1990	1989	1988	1987	1986	1985	1984	1983
Revenues											
Product sales	$ 7,588	$ 7,696	$ 8,299	$ 8,146	$ 8,190	$ 7,541	$ 6,254	$ 5,103	$4,530	$3,804	$ 2,828
Service and other revenues	6,783	6,235	5,612	4,797	4,552	3,934	3,135	2,487	2,156	1,780	1,444
Total operating revenues	14,371	13,931	13,911	12,943	12,742	11,475	9,389	7,590	6,686	5,584	4,272
Costs and Expenses											
Cost of product sales, service and other revenues	8,631	8,132	7,278	6,795	6,242	5,468	4,514	4,282	4,087	3,379	2,606
Research and engineering expenses	1,530	1,754	1,649	1,614	1,525	1,306	1,010	814	717	631	472
Selling, general and administrative expenses[1]	4,447	6,181	5,572	4,521	3,639	3,066	2,253	1,665	1,432	1,179	831
Operating income/(loss)	(237)	(2,136)	(588)	13	1,336	1,635	1,612	829	450	395	363
Interest income	64	96	113	142	124	144	122	116	63	41	61
Interest expense	51	39	45	31	39	38	45	88	82	35	13
Income/(loss) before income taxes and cumulative effect of change in accounting principle	(224)	(2,078)	(520)	124	1,421	1,741	1,689	857	431	401	411
Provision for income taxes	27	232	97	50	348	435	552	240	(16)[4]	72	127
Net income/(loss)[5]	$ (251)	$ (2,796)	$ (617)	$ 74	$ 1,073	$ 1,306	$ 1,137	$ 617	$ 447	$ 329	$ 284
Net income/(loss) per share[2,3,5]	$ (1.93)	$ (22.39)	$ (5.08)	$ .59	$ 8.45	$ 9.90	$ 8.53	$ 4.81	$ 3.71	$ 2.87	$ 2.50
Weighted average shares outstanding (in millions)	130	125	122	125	127	132	133	131	124	115	113
Financial Position											
Inventories	$ 1,755	$ 1,614	$ 1,595	$ 1,538	$ 1,638	$ 1,575	$ 1,453	$ 1,200	$1,756	$1,852	$1,354
Accounts receivable, net of allowance	$ 3,020	$ 3,594	$ 3,317	$ 3,207	$ 2,965	$ 2,592	$ 2,312	$ 1,903	$1,539	$1,527	$1,125
Net property, plant and equipment	$ 3,178	$ 3,570	$ 3,778	$ 3,868	$ 3,646	$ 3,095	$ 2,127	$ 1,867	$1,731	$1,511	$1,340
Total assets	$10,950	$11,284	$11,875	$11,655	$10,668	$10,112	$ 8,407	$ 7,173	$6,369	$5,593	$4,541
Long-term debt	$ 1,018	$ 42	$ 150	$ 150	$ 136	$ 124	$ 269	$ 333	$ 837	$ 441	$ 93
Stockholders' equity	$ 4,885	$ 4,931	$ 7,624	$ 8,182	$ 8,036	$ 7,510	$ 6,294	$ 5,728	$4,555	$3,979	$3,541
Stockholders' equity per share[2]	$ 36.19	$ 38.58	$ 61.18	$ 66.76	$ 66.12	$ 59.47	$ 49.87	$ 44.54	$38.43	$34.42	$31.42
General Information and Ratios											
Current ratio	1.8:1	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
Quick ratio	1.2:1	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
Working capital	$ 2,964	$ 2,015	$ 3,777	$ 4,332	$ 4,501	$ 4,516	$ 4,377	$ 4,223	$3,694	$3,001	$2,377
Investments in property, plant and equipment	$ 529	$ 710	$ 738	$ 1,028	$ 1,223	$ 1,518	$ 748	$ 564	$ 572	$ 452	$ 419
Depreciation	$ 699	$ 733	$ 772	$ 759	$ 659	$ 516	$ 435	$ 384	$ 315	$ 253	$ 203
Total debt as a percentage of total debt plus equity	17.5%	1.8%	2.2%	2.0%	2.0%	3.6%	4.2%	5.9%	15.7%	10.3%	3.0%
Operating income/(loss) as a percentage of revenues	(1.7)%	(15.3)%	(4.2)%	.1%	10.5%	14.2%	17.2%	10.9%	6.7%	7.1%	8.5%
Income/(loss) before income taxes as a percentage of revenues	(1.6)%	(14.9)%	(3.7)%	1.0%	11.2%	15.2%	18.0%	11.3%	6.4%	7.2%	9.6%
Effective tax rate	12.0%	11.2%	18.8%	40.0%	24.5%	25.0%	32.7%	28.0%	(3.7)%[4]	18.0%	31.0%
Net income/(loss) as a percentage of revenues	(1.7)%	(20.1)%	(4.4)%	.6%	8.4%	11.4%	12.1%	8.1%	6.7%	5.9%	6.6%
Net income/(loss) as a percentage of average stockholders' equity	(5.1)%	(44.5)%	(7.8)%	.9%	13.8%	18.9%	18.9%	12.0%	10.5%	8.7%	8.5%
Net income/(loss) as a percentage of average total assets	(2.3)%	(24.1)%	(5.2)%	.7%	10.3%	14.1%	14.6%	9.1%	7.5%	6.5%	6.6%
Number of days sales of accounts receivable outstanding	69	83	76	86	76	75	78	79	75	83	82
Inventory turns	5.1	5.1	4.6	4.3	3.9	3.6	3.4	2.9	2.3	2.1	2.1
Number of employees at year-end—regular	89,900	107,900	115,100	116,900	118,400	113,900	103,000	88,300	83,000	79,800	68,100
Number of employees at year-end—other	4,300	5,900	5,900	7,100	7,400	7,600	7,500	6,400	6,000	5,800	4,900
Stockholders at year-end	86,611	99,644	98,023	92,934	99,084	103,162	99,379	76,860	68,810	44,389	40,903
Common stock yearly high and low sales prices	$49–30	$72–33	$87–45	$103–70	$122–86	$199–99	$174–82	$94–46	$63–39	$61–33	$65–32

[1] Includes restructuring charges of $1,500M in 1992, $1,100M in 1991 and $550M in 1990.
[2] Per share data adjusted to reflect two-for-one stock split in May 1986.
[3] See Note A of Notes to Consolidated Financial Statements.
[4] Includes elimination of DISC taxes of $63M accrued prior to 1984.
[5] In fiscal year 1992, net loss and net loss per share include the cumulative effect of change in accounting principle of $485M and $3.89, respectively.

Management's Discussion and Analysis of Results of Operations and Financial Condition

Income and Expense Items as a Percentage of Total Operating Revenues (a)				*Percentage Changes*		
1991	1992	1993	**Income and Expense Items**	1992–93	1991–92	1990–91
59.7%	55.2%	52.8%	Product sales.	(1)%	(7)%	2%
40.3%	44.8%	47.2%	Service and other revenues	9%	11%	17%
100.0%	100.0%	**100.0%**	Total operating revenues	3%	–	7%
47.1%	55.2%	**58.8%**	Cost of product sales (b)	5%	9%	2%
60.1%	62.3%	**61.4%**	Service expense and cost of other revenues (b) . .	7%	15%	14%
52.3%	58.4%	**60.1%**	Total cost of operating revenues	6%	12%	7%
11.9%	12.6%	**10.6%**	Research and engineering expenses.	(13)%	6%	2%
32.1%	33.6%	**30.9%**	Selling, general and administrative expenses . . .	(5)%	5%	13%
7.9%	10.8%	–	Restructuring charges	(100)%	36%	100%
(4.2)%	(15.3)%	(1.7)%	Operating loss.	89%	(100+)%	(100+)%
0.8%	0.7%	.4%	Interest income	(34)%	(15)%	(20)%
0.3%	0.3%	.4%	Interest expense.	32%	(14)%	45%
(3.7)%	(14.9)%	(1.6)%	Loss before income taxes and cumulative effect of change in accounting principle.	89%	(100+)%	(100+)%
0.7%	1.7%	.2%	Provision for income taxes	(88)%	100+%	97%
(4.4)%	(16.6)%	(1.7)%	Loss before cumulative effect of change in accounting principle	89%	(100+)%	(100+)%
–	3.5%	–	Cumulative effect of change in accounting principle, net of tax benefits	(100)%	–	–
(4.4)%	(20.1)%	(1.7)%	Net loss.	91%	(100+)%	(100+)%

Note (a) Percentages of operating revenues may not be additive due to rounding.

Note (b) Cost of product sales and service expense and cost of other revenues are shown as percentages of their related revenues.

Overview

Fiscal 1993 marked a year of significant change for the Corporation, as it responded to the changing environment in the information technology industry. The Corporation's operating results for fiscal 1993 reflect the effects of restructuring actions taken during the past several years. Although the Corporation reported a net loss of $251 million for the year, it demonstrated consistent year over year improvement in operating results for the last three quarters of the year, posting a net profit of $113 million for the fourth quarter.

Service revenues have continued to grow, and represent a larger percentage of total operating revenues than ever before. In addition, the mix of products and services which make up the Corporation's total operating revenues has changed dramatically over the last several years.

At the beginning of fiscal 1993, the Corporation introduced new models of its traditional VAX systems which are designed to upgrade easily to Alpha AXP systems. The Alpha AXP architecture, announced during fiscal 1992, is designed to run multiple operating systems and to be the foundation for a leading high-performance computer family. During the year, the Corporation introduced personal computers, workstations and client-server computer systems based on the Alpha AXP architecture, as well as DEC OSF/1 V1.2, the Corporation's unified UNIX operating system for the Alpha AXP family of systems. Sales of Alpha AXP computer systems and components represent a significant future revenue opportunity. For fiscal 1993, the sale of Alpha AXP computer systems did not have a significant impact on operating results.

As the price/performance of computer systems has improved, the profitable sale and service of these products have become increasingly dependent on low-cost product design and manufacture, and on efficient delivery in high volumes. At the same time, customer needs for solutions, which integrate hardware and software products from multiple vendors, present an opportunity to the Corporation to provide, in addition to its broad product and maintenance service offerings, consulting, planning and integration expertise through direct sales channels focused on specific industries.

The Corporation has implemented organizational changes which it believes will enable it to respond to these changing business models. The effectiveness of these newly implemented changes cannot yet be measured, but the Corporation believes they are necessary for it to compete successfully in the various businesses in which it participates.

Revenues

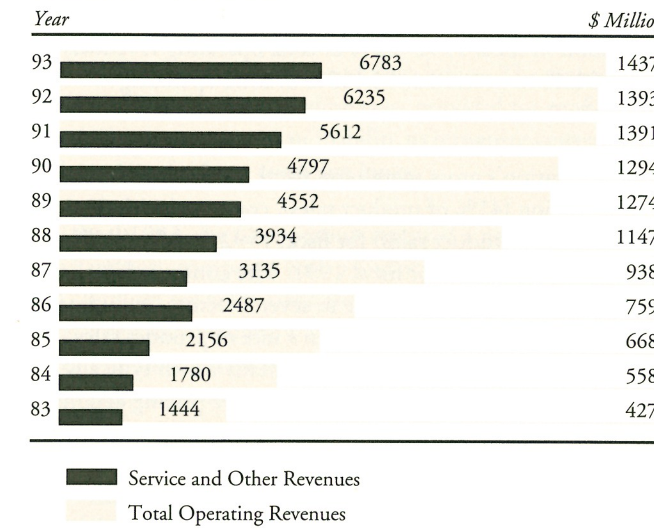
In fiscal 1993, total operating revenues, which were $14.4 billion, grew by $440 million or 3%, following an increase of $20 million, or less than 1% in fiscal 1992 and $1 billion or 7% in fiscal 1991.

Non-U.S. revenues accounted for 64% of total operating revenues in fiscal 1993, up from 63% in fiscal 1992 and 60% in fiscal 1991. European revenues increased to $7 billion in fiscal 1993, up from $6.8 billion and $6.3 billion in fiscal 1992 and 1991, respectively. The increase in fiscal 1993 European revenues, as reported in U.S. dollars, was principally attributable to favorable foreign currency fluctuations. Over the last several years, the Corporation has increased its presence in European markets primarily through two acquisitions completed in fiscal 1992 and 1991 (see Note J).

Product sales for fiscal 1993 were $7.6 billion, or 53% of total operating revenues, compared with $7.7 billion or 55% of revenues in fiscal 1992 and $8.3 billion or 60% of revenues in fiscal 1991. While the Corporation shipped substantially more computer systems in fiscal 1993 than in fiscal 1992, product sales for fiscal 1993 were essentially unchanged compared with the prior year, due primarily to a continued shift in the mix of product sales toward low-end, lower-priced computer systems and away from the Corporation's traditional proprietary mid-range products.

In fiscal 1993, service and other revenues totaled $6.8 billion or 47% of total operating revenues. Service revenues grew by $549 million or 9%, following increases of 11% and 17% in fiscal 1992 and 1991, respectively. The Corporation's service revenues are derived principally from hardware and software product services and systems integration services. The growth in service revenues for fiscal 1993 was due to increased demand for systems integration and other professional and consulting services and the service of non-Digital products. In response to customer demand for a worldwide integrated services provider, the Corporation is focusing on multivendor customer service opportunities.

Total Operating Revenues



Non-United States Revenues

Expenses and Profit Margins

The Corporation's total gross margin for fiscal 1993 was $5.7 billion (40% of total operating revenues), compared with $5.8 billion in fiscal 1992 (42% of total operating revenues) and $6.6 billion in fiscal 1991 (48% of total operating revenues).

The Corporation's gross margin on fiscal 1993 product sales was $3.1 billion (41% of product sales), compared with $3.4 billion (45% of product sales) for fiscal 1992 and $4.4 billion (53% of product sales) for fiscal 1991. The continued decline in product gross margin was due to several factors, including a continued shift in the Corporation's mix of product sales from larger systems toward low-end systems which typically carry lower margins. In addition, competitive pricing actions taken by the Corporation in the period also contributed to the decline in product gross margins. The Corporation is addressing the industry trend toward lower product gross margins by continuing to reduce manufacturing costs, eliminating excess capacity, streamlining its product offerings and using externally supplied components and subsystems, where appropriate.

Gross margin on service revenues for fiscal 1993 was $2.6 billion (39% of service revenues), compared with $2.4 billion in fiscal 1992 (38% of service revenues) and $2.2 billion (40% of service revenues) in fiscal 1991. The improvement in service gross margin for fiscal 1993 was due to a higher volume of service revenues and to greater efficiencies in service delivery. The decline in service gross margin as a percentage of service revenues in fiscal 1992 compared with fiscal 1991 was due in part to slow growth in the higher-margin hardware maintenance business and substantially higher growth in newer service offerings such as systems integration, which have relatively lower margins.

Demonstrating the Corporation's efforts to bring research and engineering (R&E) spending in line with industry norms, R&E expenses declined 13% to $1.5 billion, or 10.6% of total operating revenues in fiscal 1993. This compares with $1.8 billion or 12.6% of total operating revenues in fiscal 1992, and $1.6 billion or 11.9% of total operating revenues in fiscal 1991. The decrease in R&E expenses was due to several factors, including the elimination of redundant engineering efforts and streamlined product offerings, which resulted in a reduction in employee population. The Corporation's R&E investment program is focused on maintaining a strong, consistently market-driven product set and on attaining and sustaining technology leadership in selected areas.

Research and Engineering

Year	*$ Millions*
93	1530
92	1754
91	1649
90	1614
89	1525
88	1306
87	1010
86	814
85	717
84	631
83	472

Total Employee Population

Year	*Thousands*
93	94
92	114
91	121
90	124
89	126
88	122
87	111
86	95
85	89
84	86
83	73

Fiscal 1993 selling, general and administrative (SG&A) expenses were $4.4 billion (30.9% of total operating revenues), compared with $4.7 billion (33.6% of total operating revenues) in fiscal 1992 and $4.5 billion (32.1% of total operating revenues) in fiscal 1991. The 5% decrease in SG&A expenses in fiscal 1993 was primarily the result of reductions in employee population, complemented by reductions in other overhead costs, and a reduction in expense derived from the repurchase and cancellation of certain outstanding stock options (see Note K). The Corporation has and will continue its efforts to streamline selling and administrative practices, reduce costs and increase productivity. As part of this effort, the Corporation is emphasizing and continues to derive an increasing portion of product sales from indirect and telemarketing channels. In addition, during fiscal 1993, the Corporation implemented competitive incentive compensation programs for its sales force in selected countries and is expanding these programs to include essentially all countries by the end of fiscal 1994. Fiscal 1992 SG&A expenses increased $209 million compared with fiscal 1991, due principally to the acquisitions of Digital-Kienzle and the Philips Information Systems Division (see Note J).

In order to implement plans and actions designed to achieve a competitive cost structure, the Corporation absorbed restructuring charges of $1.5 billion, $1.1 billion and $550 million in fiscal 1992, 1991 and 1990, respectively, to cover costs of employee separations, facilities consolidations, asset retirements, relocation and related costs (see Note E). The Corporation has reduced employee population significantly, as noted below, closed or sold a number of businesses, plants and other facilities, and plans to take further restructuring actions. As a result of these activities, the Corporation has eliminated an estimated $2 billion of annual operating costs. The Corporation believes that the remaining restructuring reserve of $739 million is adequate for presently planned restructuring actions, which will eliminate additional operating costs in fiscal 1994 and beyond.

Total employee population decreased by 19,600 during fiscal 1993. The Corporation had approximately 89,900, 107,900 and 115,100 regular employees at the end of fiscal 1993, 1992 and 1991, respectively, and an additional 4,300, 5,900 and 5,900 temporary and contract workers at the end of fiscal 1993, 1992 and 1991, respectively.

Interest income in fiscal 1993 decreased to $64 million from $96 million in fiscal 1992 and $113 million in fiscal 1991, reflecting lower interest rates and lower average cash balances. Interest expense increased to $51 million in fiscal 1993 from $39 million and $45 million in fiscal 1992 and 1991, respectively. The increase in fiscal 1993 interest expense resulted principally from the issuance of $1 billion of long-term debt during the year.

In fiscal 1993, the Corporation's income tax expense was $27 million on a pre-tax loss of $224 million (see Note C). In fiscal 1992, the Corporation's income tax expense was $232 million on a pre-tax loss of $2.1 billion.The tax expense reflects several factors, including taxes provided for profitable non-U.S. operations and an inability to recognize currently U.S. tax benefits from operating losses.

For fiscal 1993, the Corporation reported a net loss of $251 million, compared with a loss of $2.8 billion and $617 million for fiscal 1992 and 1991, respectively. The fiscal 1992 loss included a $1.5 billion restructuring charge and a one-time charge of $485 million for the cumulative effect of an accounting change.

In November 1992, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 112 – Employers' Accounting for Postemployment Benefits. SFAS No. 112 requires employers to recognize an obligation for benefits provided to employees after employment but before retirement. The Corporation must adopt SFAS No. 112 no later than the end of fiscal 1995. The Corporation has not adopted SFAS No. 112, and has not yet determined the impact of such adoption on the Corporation's consolidated financial position or results of operations. Adoption of SFAS No. 112 will have no cash flow impact on the Corporation.

In February 1992, the FASB issued SFAS No. 109 – Accounting for Income Taxes. The Corporation will adopt SFAS No. 109 in the first quarter of 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. Upon adoption, the Corporation expects to recognize additional gross deferred tax assets of approximately $1.9 billion, which will consist primarily of tax benefits associated with net operating loss carryforwards, postretirement benefits and restructuring charges of approximately $1 billion, $360 million and $230 million, respectively. The additional gross assets will be almost entirely offset by valuation allowances, resulting in a one-time benefit of approximately $20 million to the consolidated statement of operations. The adoption of SFAS No. 109 will have no cash flow impact on the Corporation (see Note C).

On August 10, 1993, the Omnibus Budget Reconciliation Act of 1993 was signed into law. This act, among other things, raises the U.S. corporate statutory tax rate from 34% to 35%. Due to the net operating loss carryforwards, the Corporation does not expect the change in the statutory tax rate to have a material impact on the Corporation's consolidated financial position or results of operations for the foreseeable future.

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

Cash and cash equivalents totaled $1.6 billion, $1.3 billion and $1.9 billion at the end of fiscal 1993, 1992 and 1991, respectively.

Net cash flows from operating activities were $47 million in fiscal 1993 compared with $431 million and $1 billion in fiscal 1992 and 1991, respectively. Fiscal 1993 cash flows from operating activities were primarily the result of improved accounts receivable, offset by restructuring activities, the net loss for the year and decreased accounts payable.

Net cash used for investing activities was $884 million, $981 million and $1 billion in fiscal 1993, 1992 and 1991 respectively. In fiscal 1993, the Corporation completed its purchase of a minority interest in Ing. Olivetti & C. S.p.A. for $288 million (see Note J). Capital expenditures totaled $529 million in fiscal 1993 (including approximately $117 million for the construction of a semiconductor fabrication plant and purchase of equipment in Hudson, Massachusetts), compared with $710 million and $738 million in fiscal 1992 and 1991, respectively. The Corporation intends to continue making investments in support of its objective of sustaining technology leadership in selected areas. As a result, the Corporation expects that its capital expenditures for fiscal 1994 will be somewhat greater than for fiscal 1993, including an estimated $175 million for the Hudson project. This project has an anticipated total cost of $425 million, with a remaining $123 million to be expended in fiscal 1995 and 1996.

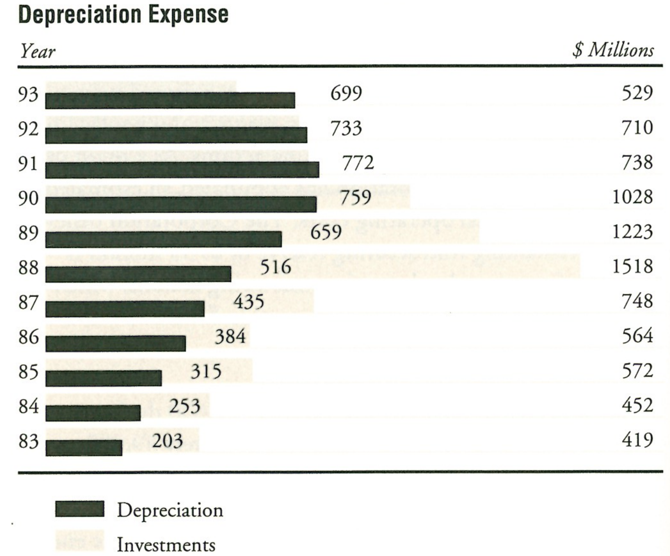
The Corporation disposed of property, plant and equipment and other assets in fiscal 1993, generating approximately $68 million in cash proceeds compared with $15 million in fiscal 1992.

Cash flows from financing activities were $1.1 billion, ($36) million and ($99) million in fiscal 1993, 1992 and 1991, respectively. The principal financing activity in fiscal 1993 was the issuance of $1 billion in aggregate principal amount of notes and debentures under the Corporation's $1 billion shelf registration statement filed during the first quarter of fiscal 1993 (see note F). The Corporation also received $196 million during fiscal 1993 from the issuance of common stock under the Corporation's stock purchase plans compared with $232 million and $240 million in fiscal 1992 and 1991, respectively.

Total debt was $1.04 billion, $91 million and $173 million at the end of fiscal 1993, 1992 and 1991, respectively. At the end of fiscal 1993, substantially all of the available lines of credit were unused, including a three-year $750 million committed credit facility, entered into by the Corporation with a syndicate of banks in May 1993.

The Corporation historically has maintained a conservative capital structure, and believes that its current cash position and debt capacity are adequate to support current and future operations.

Investments in Property, Plant and Equipment
Depreciation Expense



Report of Management

The Corporation'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 Corporation 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 Corporation's independent public accountants annually review the accounting and control systems of the Corporation. 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, which is composed of three Board members who are independent of management, is responsible for determining that management fulfills its responsibility with respect to the Corporation's financial statements and the system of internal accounting controls.

The Audit Committee meets regularly with representatives of management, the independent accountants and the Corporation's internal auditors to review audits, financial reporting, and internal control matters, and when appropriate, meets with the Corporation's outside counsel on relevant 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 Corporation's financial statements. Their report follows.

Robert B. Palmer
President and Chief Executive Officer

William M. Steul
Vice President, Finance and Chief Financial Officer

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 July 3, 1993 and June 27, 1992, and the related consolidated statements of operations, cash flows, and stockholders' equity for each of the three fiscal years in the period ended July 3, 1993. These financial statements are the responsibility of the Corporation'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 July 3, 1993 and June 27, 1992, and the consolidated results of its operations and cash flows for each of the three fiscal years in the period ended July 3, 1993, in conformity with generally accepted accounting principles.

As discussed in Note G to the consolidated financial statements, the Corporation changed its method of accounting for post-retirement benefits other than pensions in fiscal 1992.

Coopers & Lybrand

Coopers & Lybrand

Boston, Massachusetts
July 28, 1993

Consolidated Statements of Operations

(in thousands except per share data)

			Year Ended
	July 3, 1993	June 27, 1992	June 29, 1991
Revenues *(Notes A and B)*			
Product sales	$ 7,587,994	$ 7,696,029	$ 8,298,515
Service and other revenues	6,783,375	6,234,843	5,612,489
Total operating revenues	14,371,369	13,930,872	13,911,004
Costs and Expenses *(Notes A, G and K)*			
Cost of product sales	4,464,445	4,248,118	3,905,355
Service expense and cost of other revenues	4,166,946	3,883,705	3,373,025
Research and engineering expenses	1,530,119	1,753,898	1,649,380
Selling, general and administrative expenses	4,447,160	4,680,822	4,471,629
Restructuring charges *(Note E)*	–	1,500,000	1,100,000
Operating loss	(237,301)	(2,135,671)	(588,385)
Interest income	63,831	96,176	113,221
Interest expense	50,837	38,517	44,556
Loss before income taxes and cumulative effect of change in accounting principle	(224,307)	(2,078,012)	(519,720)
Provision for income taxes *(Notes A and C)*	27,023	232,000	97,707
Loss before cumulative effect of change in accounting principle	(251,330)	(2,310,012)	(617,427)
Cumulative effect of change in accounting principle, net of tax *(Note G)*	–	485,495	–
Net Loss	$ (251,330)	$ (2,795,507)	$ (617,427)
Per Share *(Note A)*			
Loss before cumulative effect of change in accounting principle	$ (1.93)	$ (18.50)	$ (5.08)
Cumulative effect of change in accounting principle	–	(3.89)	–
Net Loss per Share *(Note A)*	$ (1.93)	$ (22.39)	$ (5.08)
Weighted average shares outstanding *(Note A)*	130,409	124,864	121,558

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

Consolidated Balance Sheets

(in thousands)	July 3, 1993	June 27, 1992
Assets		
Current Assets		
Cash and cash equivalents *(Note A)*	$ 1,643,195	$ 1,337,172
Accounts receivable, net of allowance of $110,764 and $129,686	3,020,252	3,594,268
Inventories *(Note A)*		
Raw materials	331,506	264,871
Work-in-process	502,200	495,632
Finished goods	921,434	853,531
Total inventories	1,755,140	1,614,034
Prepaid expenses and deferred income taxes *(Note C)*	463,928	575,364
Total current assets	6,882,515	7,120,838
Property, Plant and Equipment *(Note A)*		
Land	363,264	372,989
Buildings	1,887,211	1,871,710
Leasehold improvements	532,369	592,971
Machinery and equipment	4,410,586	4,835,454
Total property, plant and equipment	7,193,430	7,673,124
Less accumulated depreciation	4,015,139	4,103,422
Net property, plant and equipment	3,178,291	3,569,702
Other assets *(Notes A, C, D and J)*	889,537	593,769
Total assets	$10,950,343	$11,284,309
Liabilities and Stockholders' Equity		
Current Liabilities		
Bank loans and current portion of long-term debt *(Note F)*	$ 21,335	$ 49,061
Accounts payable	822,434	1,041,300
Income taxes payable *(Note C)*	57,614	63,725
Salaries, wages and related items	556,151	551,727
Deferred revenues and customer advances *(Note A)*	1,138,323	1,208,635
Restructuring reserve *(Note E)*	738,989	1,546,904
Other current liabilities	583,868	644,696
Total current liabilities	3,918,714	5,106,048
Deferred income taxes *(Note C)*	–	23,033
Long-term debt *(Note F)*	1,017,577	41,636
Postretirement benefits *(Note G)*	1,128,653	1,182,658
Total liabilities	6,064,944	6,353,375
Commitments *(Note H)*		
Stockholders' Equity *(Notes K, L and M)*		
Common stock, $1.00 par value; authorized 450,000,000 shares; issued 135,489,805 shares and 130,008,231 shares	135,490	130,008
Additional paid-in capital	2,851,960	2,692,444
Retained earnings	1,937,627	2,282,688
Treasury stock at cost; 497,551 shares and 2,193,014 shares	(39,678)	(174,206)
Total stockholders' equity	4,885,399	4,930,934
Total liabilities and stockholders' equity	$10,950,343	$11,284,309

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

Consolidated Statements of Cash Flows

(in thousands)			Year Ended
	July 3, 1993	June 27, 1992	June 29, 1991
Cash Flows from Operating Activities			
Net loss	$ (251,330)	$(2,795,507)	$ (617,427)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation	698,631	732,536	772,310
Amortization	139,552	100,292	56,250
Other adjustments to income	185,617	269,095	189,077
(Increase)/decrease in accounts receivable	574,016	(86,163)	105,977
(Increase)/decrease in inventories	(141,106)	155,881	18,616
(Increase)/decrease in prepaid expenses	(26,552)	42,908	(47,239)
Increase/(decrease) in accounts payable	(218,866)	277,918	(17,694)
Increase/(decrease) in taxes	75,590	55,142	(105,614)
Increase/(decrease) in salaries, wages, benefits and related items	(49,581)	1,115,240	74,982
Increase/(decrease) in deferred revenues and customer advances	(70,312)	101,421	92,222
Increase/(decrease) in restructuring reserve	(807,915)	510,200	593,160
Decrease in other current liabilities	(60,828)	(48,259)	(73,719)
Total adjustments	298,246	3,226,211	1,658,328
Net cash flows from operating activities	46,916	430,704	1,040,901
Cash Flows from Investing Activities			
Investment in property, plant, and equipment	(528,691)	(710,436)	(737,548)
Proceeds from the disposition of property, plant, and equipment	46,049	15,141	–
Investment in other assets *(Note J)*	(423,573)	(139,459)	(55,782)
Proceeds from the disposition of other assets	22,100	–	–
Business acquisitions, net of cash acquired *(Note J)*	–	(146,387)	(233,261)
Net cash flows from investing activities	(884,115)	(981,141)	(1,026,591)
Net cash flows from operating and investing activities	(837,199)	(550,437)	14,310
Cash Flows from Financing Activities			
Proceeds from issuance of debt	984,482	25,821	14,249
Payments to retire debt	(36,860)	(108,472)	(112,426)
Purchase of treasury shares	–	(185,292)	(240,719)
Issuance of common shares and treasury shares, including tax benefits	195,600	231,502	239,653
Net cash flows from financing activities	1,143,222	(36,441)	(99,243)
Net increase/(decrease) in cash and cash equivalents	306,023	(586,878)	(84,933)
Cash and cash equivalents at beginning of year	1,337,172	1,924,050	2,008,983
Cash and cash equivalents at end of year	$1,643,195	$ 1,337,172	$1,924,050

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*
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				(240,719)	(240,719)
Shares issued under stock plans			(294,917)	524,334	229,417
Restricted stock plans, charge to operations		60,419			60,419
Tax benefits related to stock plans		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				(185,292)	(185,292)
Shares issued under stock plans			(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
Shares issued under stock plans	5,482	149,321	(93,731)	134,528	195,600
Restricted stock plans, charge to operations		42,038			42,038
Repurchase unexercised option shares		(31,843)			(31,843)
Net loss—1993			(251,330)		(251,330)
July 3, 1993	**$135,490**	**$2,851,960**	**$1,937,627**	**$ (39,678)**	**$4,885,399**

See Notes K, L and M in the Notes to Consolidated Financial Statements.
Cash dividends have never been paid by the Corporation.

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 Corporation include the financial statements of the parent and its U.S. and non-U.S. subsidiaries. All intercompany accounts and profits have been eliminated. Certain prior years' amounts have been reclassified to conform with current year presentation.

Fiscal Year □ The fiscal year of the Corporation is the fifty-two/fifty-three week period ending the Saturday nearest the last day of June. The fiscal year ended July 3, 1993 includes 53 weeks. The fiscal years ended June 27, 1992 and June 29, 1991 include 52 weeks.

Translation of Foreign Currencies □ For non-U.S. 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 Corporation enters into forward foreign exchange contracts to delay the short-term impact of foreign currency fluctuations on operations and the asset and liability positions of non-U.S. 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. See Note I for information on the Corporation's other financial instruments.

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 revenues are recognized ratably over the warranty period; warranty related costs are recognized as service expense as incurred. The Corporation also provides warranty coverage as a product attribute on certain products. Estimated costs to repair such products are accrued as product cost when the product is shipped.

Net Income/(Loss) per Share □ Per share amounts are calculated based on the weighted average number of common shares and common share equivalents outstanding during periods of net income. Common share equivalents are attributable to stock options. Per share amounts are calculated based only on the weighted average number of common shares during periods of net loss.

Cash Equivalents □ The Corporation 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.

Taxes □ In general, the Corporation'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 □ Property, plant and equipment are stated at cost. Depreciation expense is computed principally on the following bases:

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)

Other Assets □ Other assets includes equity investments, capitalized software development costs, goodwill, deferred taxes and other intangible assets.

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

Software development costs are capitalized 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 use.

Note B – *Geographic Operations*

(in thousands) Year Ended	July 3, 1993	June 27, 1992	June 29, 1991
Net Revenues			
United States:			
Unaffiliated customer sales	$ 5,219,276	$ 5,154,159	$ 5,586,492
Inter-area transfers	1,793,832	1,900,455	2,200,684
	7,013,108	7,054,614	7,787,176
Europe:			
Unaffiliated customer sales	6,973,709	6,751,222	6,216,746
Inter-area transfers	633,935	520,953	278,544
	7,607,644	7,272,175	6,495,290
Canada, Asia, Americas, Pacific Rim:			
Unaffiliated customer sales	2,178,384	2,025,491	2,107,766
Inter-area transfers	1,378,870	1,168,956	1,269,327
	3,557,254	3,194,447	3,377,093
Eliminations	(3,806,637)	(3,590,364)	(3,748,555)
Net revenues	$14,371,369	$13,930,872	$ 13,911,004
Income/(Loss)			
United States	$ (363,454)	$ (1,971,032)	$ (976,651)
Europe	12,446	(184,951)	474,180
Canada, Asia, Americas, Pacific Rim	115,091	68,313	142,622
Eliminations	(1,384)	(48,001)	(228,536)
Operating loss	(237,301)	(2,135,671)	(588,385)
Interest income	63,831	96,176	113,221
Interest expense	50,837	38,517	44,556
Loss before income taxes and cumulative effect of change in accounting principle	$ (224,307)	$ (2,078,012)	$ (519,720)
Assets			
United States	$ 4,202,395	$ 4,766,206	$ 5,124,445
Europe	4,910,165	5,195,715	4,706,122
Canada, Asia, Americas, Pacific Rim	1,730,754	1,854,167	1,576,413
Corporate assets	1,444,259	1,183,387	1,728,959
Eliminations	(1,337,230)	(1,715,166)	(1,261,236)
Total assets	$10,950,343	$11,284,309	$11,874,703

Note B – *Geographic Operations (continued)*

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

Non-U.S. 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 distributorship arrangements and value-added resellers. The Corporation's non-U.S. manufacturing operations include plants in the Americas, Europe and the Pacific Rim. The products of these manufacturing plants are sold to the Corporation'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 $9.2 billion, $8.8 billion and $8.4 billion for the years ended July 3, 1993, June 27, 1992 and June 29, 1991, respectively, which represented 64%, 63% and 60%, respectively, of total operating revenues. The retained earnings of substantially all of the Corporation's international subsidiaries have been reinvested to support operations. These accumulated retained earnings, before elimination of intercompany transactions, aggregated $4.0 billion, $3.6 billion and $4.3 billion at July 3, 1993, June 27, 1992 and June 29, 1991, respectively.

Note C – *Income Taxes*

Income/(loss) before income taxes for U.S. and non-U.S. operations (in thousands)

Year Ended	July 3, 1993	June 27, 1992	June 29, 1991
U.S.	$(383,808)	$(1,934,186)	$(803,205)
Non-U.S.	159,501	(143,826)	283,485
Total	$(224,307)	$(2,078,012)	$(519,720)

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

Year Ended	July 3, 1993	June 27, 1992	June 29, 1991
U.S. federal statutory tax (benefit) rate	(34.0)%	(34.0)%	(34.0)%
Tax benefit of manufacturing operations in: (a)			
Puerto Rico	(8.1)	1.7	(2.6)
Ireland	(16.0)	(3.4)	(15.6)
Singapore	(7.8)	0.0	(2.9)
Taiwan	(0.1)	(0.1)	(0.8)
Benefit not recorded due to net loss carryforward position	60.5	31.5	60.4
Non-U.S. tax rates, net of foreign tax credits	20.8	16.7	19.3
Other	(3.3)	(1.2)	(5.0)
Effective tax rate	12.0%	11.2%	18.8%

Note (a) The income from products manufactured for export by the Corporation's manufacturing subsidiary in Ireland is subject to a 10% tax rate through December 2010. The income from certain products manufactured by the Corporation's manufacturing subsidiary in Singapore is taxed at approximately 3% through December 1993 and then at 13.5% through December 1995. The income from certain products manufactured by the Corporation's subsidiary operating in Taiwan is subject to a reduced tax rate of 20% through June 1997. During fiscal year 1993, the Corporation discontinued its manufacturing operation in Puerto Rico.

Note C – *Income Taxes (continued)*

At July 3, 1993, the Corporation had net operating loss carryforwards of approximately $4.8 billion for financial reporting purposes which generally will begin to expire in 2007. In addition, the Corporation has not recognized income tax credits of approximately $100,000,000 which will begin to expire in 2001.

Included in prepaid expenses and deferred income taxes on the consolidated balance sheets are current net deferred tax assets of $84,806,000 and $222,794,000 for fiscal years 1993 and 1992, respectively. Included in other assets on the consolidated balance sheet for fiscal 1993 are long-term net deferred tax assets of $33,254,000.

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

Year Ended	July 3, 1993	June 27, 1992	June 29, 1991
U.S. federal:			
Current	$ (5,023)	$ (155,883)	$ (234,968)
Deferred	(19,871)	107,249	205,905
Total	(24,894)	(48,634)	(29,063)
Non-U.S.:			
Current	(57,525)	92,794	262,803
Deferred	103,497	183,998	(124,642)
Total	45,972	276,792	138,161
State income taxes	5,945	3,842	(11,391)
Total income taxes	$ 27,023	$ 232,000	$ 97,707

Deferred tax expense – sources of timing differences and their tax effect (in thousands)

Year Ended	July 3, 1993	June 27, 1992	June 29, 1991
Inventory related transactions	$ 211,972	$ 81,840	$ (39,004)
Deferred warranty revenue	3,438	12,882	1,966
Depreciation	(151,722)	90,269	7,014
Postretirement benefits	(122,633)	(26,151)	19,977
Restructuring	320,337	(193,834)	(233,539)
Benefit not recorded due to net loss carryforward position	(130,550)	246,872	347,080
Other	(47,216)	79,369	(22,231)
Total deferred tax expense	$ 83,626	$ 291,247	$ 81,263

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

In fiscal years 1993, 1992 and 1991, income taxes paid were $53,889,000, $144,620,000 and $186,090,000, respectively.

In February 1992, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 109 – Accounting for Income Taxes. The Corporation will adopt SFAS No. 109 in the first quarter of 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. Upon adoption, the Corporation expects to recognize additional gross deferred tax assets of approximately $1.9 billion, which will consist primarily of tax benefits associated with net operating loss carryforwards, postretirement benefits and restructuring charges of approximately $1 billion, $360,000,000 and $230,000,000, respectively. The additional gross assets will be almost entirely offset by valuation allowances, resulting in a one-time benefit of approximately $20,000,000 to the consolidated statement of operations. The adoption of SFAS No. 109 will have no cash flow impact on the Corporation.

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

Note D – *Capitalized Computer Software Development Costs*

Unamortized computer software development costs were $138,024,000 and $133,800,000 at July 3, 1993 and June 27, 1992, respectively. Amortization expense was $68,978,000, $63,956,000 and $44,424,000 for the years ended July 3, 1993, June 27, 1992 and June 29, 1991, respectively. Accumulated amortization was $168,845,000 and $186,051,000 at July 3, 1993 and June 27, 1992, respectively.

Note E – *Restructuring Actions*

Since fiscal year 1990, the Corporation has recorded restructuring charges of $3.15 billion.

During fiscal year 1993, the Corporation took a number of actions consistent with the previously recorded reserves, including employee separations, and the sale or closing of facilities. Other operations continue to be moved from leased to owned facilities, and consolidated where appropriate.

Note F – *Debt*

Long-term debt, exclusive of current maturities (in thousands):

	Maturity Date (Calendar Year)	Interest Rate	July 3, 1993	June 27, 1992
Lease obligations	1994–2002	6.81%–19% (a)	$ 24,578	$27,405
Notes (b)	1997	7%	250,000	–
Notes (b)	2002	7⅛%	250,000	–
Debentures (b)	2012	8⅜%	250,000	–
Debentures (b)	2023	7¾%	250,000	–
Unamortized discount and commissions (b)			(16,183)	–
Other debt obligations			9,182	14,231
Total long-term debt, exclusive of current maturities			$1,017,577	$41,636

Note (a) Weighted average interest rate at July 3, 1993 and June 27, 1992 of 8.7% and 10.7%, respectively.

Note (b) The Notes and Debentures are not redeemable prior to maturity and are not entitled to any sinking fund. The unamortized discount and commissions relate to these Notes and Debentures.

Principal payments during the next five fiscal years are as follows: 1994 – $4,764,000; 1995 – $6,046,000; 1996 – $6,376,000; 1997 – $6,446,000; 1998 – $257,004,000.

In fiscal years 1993, 1992 and 1991, interest paid was $37,123,000, $43,494,000 and $42,605,000, respectively.

Based primarily on dealer quotes, the fair value of long-term borrowings was approximately $1.1 billion at July 3, 1993.

The Corporation had lines of credit available for short-term and medium-term financing totaling $1.2 billion and $.9 billion at fiscal years ended July 3, 1993 and June 27, 1992, respectively. Substantially all of these lines of credits were unused at the end of fiscal 1993 and 1992.

Included in the above lines of credit is a three-year $750,000,000 committed credit facility, entered into by the Corporation with a syndicate of banks in May 1993. The facility may be used for general corporate purposes and is subject to satisfaction of certain financial covenants and annual facility fees of 0.175%. The commitment fees on the remaining unused lines are neither material nor significant.

In connection with the long-term debt issued in fiscal year 1993, the Corporation, on occasion, may enter into interest rate swap agreements. As a result of these agreements, the effective interest rate on the Notes and Debentures would differ from the stated interest rates. There were no interest rate swaps in effect at July 3, 1993.

Note G – *Postretirement Benefits*

Pension Plans □ The Corporation 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 Corporation's policy to make tax-deductible contributions to the plans in accordance with local laws. 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 1993, 1992 or 1991 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 Corporation's fiscal year 1993 pension cost, before curtailment gains, declined reflecting the positive effects of restructuring activities. The Corporation recognized a one-time charge of $161,658,000 in fiscal 1992 for special early retirement pension benefits as a component of restructuring costs. The net periodic pension cost for defined contribution pension plans was $7,944,000, $11,202,000, and $11,398,000 for the fiscal years ended July 3, 1993, June 27, 1992 and June 29, 1991, respectively. The measurement dates for all plans were within 90 days of year-end.

Components of net periodic pension cost (in thousands)

Year Ended	July 3, 1993	June 27, 1992	June 29, 1991
Service cost for benefits earned during the period	$ 192,546	$ 234,842	$ 239,238
Interest cost on projected benefit obligations	201,203	180,898	163,007
Actual return on plan assets	(291,127)	(166,055)	(38,524)
Net amortization and deferral	79,421	(47,927)	(160,731)
Curtailment gains	–	(138,100)	(157,000)
Net periodic pension cost for defined benefit pension plans	$ 182,043	$ 63,658	$ 45,990
Total net periodic pension cost for all pension plans	$ 189,293	$ 87,833	$ 67,102

Significant actuarial assumptions for pension plans

Year Ended	July 3, 1993	June 27, 1992	June 29, 1991
U.S. pension plan:			
Discount rate	8.0%	8.5%	9.0%
Expected long-term rate of return on plan assets	9.0%	9.0%	9.5%
Rate of increase in future compensation levels	6.0%	6.5%	6.8%
Non-U.S. pension plans:			
Discount rate	5.0– 9.0%	5.0– 9.0%	5.0– 9.5%
Expected long-term rate of return on plan assets	6.0–10.0%	6.0–10.0%	6.0–10.0%
Rate of increase in future compensation levels	3.5– 7.5%	4.8– 8.0%	5.0– 8.0%

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

Year Ended	July 3, 1993	June 27, 1992
Actuarial present value of benefit obligations:		
Vested benefit obligation	$ (1,321,322)	$ (1,397,318)
Accumulated benefit obligation	$ (1,497,035)	$ (1,582,385)
Projected benefit obligation	$ (2,606,673)	$ (2,761,783)
Plan assets at fair value	2,536,614	2,671,657
Plan assets less than projected benefit obligation	(70,059)	(90,126)
Contributions made after measurement date but before end of fiscal year	2,916	3,811
Unrecognized net gain	(275,390)	(130,372)
Unrecognized prior service cost	67,427	47,842
Unrecognized net transition asset	(78,597)	(107,443)
Pension liability recognized on the balance sheet	$ (353,703)	$ (276,288)

Postretirement Benefits Other Than Pensions □ The Corporation has defined benefit postretirement plans that provide medical, dental, and life insurance benefits for U.S. retirees and their eligible dependents. Substantially all of the Corporation's U.S. employees may become eligible for postretirement benefits if they reach retirement age while working for the Corporation. The majority of the Corporation's non-U.S. subsidiaries do not offer postretirement benefits other than pensions to retirees.

The Corporation's postretirement benefits plans other than pensions are funded as costs are incurred. Fiscal 1993 expense reflects a reduction from the prior year resulting from cost sharing changes. Retiree contributions for the U.S. medical plan will be based on length of service for employees retiring after fiscal 1993.

The Corporation adopted Statement of Financial Accounting Standards No. 106 – Employers' Accounting for Postretirement Benefits Other Than Pensions in fiscal year 1992 and 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 1992 results. Postretirement benefits costs totaled $6,400,000 for the year ended June 29, 1991 and were recognized as expense as claims were paid.

The Corporation 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.

Components of net periodic postretirement benefits costs (in thousands)

Year Ended	July 3, 1993	June 27, 1992
Service cost for benefit earned during the period	$25,560	$37,543
Interest cost on accumulated postretirement benefits obligations	50,915	42,525
Actual return on plan assets	–	–
Net amortization and deferral	(8,538)	–
Curtailment gains	(30,000)	–
Net periodic postretirement benefits cost	$37,937	$80,068

Note G – *Postretirement Benefits (continued)*

Significant actuarial assumptions for other postretirement benefits plans (dollars in thousands)

Year Ended	July 3, 1993	June 27, 1992
U.S. plans:		
Discount rate	8.0%	8.5%
Health care cost trend rate, current year	10.6%	13.8%
Health care cost trend rate, ultimate year	6.0%	6.0%
Trend rate decreases to the ultimate rate in the year	2005	2005
Effect of a 1% increase in the trend rate:		
Increase in accumulated postretirement benefits obligation	$137,913	$148,386
Increase in net periodic postretirement benefits cost	$ 17,598	$ 19,674
Non-U.S. plans:		
Discount rate	5.0– 8.5%	5.0– 8.5%
Health care cost trend rate, current year	5.0–13.0%	5.0–14.0%
Health care cost trend rate, ultimate year	5.0– 7.0%	5.0– 7.0%
Trend rates decrease to the ultimate rates in the years	1993–2050	1992–2050
Effect of a 1% increase in the trend rate:		
Increase in accumulated postretirement benefit obligation	$ 5,861	$ 4,280
Increase in net periodic postretirement benefit cost	$ 564	$ 578

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

Year Ended	July 3, 1993	June 27, 1992
Accumulated postretirement benefit obligations:		
Retirees	$(413,887)	$(351,489)
Fully eligible plan participants	(20,572)	(25,383)
Other active plan participants	(298,154)	(371,956)
Unfunded accumulated postretirement benefit obligation	(732,613)	(748,828)
Unrecognized actuarial net loss	149,482	46,311
Unrecognized prior service credit	(139,610)	–
Other postretirement benefits liability recognized on the balance sheet	$(722,741)	$(702,517)

Note H – *Commitments*

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)*
1994	$ 334,642
1995	272,909
1996	230,166
1997	170,578
1998	164,397
Later years	618,274
Total minimum lease payments	$1,790,966

Total rental expense for the years ended July 3, 1993, June 27, 1992 and June 29, 1991 amounted to $503,094,000, $544,811,000 and $535,159,000, respectively.

Note I – *Other Financial Instruments*

Off-Balance-Sheet Risk □ The Corporation 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 foreign exchange contracts generally have maturities which do not exceed six months. Gains and losses on foreign exchange contracts offset losses and gains on assets, liabilities, and transactions being hedged; therefore, the Corporation does not anticipate any material adverse effect due to exchange rate movements over the short-term period covered by these contracts. See Note A for information on the Corporation's accounting policy on foreign exchange contracts.

As of July 3, 1993 and June 27, 1992, the net face amount of foreign exchange contracts outstanding, substantially all of which were in European currencies, was $1.1 billion and $1.3 billion, respectively. The fair value of such contracts which represents the replacement value, is a net gain of $14,400,000 as of July 3, 1993, based on dealer quotes.

Concentration of Credit Risk □ Financial instruments which potentially subject the Corporation to concentrations of credit risk consist principally of temporary cash investments and trade receivables.

The Corporation 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 Corporation's customer base, and their dispersion across many different industries and geographies.

As of July 3, 1993, the Corporation had no significant concentrations of credit risk.

Fair Value □ In fiscal year 1993, the Corporation adopted Statement of Financial Accounting Standards No. 107 – Disclosures about Fair Value of Financial Instruments. The fair value of cash equivalents, debt, and foreign exchange contracts is disclosed in relevant notes to the financial statements. For all other financial instruments, the carrying amount approximates fair value.

Note J – *Investing Activities*

In June 1992, the Corporation entered into agreements to purchase common stock of Ing. Olivetti & C. S.p.A. ("Olivetti") and to form a strategic alliance with Olivetti. Pursuant to these agreements, as amended, the Corporation purchased a total of 98,533,000 shares of Olivetti common stock in fiscal year 1993 for a total investment of approximately $287,800,000. As part of the alliance agreement, as amended, Olivetti has agreed to purchase a minimum level of Alpha AXP products from the Corporation over a specified period of time.

The Olivetti stock is recorded at $83,800,000. The remainder of the purchase price is recorded as an intangible asset which is being amortized over a period not to exceed ten years.

On November 11, 1991, the Corporation signed an agreement with Philips Electronics N.V. of The Netherlands to acquire most of the Philips Information Systems Division ("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 from October 28, 1991, including purchase price adjustments made in the fourth quarter of fiscal 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 Corporation's results reflect the full consolidation of Digital-Kienzle Computersysteme GmbH & Co. KG ("Digital-Kienzle"), a German entity in which Digital acquired a 65% interest from Mannesmann AG for $233,261,000. On December 20, 1991, the Corporation acquired the remaining 35% interest in Digital-Kienzle through the exercise of rights related to an obligation payable to Mannesmann AG. The acquisition has been accounted for as a purchase.

The acquisitions had no material effect on the total operating results for the fiscal years in which they were acquired, fiscal 1992 and 1991.

Note K – *Stock Plans*

Stock Options and Awards □ Under its Equity Plan, the Corporation has awarded restricted stock to certain officers and key employees. Under such Equity Plan and its Restricted Stock Option Plans, the Corporation 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 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 July 3, 1993 was as follows:

	Shares Reserved for Future Grants	*Options Outstanding* — *Shares*	*Options Outstanding* — *Average Price per Share*
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
Additional Shares Available for Grant	1,950,123	–	–
Options Granted	(3,737,045)	3,737,045	$ 41.41
Shares Awarded	(277,650)	–	$ –
Options Exercised	–	(553,486)	$ 38.49
Options Cancelled	1,623,333	(1,623,333)	$ 66.42
Options Cancelled under Repurchase Program	2,653,570	(2,653,570)	$153.00
Options Terminated	(3,362,938)	–	$ –
July 3, 1993	**620,891**	**19,824,551**	**$ 56.58**

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.

In April 1993, the Board of Directors approved the repurchase of outstanding options to purchase up to 2.8 million shares of common stock granted to certain employees in fiscal year 1988 at an exercise price of $153.00 per share. The option holders were offered $3.00 per unexercised option share in return for the cancellation of the option. The repurchase price was determined after taking into account option pricing models, the opinion of an independent advisor and the financial and compensation objectives of the program. The Corporation repurchased approximately 2.7 million shares at a cost of approximately $8,000,000. The resulting reduction of fiscal 1993 compensation expense was $31,843,000, with a corresponding reduction of additional paid-in capital.

Employee Stock Purchase Plans □ Under the Corporation's Employee Stock Purchase Plans, all U.S. and certain non-U.S. 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 2,571,786 shares at July 3, 1993. There were 6,404,574 shares issued at an average price of $28.38 per share during the year ended July 3, 1993; 4,788,819 shares issued at an average price of $43.21 per share during the year ended June 27, 1992; and 4,619,793 shares at $44.34 per share during the year ended June 29, 1991. 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 Corporation'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 Corporation 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 45,000 have been granted at an average purchase price of $50.18 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 July 3, 1993.

Note L – *Treasury Stock*

The Corporation did not purchase any shares of its own common stock during fiscal year 1993. The Corporation 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, and 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. 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 M – *Stockholder Rights Plan*

The Corporation adopted a Stockholder Rights Plan in December 1989 pursuant to which the Corporation authorized the distribution of one Common Stock Purchase Right for each share of outstanding Common Stock. Under certain conditions, each Right may be exercised for one share of Common Stock at an exercise price of $400, subject to adjustment. Under circumstances defined in the Plan, the Rights entitle holders to purchase stock having a value of twice the exercise price of the Rights. Until they become exercisable, the Rights are not transferable apart from the Common Stock. The Rights may be redeemed by the Corporation at any time prior to the occurrence of certain events at $.01 per Right. The Plan will expire on December 21, 1999, unless the Rights are earlier redeemed by the Corporation.

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*[1]	*Net Income/(Loss)*	*Income/(Loss) per Share*[2]
For the year ended July 3, 1993						
Fourth Quarter	$ 3,914	$1,576	$ 120	$ 113	$ 113	$ .85
Third Quarter	3,454	1,373	(28)	(30)	(30)	(.23)
Second Quarter	3,689	1,514	(66)	(74)	(74)	(.57)
First Quarter	3,314	1,277	(250)	(260)	(260)	(2.04)
Total Year	$14,371	$5,740	$ (224)	$ (251)	$ (251)	$ (1.93)
For the year ended June 27, 1992						
Fourth Quarter[3]	$ 3,906	$1,600	$(1,674)	$(1,855)	$(1,855)	$(14.76)
Third Quarter[4]	3,253	1,268	(291)	(312)	(312)	(2.50)
Second Quarter[4]	3,479	1,441	(153)	(155)	(155)	(1.25)
First Quarter[4]	3,293	1,490	40	12	(474)	(3.80)
Total Year	$13,931	$5,799	$(2,078)	$(2,310)	$(2,796)	$(22.39)

[1] *Before cumulative effect of change in accounting principle.*
[2] *Income/(loss) per share is computed independently for each of the quarters presented and therefore does not sum to the total for the year.*
[3] *Includes restructuring charges of $1,500 million in fiscal year 1992.*
[4] *Restated to reflect the adoption of SFAS No. 106 – Employers' Accounting for Postretirement Benefits Other Than Pensions.*

Common Stock Information

The Corporation'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 86,611 shareholders of record as of July 3, 1993. The high and low quarterly sales prices for the past three fiscal years are presented below:

1993

Fiscal Quarter	*High*	*Low*
Fourth	$48¼	$38¼
Third	49¼	32¾
Second	40⅝	30⅜
First	44	33¼

1992

Fiscal Quarter	*High*	*Low*
Fourth	$54⅞	$33¼
Third	65½	49¼
Second	65	48½
First	71¾	53⅞

1991

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

Officers

*Robert B. Palmer
President and Chief Executive Officer

*Gresham T. Brebach, Jr.
Vice President, Digital Consulting

*Lawrence P. Cabrinety
Vice President, Components and Peripherals Business Unit

R. E. Caldwell
Vice President, Semiconductor Operations

Bobby A. F. Choonavala
Vice President, General International Area

*Charles F. Christ
Vice President, Storage Business Unit

William R. Demmer
Vice President, Computer Systems Group

*Richard M. Farrahar
Vice President, Human Resources

Samuel H. Fuller
Vice President, Research

Russell A. Gullotti
Vice President, United States Area

*Winston R. Hindle, Jr.
Vice President, Quality, Ethics and Business Practices

*Ilene B. Jacobs
Vice President and Treasurer

*John E. Klein
Vice President, Consumer, Process, and Transportation Business Unit

*Paul G. Kozlowski
Vice President, Communications, Education, and Media Business Unit

*Edward E. Lucente
Vice President, Worldwide Sales and Marketing

Gail S. Mann
Secretary and Clerk

*Frank McCabe
Vice President, Discrete Manufacturing and Defense Business Unit

*Edward B. McDonough
Vice President, Manufacturing and Logistics

*Vincent J. Mullarkey
Vice President and Corporate Controller

*Enrico Pesatori
Vice President and General Manager, PC Business Unit

Richard Poulsen
Vice President, Europe

*John J. Rando
Vice President, Multivendor Customer Services Business Unit

*Bruce J. Ryan
Vice President, Financial, Professional, and Public Services Business Unit

*Willow B. Shire
Vice President, Health Industries Business Unit

*Thomas C. Siekman
Vice President and General Counsel

Peter J. Smith
Vice President, Sales, Marketing and Business Operations – Europe

*Adriana Stadecker
Vice President, Executive Operations

*William M. Steul
Vice President, Finance and Chief Financial Officer

*William D. Strecker
Vice President of Engineering and Chief Technical Officer

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

Directors

Robert B. Palmer
President and Chief Executive Officer
Digital Equipment Corporation

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

Philip Caldwell
Senior Managing Director of Lehman Brothers Inc.
Retired Chairman of the Board and Chief Executive Officer, Ford Motor Company
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

Kathleen F. Feldstein
President of Economics Studies, Inc., and Director of several organizations

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

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

Delbert C. Staley**
Director of several corporations, Retired Chairman of the Board and Chief Executive Officer, NYNEX Corporation

*Dr. McLean will retire in November 1993 at the expiration of his current term as a Director.

**Effective September 16, 1993.

Board of Directors, Digital Equipment Corporation: Seated, left to right: Thomas L. Phillips, Philip Caldwell, William H. McLean, Robert R. Everett. Standing, left to right: Kathleen F. Feldstein, Vernon R. Alden, Robert B. Palmer, Thomas P. Gerrity, Colby H. Chandler, Arnaud de Vitry. Not shown: Delbert C. Staley.

Committees of the Board

Audit Committee
Philip Caldwell, Chairman
Colby H. Chandler
William H. McLean*

Compensation and Stock Option Committee
Thomas L. Phillips, Chairman
Vernon R. Alden
Philip Caldwell
Thomas P. Gerrity

Nominating Committee
Arnaud de Vitry, Chairman
Vernon R. Alden
Colby H. Chandler
Thomas P. Gerrity
William H. McLean*
Thomas L. Phillips

*Dr. McLean will retire in November 1993 at the expiration of his current term as a Director.

Corporate Consulting Engineers

Peter F. Conklin
Corporate Consulting Engineer
Director, Engineering Process and Systems

Daniel W. Dobberpuhl
Corporate Consulting Engineer
Semiconductor Engineering

James N. Gray
Corporate Consulting Engineer
Information Systems Software

Richard B. Grove
Corporate Consulting Engineer
Software Development Technologies

Robert J. Hannemann
Corporate Consulting Engineer
Group Manager, Alpha Personal Systems Emerging Technologies

Richard J. Hollingsworth
Corporate Consulting Engineer
Advanced Semiconductor Development

Alan Kotok
Corporate Consulting Engineer
Corporate Strategy and Alliance

Nancy P. Kronenberg
Corporate Consulting Engineer
Alpha Personal Systems Emerging Technologies

Butler W. Lampson
Senior Corporate Consulting Engineer
Corporate Research and Architecture

Richard Lary
Corporate Consulting Engineer
Mass Storage

Anthony G. Lauck
Corporate Consulting Engineer
Technical Director, Networks Engineering

Jesse Lipcon
Corporate Consulting Engineer
Vice President, Windows NT Program

Alan G. Nemeth
Corporate Consulting Engineer
Engineering Technical Office, Technical Computing

Mahendra R. Patel
Corporate Consulting Engineer
Vice President, Systems Engineering

John P. Shebell
Corporate Consulting Engineer
Technical Director, Field Programs Engineering

Robert E. Stewart
Corporate Consulting Engineer
Alpha Personal Systems Emerging Technologies

William D. Strecker
Senior Corporate Consulting Engineer
Vice President of Engineering
Chief Technical Officer

Robert M. Supnik
Senior Corporate Consulting Engineer
Vice President and Technical Director, Engineering

Charles P. Thacker
Corporate Consulting Engineer
Corporate Research and Architecture

Gayn Winters
Corporate Consulting Engineer
Technical Director, Groupware and Shared Engineering Services

Richard Witek
Corporate Consulting Engineer
Semiconductor Engineering

Headquarters

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Telex: 4430127 Digital ACT
Fax: (508) 493-8780

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Switzerland
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Telex: 845-422593 DEC CH
Fax: (41)-(22) 709-4140

General International Area Headquarters
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100 Nagog Park
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Telephone: (508) 264-7111
Telex: 4430127 Digital ACT
Fax: (508) 264-6854

Investor Information

The Corporation'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 Corporation 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 Corporation's mailing list should be directed to:

Bradley D. Allen
Director, Investor Relations
Digital Equipment Corporation
146 Main Street (MLO3-2/F41)
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 July 3, 1993, including schedules thereto, which is filed with the Securities and Exchange Commission, will be sent without charge upon written request. The Corporation's annual report, filings with the Securities and Exchange Commission, interim reports and additional information about the Corporation 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 Corporation 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 Corporation of New York. Stockholders should state the name in which the stock is registered, account number, social security number (if available), as well as the old and new addresses.

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Customer Inquiries

Digital Equipment Corporation customers who have questions and/or problems relating to their accounts should contact U.S. Customer Relations at (800) 332-4636.

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Digital Equipment Corporation
Maynard, Massachusetts 01754

digital

Digital Equipment Corporation

Annual Report 1994

digital

Corporate Profile

Digital Equipment Corporation is a world leader in the development of networked platforms for client/server computing. Digital's products and services for open computing environments help customers simplify business processes and enhance organizational productivity. The Company does business in more than 100 countries and develops and manufactures products in the Americas, Europe, Asia and the Pacific Rim. Building on its core competencies in Software, Systems, Networks, and Services, Digital — working with its business partners — provides a complete range of information processing solutions from personal computers to integrated worldwide networks.

Financial Summary

Fiscal Year	1994	1993
Total operating revenues	**$13,450,790,000**	$14,371,369,000
Restructuring charges	**$ 1,206,000,000**	–
Net loss	**$ (2,156,063,000)**	$ (251,330,000)
Net loss per common share	**$ (15.80)**	$ (1.93)
Total stockholders' equity	**$ 3,279,799,000**	$ 4,885,399,000
Number of common stockholders	**77,722**	86,611
Stockholders' equity per common share	**$ 20.24**	$ 36.19
Number of regular employees	**77,800**	89,900

Annual Meeting

The Annual Meeting of Stockholders will be held at 11:00 a.m. Thursday, November 10, 1994, at the World Trade Center, Commonwealth Pier, 164 Northern Avenue, Boston, Massachusetts 02210. Stockholders of record on Monday, September 12, 1994, will be entitled to vote at this meeting.

Contents

Open Client/Server Computing

Solves Real Business Problems

"We have the ability — directly and through our partners — to implement and support networked platforms and applications in multivendor environments more quickly and cost effectively than anyone else.

"This capability is making Digital the leader in open client/server computing — the combination of technologies that enables PCs, laptops, workstations and other devices to tap into computers so that these systems and the people who use them can share data and work together."

— Robert B. Palmer, President and Chief Executive Officer Digital Equipment Corporation

President's Letter

To Our Stockholders, Employees, Customers and Partners

Fiscal year 1994 was a year of both progress and frustration for stockholders, for employees, for our customers and for our partners.

For the year, Digital reported a net loss of $2.16 billion, which includes a restructuring charge of $1.2 billion and noncash asset write-offs and accounting changes of $431 million. I am obviously disappointed with these results. However, with the actions we took last year, including reducing regular employee population by 12,000 and total occupied space by 5.2 million square feet, and our announced restructuring plans for the future — for example, the elimination of Digital's inefficient matrix management system — I am confident that we have established a solid foundation for a return to profitability.

As we exited the year, our business showed some positive and encouraging signs:

- We achieved year-over-year product order rate growth in both the third and fourth quarters (the latter adjusted for a 14-week quarter a year ago). This is the first time in nearly five years that we have seen an increase in year-over-year order rate growth in consecutive quarters.

- We reached two significant milestones in our Alpha AXP program. We have shipped more than one billion dollars' worth of Alpha AXP systems since the program's launch in November 1992, and Alpha AXP revenues surpassed VAX revenues for the first time in the fourth quarter, growing 54 percent from the preceding quarter.

- The new Digital 2100 Alpha AXP server, announced in the fourth quarter, got off to an excellent start. Market reception for this leadership price/performance product, which offers exceptional scalability, has been outstanding.

- Personal computer revenues demonstrated accelerating year-over-year growth rates each quarter, more than doubling in the fourth quarter and nearly doubling for the full year.

We enter fiscal 1995 with a balance sheet that provides needed flexibility and resources and a portfolio of products and services more competitive than they have been in several years.

We all want to see results quickly. We want the trauma of downsizing behind us and a return to sustained profitability. But it is important that we do not let our poor financial performance completely obscure the significant progress we *have* made in several major dimensions in less than two years.

Two years ago, our products were not competitive in performance or price/performance. Digital was a company wedded to its proprietary systems, with little or no credibility in the marketplace around our UNIX offering — a key requirement to be a competitor in today's open environments. Once merely an "also-ran," our UNIX is now a recognized leader in standards compliance for open computing.

Today, Digital can lay legitimate claim to being a truly open systems leader, giving customers the flexibility and alternatives that they want — and with leadership price/performance. Today we can truly say we support industry-standard operating systems — UNIX, OpenVMS, Windows NT and MS-DOS — across a broad set of platforms.

In two years, we have moved from being a company selling primarily through direct channels to one that has a healthier, market-driven mix of direct and indirect channels. In fiscal 1992, 29 percent of our products moved through indirect channels; in the year just passed (fiscal 1994), we sold 45 percent through indirect channels. And our goal for fiscal 1995 is more than 60 percent — which will be achieved in large part by a strategic refocus of our core systems business models.

We are moving from being a low-volume, high-cost manufacturer and supplier to a higher-volume, lower-cost manufacturer and supplier. Over the past two years, unit volumes have exploded, driven by strong growth in PCs and Alpha AXP workstations. We shipped nearly four times the number of computer systems in fiscal 1994 compared with fiscal 1992, despite having reduced total worldwide manufacturing capacity. By the end of fiscal 1995, we will be shipping significantly greater volumes with a manufacturing population one-half the size of two years ago.

We are refining our product and service cost structures to reflect the demands of our customers and the challenges of our competition — while establishing leadership price/performance across virtually every price band where we compete.

These are *major* accomplishments. Two years into the turnaround, we have laid the groundwork for our future success. We are succeeding in several of our businesses, and many of our new products are being well received in the marketplace. We are adapting the best and most successful business strategies — honed and proven in the competitive PC, storage, components and service segments of our business — and applying them on a larger scale across the company.

But the question remains: with all that we have going for us, why aren't we yet leading the industry with the sheer force of our global resources, our unparalleled products, technology and skills? And why are we not yet profitable?

The reality is that despite our progress we still have some critical issues to address — and that is our mandate for fiscal 1995.

To ensure that decisions made and actions taken will lead to financial success, we recently made one very important change to Digital's culture and business: we have cast aside matrix management and instituted clear accountability for revenue, profits, cash flows and assets within our business units. We are eliminating the costly infrastructure associated with the previous management system. The result will be a leaner, more decisive, more agile company, sharply focused on meeting the needs of customers, the demands of the marketplace and the challenges of our competitors.

In today's complex multivendor computing environment, our customers value our ability to implement and support — directly and through partners — networked client/server platforms and applications. We are convincing increasing numbers of customers that we can link computers worldwide — ours and others' — and keep them working better than anyone else in the business.

We will conduct our business by a few simple, strategic principles as we move through our transition to profitability: we will protect our installed base; we will organize and manage the company to market realities; we will not compete with our key partners; we will continue to build on our strength of high-performance networked platforms and engineer all of our products for network readiness; and we will differentiate Digital throughout the world by our outstanding global service and support capabilities.

We have done a great deal of work to prepare Digital to return to profitability and position it for a strong, innovative future. There is more work to do. And we will do it. My goal for the Company, its stockholders, employees, customers and partners is to capitalize on that work by restoring profitability in fiscal year 1995.

R B Palmer

Robert B. Palmer
President and Chief Executive Officer
September 1, 1994

Q&A with Robert B. Palmer

Commonly Asked Questions

Below are questions that stockholders and others frequently ask about the Company:

Q: Digital has not been profitable for some time. When can we expect profitability, and what will it take to get there?

A: We have set an aggressive goal to return to profitability by the end of calendar year 1994. I cannot predict, however, when we will actually return to — and sustain — profitability; much work remains to be done. We must complete the restructuring plans we have announced, achieve a competitive cost structure, increase our penetration of indirect sales channels and build on the successes we have achieved in several areas, including PCs and Alpha AXP systems.

Q: What are your financial goals?

A: We are working aggressively to return to sustainable levels of profitability as soon as possible. As an interim goal, we have set a target of maintaining total gross margins (products and services combined) in the range of 30 to 32 percent of revenues. This will require a continued focus on manufacturing efficiency and pricing discipline.

We are targeting spending on research and engineering in the range of 7 to 8 percent, and on selling, general and administrative expenses between 15 and 18 percent of revenues. These targets will be achieved through successful implementation of our restructuring plan and through greater reliance on indirect channels of distribution. While we do not necessarily expect to reach these spending targets for the full fiscal year 1995, we will make significant progress toward them.

Q: There have been many rumors that the Company is considering divestments. Can you comment?

A: For understandable business reasons, we cannot list what nonstrategic activities or operations the Company might divest in the future, but we can talk about our underlying strategic approach.

As we strive to become more efficient, a critical element of our business strategy is to sharpen our focus on those products and services where we can provide added value to our customers as they choose and implement open, networked platforms and servers. Activities that do not support that focus are potential candidates for divestiture.

For example, we recently announced our intention to sell portions of our storage business to a leading storage components manufacturer. The segments we are selling — disk and tape drives and thin-film heads businesses — have been fast-growing and successful for Digital in the OEM (original equipment manufacturer) marketplace, but not central to our business. We will continue to provide our customers with high-performance storage subsystems that incorporate disk and tape storage products that we will source from outside the Company.

Q: What are you doing to improve employee morale and ensure that you keep the talent you need to be successful in the future?

A: It's natural for people to feel good about their jobs when they can see success and for morale to suffer when the Company is doing poorly. Within businesses that are doing well — Alpha AXP systems, PCs, storage, components and peripherals, and customer service are all examples — morale is very good.

The best way to improve the morale of all employees is to return to sustainable profitability as soon as possible. All our efforts are focused on that goal. We need to move through the painful but necessary downsizing as rapidly as we can. We also recognize that compensation must reward performance and instill accountability throughout the organization.

Q: How will you provide the necessary cash for both your restructuring and operating needs?

A: The funding of our activities through the next phase of Digital's turnaround is a critical challenge for the Company and an important metric for management. We still have one of the lowest debt to total capitalization ratios among the Fortune 50. We have laid out a plan to fund our restructuring and operating needs from internal sources. We believe this plan is credible and achievable.

Our accounts receivable DSO (days sales outstanding) and inventory turns performance are not competitive today. If we had merely achieved the performance levels in these two asset categories that we achieved in fiscal 1993, we would have produced an additional $600 million in cash. We have specific plans in place to improve asset management. We also intend to cut capital spending this fiscal year by up to 40 percent compared with last year. Proceeds from divestments will further add to cash, and the Company has arranged for up to $600 million of backup liquidity in the form of an accounts receivable securitization facility.

Q: So where does Digital stand today?

A: We have a large and loyal installed base; a substantial — and growing — list of partners; a strategy that makes the best use of our strong technology heritage and potential; talented, dedicated and enthusiastic employees; very competitive hardware, software and service offerings; and a balance sheet that enables us to continue to invest in our business while taking necessary restructuring actions.

The pages that follow outline in detail what we believe are our sustaining advantages.

Open Client/Server Computing

Advanced Technology for Today's Business Needs

Helping customers reengineer operations, open new markets and develop new products

"Digital's commitment to open client/server computing began with our customers. They told us what they wanted. And we made the investments and alliances needed to make client/server computing something more than just a concept."

**— Enrico Pesatori, Vice President and General Manager
Computer Systems Division
Digital Equipment Corporation**

Many computer companies see client/server computing as the technology that links personal computers together in a local area network.

Digital sees it as much more than that.

Client/server computing can enable customers to simplify business processes to enhance both individual and corporate productivity.

A client/server environment should be seamless, with no artificial barriers to keep people from sharing information and working together. At the same time, client/server computing splits applications to enable the cost-efficient distribution of computing resources. Client systems — networked PCs, workstations and in some cases large systems — request services from other systems throughout the network.

We're working with customers and strategic partners to take the concept of client/server computing and apply it across the entire enterprise to integrate people, processes, technology and information so everyone and everything can work together.

This annual report details the products, services and technologies that are making client/server computing a reality. It qualifies and quantifies the client/server market and highlights the cost savings and productivity gains that client/server computing is bringing to Digital customers around the world. It gives customers, strategic partners and Digital developers an opportunity to share their thoughts about the future. And it explores new applications that are creating business opportunities for both Digital and its customers.

Leadership in computer technology is not achieved overnight. The industry has always been driven by two very different needs.

First, the need for personal productivity, the need to access data and process information — a need that was met first by timesharing and later by personal computers.

Second, the need for organizational productivity, the need to gather, organize and process large volumes of data — a need that was met by the mainframe and later by peer-to-peer networks and clusters of midrange systems.

Client/server computing brings these two very different styles of computing together.

Digital's contribution was to develop the network platforms, software frameworks, integration and support services, strategic alliances, and business practices needed to fully implement the client/server concept. Working with our strategic partners, we are creating an open, enterprise-wide computing environment to meet the needs of customers seeking to develop a competitive advantage or maximize the use of existing personnel and computing resources.

As a company, we are focusing on our core competencies — the four prerequisites for leadership in open, multivendor client/server computing:

- **Software** — The software frameworks customers need to develop client/server applications and integrate PC, Macintosh, UNIX, OpenVMS, Windows NT, OSF/1, Sun, Hewlett-Packard, IBM and other systems.
- **Systems** — Powerful 64- and 32-bit client and server systems based on Alpha AXP, VAX and Intel microprocessors with the capacity to handle the huge amounts of information inherent in enterprise-wide client/server applications.
- **Networks** — The hardware and software needed to open up the Information Superhighway and link clients and servers — switches, routers, hubs, network adapters, network operating systems, and mobile/wireless and other telecommunications solutions.
- **Services** — The systems and network integration and multivendor customer services needed to plan, design, integrate, implement, manage and maintain open multivendor client/server networks that include both legacy systems and new technology.

These four competencies are interrelated. And — combined with the organizational skills needed to develop and implement client/server environments — they provide the foundation upon which Digital, its customers and its strategic partners can base their future.

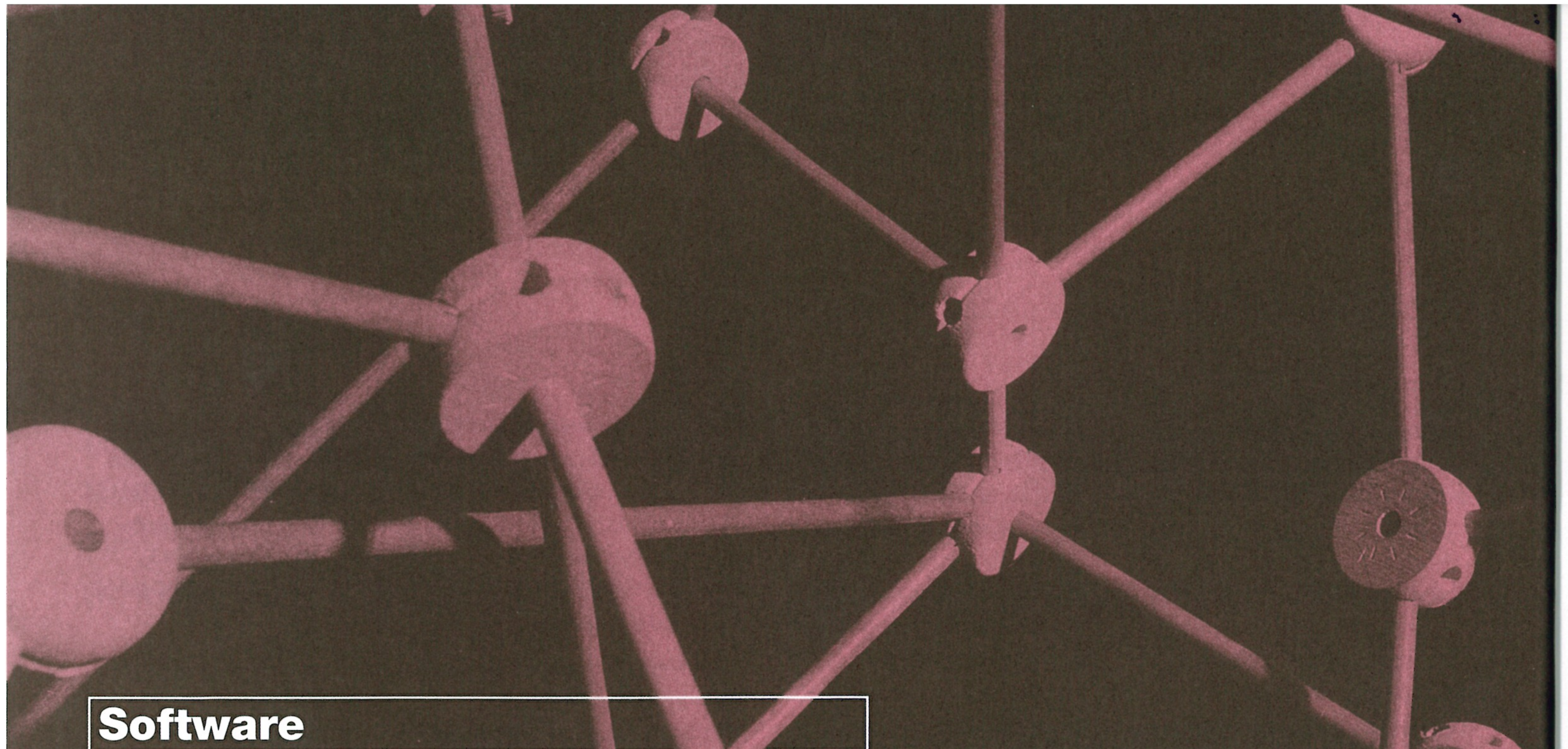
"Digital's Components Division delivers world-class products to build open, networked client/server environments that simplify business processes and increase productivity. We provide networking hardware, StorageWorks subsystems, printers, terminals and other components to Digital and other computer manufacturers, as well as to distributors and resellers."

**— Charles Christ, Vice President and General Manager
Components Division
Digital Equipment Corporation**

"If you profess support for open client/server computing, you have to support multiple operating systems. Digital is fully committed to UNIX, OpenVMS and Windows NT because they all have a place in client/server environments."

**— William D. Strecker
Chief Technical Officer and Vice President
Advanced Technology Group
Digital Equipment Corporation**

With open client/server computing, we are helping customers reengineer their operations, open new markets, develop new products and improve both personal and corporate productivity.



Software

Frameworks for Open Client/Server Computing

Teamwork — Digital, its strategic partners and independent software companies have developed more than 6,000 applications for Alpha AXP systems. Here Alexis Cox and Don Harbison of Digital's Software Products Group are pictured with Digital's LinkWorks software and the award-winning DECpc XL 590.

"Our next version of OLE COM (the Common Object Model) will support all Microsoft platforms and — through our strategic relationship with Digital — multivendor systems in open client/server environments."

— Jim Allchin, Vice President of Advanced Systems Microsoft Corporation

The idea behind open client/server computing is simple, but its execution is often difficult.

Client/server environments typically include computers from different manufacturers, multiple operating systems, multiple databases and multiple networks.

Whether you approach client/server computing from an enterprise-wide perspective or take a departmental or application-specific perspective, you face a difficult and complex task.

Fortunately, that task is becoming much easier. The software frameworks for integrating databases, electronic mail systems, local area networks and workgroup, production and technical applications across horizontal multivendor environments are in place together with the industry-standard "middleware" needed to link those applications.

The Common Object Model being developed by Digital and Microsoft is an important component in frameworks and middleware, and in many client/server applications from Digital software partners.

The concept behind object-oriented programming is straightforward. "Objects" are software building blocks — packages of data together with programming that applies to that data — that can be "linked" to create an application.

The development of a common model for object-oriented programming for both personal computers and servers is critical in client/server computing, where different systems and applications have to work together. Having a common model simplifies program development.

Ad hoc applications — for example, searching multiple databases for specific information — can be created at the desktop by pointing to and clicking on "objects" on the screen. More complex applications take more work, but object-oriented programming is a welcome change from having to write line after line of code.

The Digital/Microsoft Common Object Model has been called the software equivalent of Ethernet. Ethernet provides a plug-and-play environment for linking personal computers and other systems together in local area networks. The Common Object Model provides a similar plug-and-play environment for software.

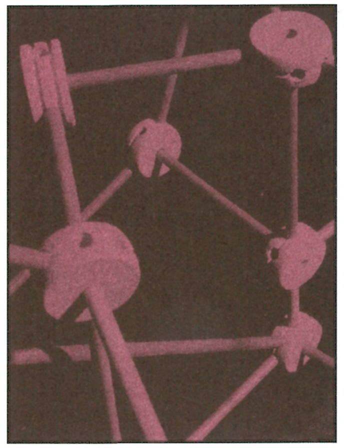
Roughly one-third of the Fortune 1000 industrial corporations will implement their first object-oriented applications this year, according to a survey by Forrester Research, Inc.

Digital customers like Florida Power & Light, the Rehabilitative Services Commission and the Spicer Clutch Division of Dana Corporation have blazed the trail.

These early adapters have reported a two- to fourfold increase in programmer productivity while developing new applications to give them an edge over their competition.

Software

Teamwork Brings It All Together



"I tell customers interested in open client/server computing to start with software. If you have the right software, you can support just about any computer or operating system."

— William R. Demmer, Vice President
Software Business Group
Digital Equipment Corporation

"Establishing an information framework does not require a massive overhaul of existing technology. In fact, Digital LinkWorks software enhances existing systems by enabling them to become part of an open, enterprise-wide client/server network."

— Robert Stauß, President
VW-GEDAS Group

VW-GEDAS: How Digital LinkWorks software simplified application development and user support
VW-GEDAS, the systems integration subsidiary of Volkswagen, provides information-based solutions for both its parent company and commercial customers.

Many of these solutions are based on Digital LinkWorks, an "object-oriented" software framework for Windows applications. With LinkWorks software, files created on Lotus 1-2-3, Microsoft Word, Excel and other desktop applications can be packaged together as a single "object." These "objects" — or clusters of related information — can be organized and represented as icons.

This makes it easier for the user to access all the information on a particular subject without plowing through electronic file cabinets.

The integration of desktop applications with corporate databases makes it easier for people to find the information they need to do their jobs. And it simplifies support by eliminating many of the user requests for reports and data that tie up data processing personnel.

Bank of Montreal: Sharing customer information without compromising confidentiality
Many customers have legitimate concerns about making corporate or customer data available to employees. Unfortunately, many client/server applications lack the controls needed to ensure the confidentiality of this data.

At the same time, data processing managers are concerned about the cost of developing and implementing client/server applications. Few software programs come in on-budget and on-schedule because, all too often, there is no framework around which programmers can develop applications.

One reason the Bank of Montreal decided to work with Digital in implementing client/server computing was that Digital could provide the frameworks required to simplify systems and data management, and messaging, workgroup and production applications.

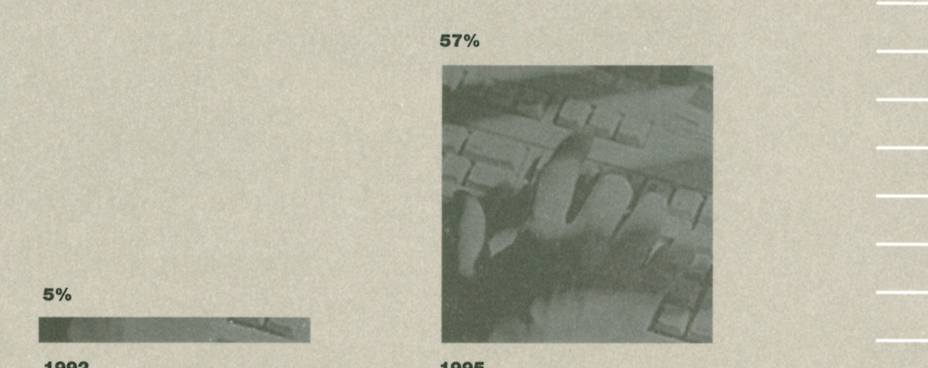
Using these frameworks and object-oriented programming, the Bank of Montreal was able to provide authorized employees with easy access to corporate data without compromising customer confidentiality.

"I can't stress strongly enough that this was a business project. We focused on finding ways to help people work together rather than on technology. Technology is just the means to an end. Digital understands that."

— Mike Frow, Vice President
Bank of Montreal

Client/Server Growth

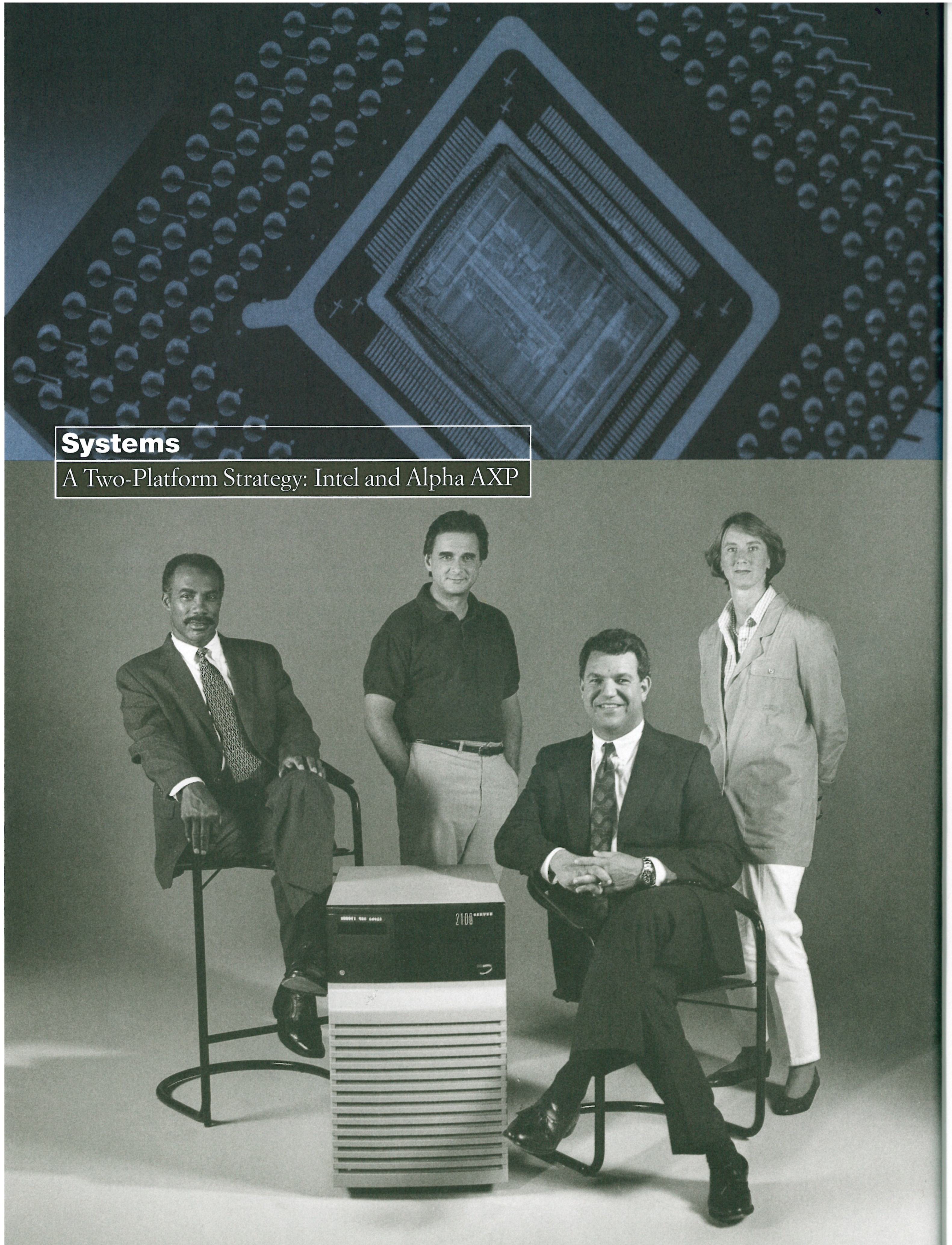
CIOs in large companies expect the percentage of their client/server applications to increase from 5 percent in 1992 to 57 percent by 1995.



Source: Deloitte & Touche LLP

Systems

A Two-Platform Strategy: Intel and Alpha AXP



Alpha AXP systems like the Digital 2100 Alpha AXP server — shown here with George Murphy, Andrei Shishov, René Martinez and Fidelma Hayes of Digital's Systems Business Unit — combine raw speed with the ability to address massive databases.

"Digital PCs and Alpha AXP systems are complementary. As a technological leader in personal, corporate and scientific computing, Digital is uniquely positioned to help its customers implement open client/server applications, whatever the platform."

— Bernhard Auer, Vice President and General Manager
Personal Computer Business Unit
Digital Equipment Corporation

In supporting network and client/server enviroments, Digital is focusing on two platforms: high-performance Intel personal computers and servers; and Alpha AXP workstations, servers and systems with the highest performance and best price/performance in the industry.

We support both 32-bit Intel and 64-bit Alpha AXP platforms because our customers need and want both. Buying decisions are based on applications and the speed with which a system runs those applications.

A high-speed bus can increase system performance. Digital manufactures and sells chips that implement the new, industry-standard, high-speed PCI (Peripheral Component Interconnect) bus. By building highly reliable personal computers and servers around this bus — systems that are easy to upgrade and have high-performance, high-capacity disks — Digital was able to offer superior price/performance together with a three-year warranty. Combining technological leadership with comprehensive customer support, Digital broadened its distribution channels and doubled year-to-year personal computer sales.

Today, Digital builds a complete family of high-performance Intel i486 and Pentium servers, and personal and notebook computers to run the thousands of applications that have been written for MS-DOS, Windows and Windows NT.

Applications are also driving the sales of Alpha AXP systems. With more than 6,000 UNIX, OpenVMS and Windows NT applications from independent developers, we have shipped over one billion dollars' worth of Alpha AXP systems since the program's launch.

Digital's Intel and Alpha AXP platforms are complementary. We have the PC-to-UNIX integration and networking software, the middleware, and the multivendor service organization needed to integrate Intel and Alpha AXP systems in multivendor networks.

As more and more customers link PCs and LANs in enterprise-wide networks and implement client/server applications, the need for faster processing speed and the ability to hold vast amounts of data in computer memory become critical.

A 32-bit system can address only the equivalent of 96 file cabinets. This is why insurance, credit card, utility, distribution and manufacturing companies that process huge volumes of transactions and maintain massive databases are moving applications to 64-bit systems. At the same time, Alpha AXP systems provide the speed and raw computing power needed to tackle scientific and imaging applications that used to require multimillion-dollar supercomputers.

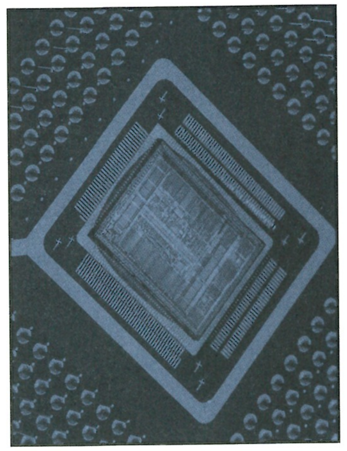
While every major manufacturer of microprocessors has announced plans to move to a 64-bit RISC architecture, Digital is the only company to offer a complete family of 64-bit microprocessors, computers and operating systems.

We're also addressing the needs of customers looking for systems to support mainframe downsizing and current applications with a complete line of Alpha AXP and VAX systems that support "industrial-strength" OpenVMS software.

Many of the components and subsystems that account for the superior performance of Digital's systems are produced by our Components Division. Digital is a leading supplier of storage subsystems, networking products, terminals, printers and peripherals to other computer companies, systems integrators and distributors.

Systems

For Complex Commercial and Technical Applications



"Alpha AXP chips lead the industry in performance, setting a standard in the open market and building momentum for Digital as a merchant vendor of microprocessors and PCI peripheral chips."

— Ed Caldwell, Vice President, Digital Semiconductor
Digital Equipment Corporation

"It is not a question of when you will need 64 bits. It is a question of when you will need that thirty-third bit. For a lot of applications, that time is now."

— Willy Shih, Vice President
Product Strategy
Computer Systems Division
Digital Equipment Corporation

"You don't just buy technology, you make an investment. And when you invest you have to look at the long term. You can't afford to buy equipment that will become obsolete in a matter of years."

— Richard C. Zbikowski, Project Manager
Boston Edison Energy Management Center

Boston Edison: Alpha AXP systems provide the power for realtime energy management and control
Few realtime applications are as demanding as energy management and control. Electric utilities like Boston Edison have to balance the supply and demand for power. This requires highly reliable realtime processing and specialized application software.

In updating its energy management and control system, Boston Edison was looking for a distributed, workstation-based solution that wouldn't become obsolete in a matter of years. They wanted an open architecture.

They were one of the first, but by no means the last, major electric utility to move their energy management and control to Alpha AXP workstations and computers. In fact, of the 23 large (million-dollar-plus) energy management and control contracts signed by North American utilities in 1993, 13 of the wins went to Alpha AXP systems, according to a study by Newton-Evans Research of Ellicott City, Maryland. In the U.K., Southern Electric, Northern Electric, Yorkshire Electricity, SEEBOARD, London Electricity and the National Grid Company have all chosen Alpha AXP systems for major projects.

Boston Edison chose Alpha AXP systems running UNIX and EMS/SCADA software over IBM RS6000 AIX systems. In addition to providing Edison with a price/performance advantage, Digital offered a 64-bit UNIX solution that supports clusters and multiprocessing while meeting X/Open and other industry standards. Equally important was the availability of EMS/SCADA realtime software from CAE Electronics, Ltd., a Digital Technical OEM partner. CAE, based in Montreal, Canada, is a worldwide leader in the development of power distribution systems and recently won two contracts to install Alpha AXP systems in China.

Boston Edison's Alpha AXP systems form part of a power distribution network that serves more than 650,000 commercial, residential and industrial customers.

First Data: How UNIX and Alpha AXP technology gave a Digital business partner a competitive edge in the healthcare field
First Data Corp.'s Health Systems Group serves some 700 hospitals and healthcare facilities in the U.S. and international markets. The company designs and markets leading-edge healthcare technology solutions, including computer-based patient record applications. Three of their newest customer reference accounts are using UNIX-based Alpha AXP systems.

At Georgetown Memorial, Roper and Union Memorial hospitals, these systems are dramatically reducing the time it takes to run major reports and financial reconciliations. At Georgetown Memorial, reports that took four to six hours are now completed in 20 minutes. At Roper Hospital, monthly financial reporting that took 24 hours is now finished in one to two hours.

On the strength of this performance, First Data is closing additional Alpha AXP system sales. With Alpha AXP systems and services, Digital provides First Data with a robust, industrial-strength UNIX together with the tools needed to develop and maintain complex client/server and database applications.

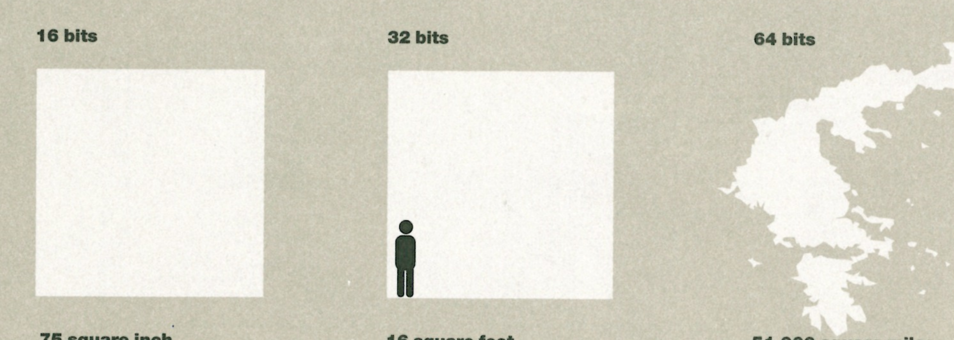
And it is the ability to develop new applications that provides Digital business partners like First Data with the competitive advantage they need to succeed in a changing marketplace.

"Digital has given us what we needed: UNIX that meets industry standards. Alpha AXP systems that set the standard for performance. And the kind of support that comes with a true business partnership."

— Larry Ferguson, President
First Data Corp.
Health Systems Group

How big is 64 bits?

If one bit of information is represented by the smallest printable dot — one pixel — a square representing 16 bits of information would consist of 65,536 pixels, and would cover an area of about three-quarters of an inch. A square representing 32 bits would cover an area eighteen by eighteen feet. To represent 64 bits — 4 billion times larger than 32 bits — an area the size of Greece, 51,000 square miles, would be required.



Source: Illuminata

Networks

Opening the Information Superhighway

Networking no longer means making a choice among competing technologies. The DEChub MultiSwitch — pictured with Gary Vacon, Rich Graham and Cheryl Galvin of Digital's Network Product Business — provides a technology-independent backplane. ATM-ready, the DEChub MultiSwitch supports up to 16 Ethernet, Token Ring and FDDI plug-in modules.

"We have a strategic relationship with Digital because we share a common goal: To make it easier for computer users and computers to work together. That's why Digital offers NetWare solutions and has incorporated Novell NetWare into its PATHWORKS network operating system."

**— Bob Frankenberg, Chairman and CEO
Novell, Inc.**

The Information Superhighway is not a path from Point A to Point B. It is an emerging global information utility and commercial trade route that can be accessed by any computer, anywhere.

Global access is not a concept developed by a government agency, nor is the Information Superhighway the creation of a giant corporation. In reality, the Information Superhighway is the network that is evolving from the interlinked communications systems that span the world.

The Internet — an existing network of 21,000 computer networks in 60 countries that utilizes existing telecommunications links — is a prototype for the Information Superhighway, giving businesses and individuals a worldwide electronic mail network and access to remote databases, computer bulletin boards and applications.

At the same time, many telecommunications networks are supporting applications that are opening new markets and creating new business opportunities — Electronic Data Interchange (EDI), mobile and wireless communications, multimedia, video-on-demand, on-line transaction processing, interoffice and intercompany electronic mail, and electronic publishing and distribution.

Many of these applications are based on open client/server technology. Take video-on-demand, for example. The set-top system — the box that will sit on top of your video set — is the client. The computer system that stores and transmits a digital video image into your home is the server.

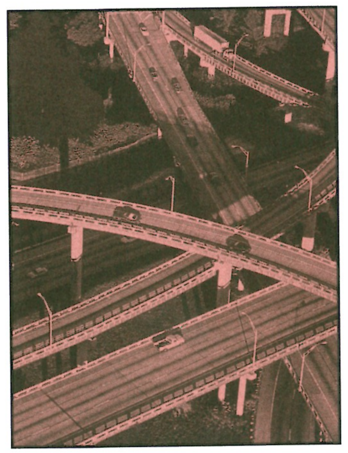
Digital is working with U S West, NYNEX and USA Video to provide Alpha AXP servers to implement video-on-demand so television viewers can see the program or movie they want, when they want it.

But there's more to the Information Superhighway than the client and server systems that will use the network. In addition to fiber-optic, coaxial, wireless and microwave communications, specialized network operating systems, hubs, bridges, repeaters, routers and high-speed digital switches are needed to manage traffic and link local and wide area networks together. Then there's the matter of security — keeping intruders out of your internal network and protecting confidential and proprietary information.

Digital is providing hardware as well as networking and security software to both corporate customers and communication service providers. We are working with Australia's Optus Communications to build operational support systems — the network operating, billing and administrative systems needed to control and manage a fully digital, transcontinental telecommunications network.

We're providing Alpha AXP systems and high-speed FDDI switches to Glaxo Research and Development in Stevenage, England, to support growing network traffic as they develop, test and market new drugs in both Europe and the Americas.

And we're working with virtually every one of our networking customers to help them access, move and manage information both within the enterprise and across the Information Superhighway so they can gain a competitive advantage.



"Without networking you wouldn't have open computing environments where computers work together — where you can exchange ideas and data over the Internet. Digital builds the switches, routers, hubs and adapters around which customers can build open networks utilizing ATM, FDDI, Ethernet, Token Ring and other communications technologies."

— Dr. Laurence G. Walker
Vice President
Network Product Business
Digital Equipment Corporation

"The Information Superhighway isn't going to mean much unless you have secondary roads to support local traffic. Here at Iowa State, we're working with Digital to build the open, high-speed multivendor network needed to support the academic and research programs of a large university."

— Dr. George Strawn, Director of the Computation Center
Iowa State University of Science and Technology

Iowa State University: Building a science and research infrastructure around Alpha AXP systems
The Internet was originally set up to support government and academic research. It created a "virtual campus" where students and scientists at one institution could work with their peers, access data and use computer resources at other institutions around the world.

Iowa State University of Science and Technology has been part of the Internet since 1985. Today, working with Digital, the University is developing the local infrastructure needed to support a multivendor computing environment.

Using a Digital FDDI network and DECathena software, Iowa State's network now includes more than 800 client and 50 server workstations located in 45 buildings across the campus.

Alpha AXP servers are a critical component because the network has to support projects that involve massive databases. With 64-bit addressing, Iowa State's Alpha AXP servers can manage databases and perform computations that used to require mainframes and supercomputers.

Times Mirror: Linking businesses in a citywide multimedia LAN using an existing cable TV network
In a unique pilot program, Digital, Times Mirror Cable Television and Arizona State University joined together to provide an interactive, multimedia commerce network for companies in the Phoenix area.

Times Mirror Cable Television is providing the infrastructure; Arizona State University, the demonstration facility and Internet access. Digital Alpha AXP systems control the network, while a ChannelWorks bridge links existing computers and LANs together. Digital is also providing the network management software and services needed to convert the existing cable system into a two-way interactive, high-speed network to support video, voice and data applications throughout the metropolitan area.

By creating an open, broadband network, local businesses are able to work closely together. For example, McDonnell Douglas Helicopter Systems and Allied Signal Engine Division are now able to work with key local suppliers to dramatically reduce the time it takes to develop and manufacture new components.

Times Mirror Cable Television and Digital demonstrated the capabilities of the Electronic Commerce Network (ECNet) for President Clinton and Vice President Gore at the White House.

The network supports concurrent computer-aided design programs where engineers at prime- and subcontractor sites can view and revise engineering drawings simultaneously. It supports desktop videoconferencing and "white boarding" so users at different sites see and annotate the same document at the same time.

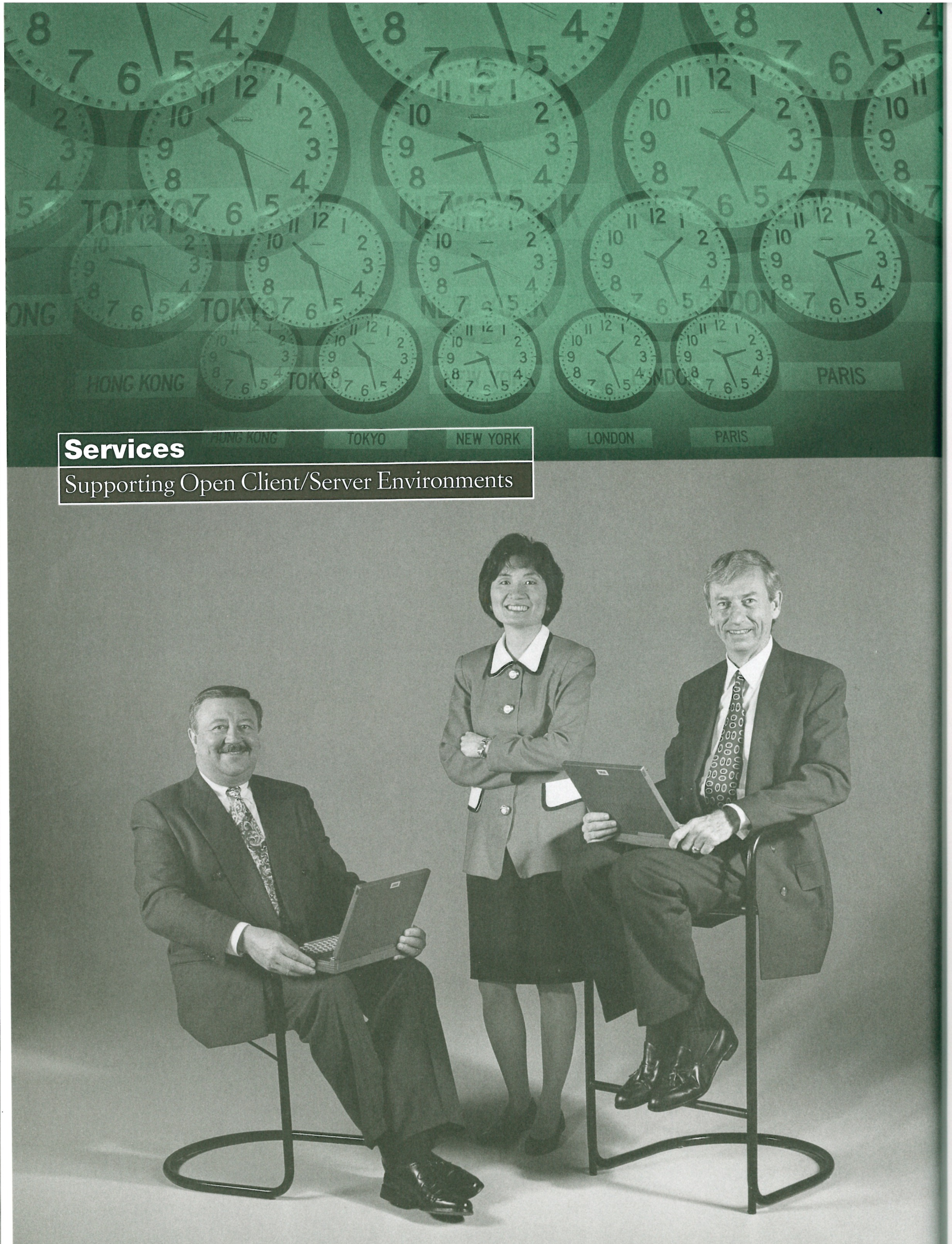
The Electronic Commerce Network is typical of the new cable services based on Digital's ChannelWorks technology that are being built in the Americas, Europe, Asia and the Pacific Rim.

"While everyone talks about the Information Superhighway, we've built an on-ramp right here in Phoenix. Local companies are using it to speed product development and intercompany communications. Large manufacturing companies and their suppliers are gaining the edge they need to compete in global markets."

— Larry W. Wangberg
President and Chief Executive Officer
Times Mirror Cable Television and
Chairman, National Cable Television Association

"The really great thing about the Electronic Commerce Network (ECNet) is that we didn't have to invent whole new technologies to make it work — rather we integrated well-developed technologies to support new applications so local businesses could work closely together."

— Darel Eschbach, Executive Director
Telecommunications Services
Arizona State University



Services

Supporting Open Client/Server Environments

"Client/server environments are, by their very nature, multivendor. Because of our networking leadership and extensive experience supporting multivendor environments, Digital is uniquely qualified to be a leader in supporting customers and their IT investments — today, and as they evolve to client/server computing."

— John Rando, Vice President
Multivendor Customer Services
Digital Equipment Corporation

A portfolio of services — Services account for nearly 50 percent of Digital's business. Digital professionals like Art Bolton, Yvonne Wong and Randy Stotler provide systems and network integration services and support customers with multivendor computing environments in thousands of customer installations worldwide.

Practically every computer company sells hardware or software for network and client/server environments. Most only support the equipment they sell. Digital is different. We provide the most comprehensive portfolio of systems and network integration and multivendor customer services in the industry.

We will take complete responsibility for major projects, from initial feasibility studies all the way through implementation and management.

This requires more than just an understanding of technology. Implementing a new system changes the way people work. That's why — in addition to providing multivendor systems and network integration — we work closely and have strategic alliances with independent consultants so together we can address the business as well as the technical issues facing our customers.

And, as more and more customers adopt client/server solutions and build enterprise-wide networks, gaps in service coverage and service quality inevitably occur. Digital is filling these gaps. We provide multivendor services, technical systems and network integration services, and customer training in more than 100 countries to support both local and worldwide enterprises.

Today, we are the only service provider prepared to take ownership of all the support issues found in multivendor environments. We run help desks and train users. We pull wire and install hardware and software upgrades. And we provide a full range of system management services including asset management and remote and on-site performance analysis and tuning. As testimony to our open client/server support capabilities, Digital won *InfoWorld* magazine's 1994 award for best client/server technical support.

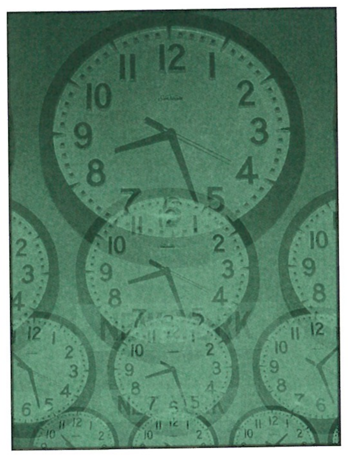
Digital supports hardware and software from IBM, Hewlett-Packard, Olivetti, Apple, Compaq, Sun, Microsoft, WordPerfect, Oracle, NeXT and other companies. In many cases, hardware and software companies rely on Digital to support their products. For example, Digital has formal alliances with Dell, Microsoft, Novell, National Semiconductor, British Telecom (BT) and other computer, component and telecommunications companies to support their customers in key markets around the world.

Professional and multivendor customer services represent a $6-billion-a-year business for Digital with systems and network integration accounting for more than one-third of the total. Today, Digital is one of the four largest systems integration companies in the world and is ranked second by both International Data Corporation and *Computer Reseller News* magazine.

Offering both systems integration and multivendor customer services, Digital has all the resources needed to help customers plan, design, implement, manage, maintain and support open client/server environments around the world.

Services

Supporting Customers 24 Hours a Day



"Our customers are looking for a business partner. They want to deal with a computer company that can provide systems and network integration and multivendor services. A company that can help them apply technology in ways that enhance productivity and protect current and future investments."

— Enrico Pesatori, Vice President and General Manager
Computer Systems Division
Digital Equipment Corporation

"Having a service partner who can handle everything from chip swaps to fixing laser printers is essential to keeping the Society's business running smoothly on any given day."

— Robert Jackson
Information Technology General Manager
Yorkshire Building Society

Yorkshire Building Society: Bringing operational simplicity to a multivendor network

The Yorkshire Building Society, with 136 branches throughout the United Kingdom, faced a problem that is shared by many customers with multivendor computing environments: Whom do you call when you have a problem?

In all too many cases, the source of a problem is not easily identified. Is it a hardware or a software problem? Is it a problem with the local computer, with the local area network, or with a laser printer or networked file server? It's a problem that's compounded when you have equipment from IBM, Hewlett-Packard, Philips, Olivetti, Dell and other computer manufacturers running software created by dozens of different companies.

Yorkshire Building Society found the simple answer: Call Digital. We provide the multivendor customer services that they need to keep everything running, in every office.

Having a single service organization provides operational simplicity while reducing costs and eliminating the delays that often occur when it's not clear who owns a particular problem.

And when many customer branches lack on-site expertise, it is particularly important that they be able to work with someone they know and trust.

Tokyo Digital Phone: Building the business support system for a new cellular network

In April 1992, Digital was called in by Tokyo Digital Phone (TDP) and its partners in the DPG (Digital Phone Group) — CDP (Central DP) and KDP (Kansai DP) — to build a business support system costing approximately 3 billion yen ($29 million) for a new cellular telephone company entering the highly competitive Tokyo/Nagoya/Osaka market.

In April 1994, when the new network went into operation, the business support system was up and running.

BACUSS — the Billing and Accounting Customer Support System — is a multivendor, client/server system that interfaces directly with DPG's switching system to handle leads, customer orders, customer care, inventory, billing, and account and agent management.

TDP and Digital recognized that client/server computing would provide a competitive advantage because it is scalable and allows the cost-efficient distribution of computing resources while making information readily available where and as needed.

DPG plans to license BACUSS to other cellular telephone companies looking for a complete customer support system.

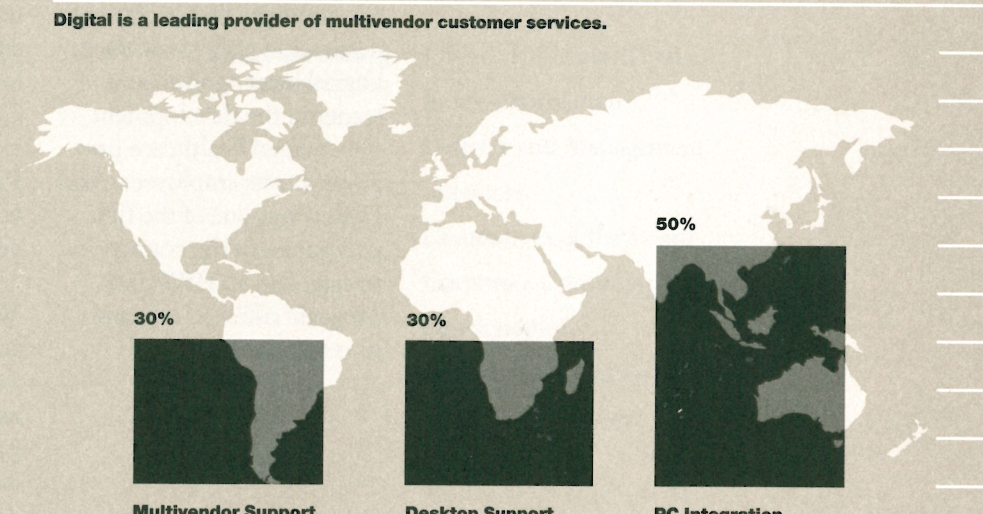
In addition to undertaking major systems integration projects like BACUSS, Digital provides strategic and operations management services to help its clients move to and function effectively within client/server environments.

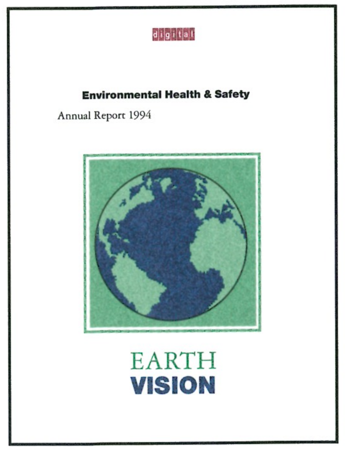
"We see Digital as a true business partner rather than just a company we contracted with for specific products and services. And having a close relationship with the people you do business with is the key to staying on-schedule and on-budget."

—Yosai Hayashi, Managing Director
Tokyo Digital Phone Co., Ltd.

Rate of growth 1994

Digital is a leading provider of multivendor customer services.





As individuals and as a company, we have a tradition of achievement in protecting the environment and in ensuring the health and safety of our fellow employees. If you'd like a copy of our Environmental, Health and Safety Annual Report, write to:

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

"Technology alone does not guarantee success. The challenge is to apply technology to the problems facing the customer and the community. As a company, and as individuals, we welcome that challenge."

— Robert B. Palmer, President and Chief Executive Officer Digital Equipment Corporation

Throughout this annual report, we have focused on the importance of teamwork. Open client/server computing is not something that we implement by ourselves; it is a concept that can be implemented only in partnership with others.

Teamwork is based on trust. That means being honest in dealing with our customers and business partners as well as with each other. It means respect for the individual. It means that we are accountable — as individuals and as a company — for meeting our commitments to our customers and business partners.

These core values create an environment that encourages innovation and involvement. Digital is recognized as a leader in the development of managed healthcare programs for its employees. And Digital was one of the first companies in the country to establish an HIV/AIDS program office to educate its employees.

We recognize our responsibility for the environment. We eliminated CFCs and other ozone-depleting substances from our products, processes and services. We introduced energy-efficient PCs. And we integrated environmental compatibility features into our new video terminals and have a program to extend environmental compatibility to other products, media, documentation and packaging.

These are not isolated activities. In every country where we do business, we try to make a difference. Digital employees volunteer their time and skills to schools, hospitals and other community organizations. At the same time, the company has a formal Corporate Contributions Program as well as an External Research Program that supports projects at 125 colleges and universities around the world.

We believe that computer technology can help make this a better world, and that as individuals and as a company we have a contribution to make.

Financial Statements

Eleven-Year Financial Summary

(dollars in millions except per share data and stock prices)	**1994**	1993	1992	1991	1990	1989	1988	1987	1986	1985	1984
Revenues											
Product sales	**$ 7,191**	$ 7,588	$ 7,696	$ 8,299	$ 8,146	$ 8,190	$ 7,541	$6,254	$ 5,103	$4,530	$3,804
Service and other revenues	**6,260**	6,783	6,235	5,612	4,797	4,552	3,934	3,135	2,487	2,156	1,780
Total operating revenues	**13,451**	14,371	13,931	13,911	12,943	12,742	11,475	9,389	7,590	6,686	5,584
Costs and Expenses											
Cost of product sales, service and other revenues	**8,912**	8,631	8,132	7,278	6,795	6,242	5,468	4,514	4,282	4,087	3,379
Research and engineering expenses	**1,301**	1,530	1,754	1,649	1,614	1,525	1,306	1,010	814	717	631
Selling, general and administrative expenses[1]	**5,234**	4,447	6,181	5,572	4,521	3,639	3,066	2,253	1,665	1,432	1,179
Operating income/(loss)	**(1,996)**	(237)	(2,136)	(588)	13	1,336	1,635	1,612	829	450	395
Net interest income/(expense)	**(24)**	13	57	68	111	85	106	77	28	(19)	6
Income/(loss) before income taxes and cumulative effect of change in accounting principle	**(2,020)**	(224)	(2,078)	(520)	124	1,421	1,741	1,689	857	431	401
Provision for income taxes	**85**	27	232	97	50	348	435	552	240	(16)[5]	72
Net income/(loss)[2]	**$(2,156)**	$ (251)	$ (2,796)	$ (617)	$ 74	$ 1,073	$ 1,306	$ 1,137	$ 617	$ 447	$ 329
Net income/(loss) applicable per common share[2,3,4]	**$(15.80)**	$ (1.93)	$ (22.39)	$ (5.08)	$ .59	$ 8.45	$ 9.90	$ 8.53	$ 4.81	$ 3.71	$ 2.87
Weighted average shares outstanding (in millions)	**137**	130	125	122	125	127	132	133	131	124	115
Financial Position											
Inventories	**$ 2,064**	$ 1,755	$ 1,614	$ 1,595	$ 1,538	$ 1,638	$ 1,575	$1,453	$1,200	$ 1,756	$1,852
Accounts receivable, net of allowance	**$ 3,319**	$ 3,020	$ 3,594	$ 3,317	$ 3,207	$ 2,965	$ 2,592	$2,312	$1,903	$ 1,539	$1,527
Net property, plant and equipment	**$ 3,129**	$ 3,178	$ 3,570	$ 3,778	$ 3,868	$ 3,646	$ 3,095	$2,127	$ 1,867	$ 1,731	$1,511
Total assets	**$10,580**	$10,950	$11,284	$11,875	$11,655	$10,668	$10,112	$8,407	$ 7,173	$6,369	$5,593
Long-term debt	**$ 1,011**	$ 1,018	$ 42	$ 150	$ 150	$ 136	$ 124	$ 269	$ 333	$ 837	$ 441
Stockholders' equity	**$ 3,280**	$ 4,885	$ 4,931	$ 7,624	$ 8,182	$ 8,036	$ 7,510	$6,294	$ 5,728	$4,555	$3,979
Stockholders' equity per common share[3]	**$ 20.24**	$ 36.19	$ 38.58	$ 61.18	$ 66.76	$ 66.12	$ 59.47	$49.87	$44.54	$38.43	$34.42
General Information and Ratios											
Current ratio	**1.4:1**	1.8:1	1.4:1	2.0:1	2.3:1	2.9:1	2.9:1	3.4:1	4.9:1	4.9:1	3.8:1
Quick ratio	**.9:1**	1.2:1	1.0:1	1.4:1	1.6:1	1.9:1	2.0:1	2.4:1	3.5:1	2.8:1	1.9:1
Working capital	**$ 1,832**	$ 2,964	$ 2,015	$ 3,777	$ 4,332	$ 4,501	$ 4,516	$4,377	$4,223	$ 3,694	$3,001
Investments in property, plant and equipment	**$ 682**	$ 529	$ 710	$ 738	$ 1,028	$ 1,223	$ 1,518	$ 748	$ 564	$ 572	$ 452
Depreciation	**$ 574**	$ 699	$ 733	$ 772	$ 759	$ 659	$ 516	$ 435	$ 384	$ 315	$ 253
Total debt as a percentage of total debt plus equity	**24.1%**	17.5%	1.8%	2.2%	2.0%	2.0%	3.6%	4.2%	5.9%	15.7%	10.3%
Operating income/(loss) as a percentage of revenues	**(14.8)%**	(1.7)%	(15.3)%	(4.2)%	.1%	10.5%	14.2%	17.2%	10.9%	6.7%	7.1%
Income/(loss) before income taxes as a percentage of revenues	**(15.0)%**	(1.6)%	(14.9)%	(3.7)%	1.0%	11.2%	15.2%	18.0%	11.3%	6.4%	7.2%
Effective tax rate	**4.2%**	12.0%	11.2%	18.8%	40.0%	24.5%	25.0%	32.7%	28.0%	(3.7)%[5]	18.0%
Net income/(loss) as a percentage of revenues	**(16.0)%**	(1.7)%	(20.1)%	(4.4)%	.6%	8.4%	11.4%	12.1%	8.1%	6.7%	5.9%
Net income/(loss) as a percentage of average stockholders' equity	**(52.8)%**	(5.1)%	(44.5)%	(7.8)%	.9%	13.8%	18.9%	18.9%	12.0%	10.5%	8.7%
Net income/(loss) as a percentage of average total assets	**(20.0)%**	(2.3)%	(24.1)%	(5.2)%	.7%	10.3%	14.1%	14.6%	9.1%	7.5%	6.5%
Number of days sales of accounts receivable outstanding	**76**	69	83	76	86	76	75	78	79	75	83
Inventory turns	**4.7**	5.1	5.1	4.6	4.3	3.9	3.6	3.4	2.9	2.3	2.1
Number of employees at year-end—regular	**77,800**	89,900	107,900	115,100	116,900	118,400	113,900	103,000	88,300	83,000	79,800
Number of employees at year-end—other	**5,000**	4,300	5,900	5,900	7,100	7,400	7,600	7,500	6,400	6,000	5,800
Common stockholders at year-end	**77,722**	86,611	99,644	98,023	92,934	99,084	103,162	99,379	76,860	68,810	44,389
Common stock yearly high and low sales prices	**$43–18**	$49–30	$72–33	$87–45	$103–70	$122–86	$199–99	$174–82	$94–46	$63–39	$61–33

[1] Includes restructuring charges of $1,206M in 1994, $1,500M in 1992, $1,100M in 1991 and $550M in 1990. Includes reduction in carrying value of intangible assets of $310M in 1994.

[2] In fiscal year 1994, net loss and net loss per share include a one-time charge of $71M, or $.51 per share, and a one-time benefit of $20M, or $.14 per share, for the cumulative effect of changes in accounting principles. In fiscal year 1992, net loss and net loss per share include the cumulative effect of change in accounting principle of $485M and $3.89, respectively.

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

[4] See Note A of Notes to Consolidated Financial Statements.

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

Management's Discussion and Analysis of Results of Operations and Financial Condition

Income and Expense Items as a Percentage of Total Operating Revenues (a)

1992	1993	1994	**Income and Expense Items**	Percentage Changes 1993–94	1992–93	1991–92
55.2%	52.8%	**53.5%**	Product sales	**(5)%**	(1)%	(7)%
44.8%	47.2%	**46.5%**	Service and other revenues	**(8)%**	9%	11%
100.0%	100.0%	**100.0%**	Total operating revenues	**(6)%**	3%	–
55.2%	58.8%	**69.1%**	Cost of product sales (b)	**11%**	5%	9%
62.3%	61.4%	**63.0%**	Service expense and cost of other revenues (b)	**(5)%**	7%	15%
58.4%	60.1%	**66.3%**	Total cost of operating revenues	**3%**	6%	12%
12.6%	10.6%	**9.7%**	Research and engineering expenses	**(15)%**	(13)%	6%
33.6%	30.9%	**29.9%**	Selling, general and administrative expenses	**(9)%**	(5)%	5%
10.8%	–	**9.0%**	Restructuring charges	**NM**	(100)%	36%
(15.3)%	(1.7)%	**(14.8)%**	Operating loss	**100+%**	(89)%	100+%
0.7%	.4%	**.3%**	Interest income	**(23)%**	(34)%	(15)%
0.3%	.4%	**.5%**	Interest expense	**44%**	32%	(14)%
(14.9)%	(1.6)%	**(15.0)%**	Loss before income taxes and cumulative effect of change in accounting principle	**100+%**	(89)%	100+%
1.7%	.2%	**.6%**	Provision for income taxes	**100+%**	(88)%	100+%
(16.6)%	(1.7)%	**(15.6)%**	Loss before cumulative effect of change in accounting principle	**100+%**	(89)%	100+%
3.5%	–	**.4%**	Cumulative effect of change in accounting principle, net of tax benefits	**NM**	(100)%	–
(20.1)%	(1.7)%	**(16.0)%**	Net loss	**100+%**	(91)%	100+%

Note (a) Percentages of operating revenues may not be additive due to rounding.

Note (b) Cost of product sales and service expense and cost of other revenues are shown as percentages of their related revenues.
NM – Not meaningful.

Revenues

In fiscal 1994, total operating revenues, which were $13.5 billion, declined by $921 million or 6%, following an increase of $440 million or 3% in fiscal 1993 and an increase of $20 million, or less than 1% in fiscal 1992.

Non-U.S. revenues accounted for 62% of total operating revenues in fiscal 1994, down from 64% in fiscal 1993 and 63% in fiscal 1992. European revenues declined to $5.9 billion in fiscal 1994, down from $7 billion and $6.8 billion in fiscal 1993 and 1992, respectively. The decline in fiscal 1994 European revenues was due principally to weak demand for the Corporation's products and services in that region, exacerbated by the difficulties associated with the Digital-Kienzle business acquired in 1991 (see Note J) and negative effects of foreign currency fluctuations, discussed below.

Product sales for fiscal 1994 were $7.2 billion, or 53% of total operating revenues, compared with $7.6 billion, or 53% of revenues, and $7.7 billion, or 55% of revenues in fiscal 1993 and 1992, respectively. While the Corporation shipped substantially more computer systems in fiscal 1994 than in the previous fiscal year, product sales for fiscal 1994 declined compared with the prior two years, due principally to a continued shift in the mix of product sales toward low-end, lower-priced computer systems and away from the Corporation's proprietary mid-range products.

In fiscal 1994, the Corporation experienced substantial growth in demand for Alpha AXP-based systems, particularly workstations, and for Intel-based personal computer products, as well as certain storage and component products. Alpha AXP systems revenue represented approximately 13% of fiscal 1994 product sales, up from 3% for fiscal 1993. Revenues from the sale of Intel-based personal computers represented 19% of fiscal 1994 product sales, up from 9% for fiscal 1993. VAX systems revenues declined from 34% of product sales in fiscal 1993 to 19% in fiscal 1994, as the Corporation is in the midst of a major product transition. In the fourth quarter of fiscal 1994, revenues from the sale of Alpha AXP systems exceeded revenues from the sale of VAX systems for the first time.

In fiscal 1994, service and other revenues totaled $6.3 billion, or 47% of total operating revenues, compared with $6.8 billion, or 47% of total operating revenues, and $6.2 billion, or 45% of total operating revenues, for fiscal 1993 and 1992, respectively. Service revenues declined by $524 million or 8% in fiscal 1994, following increases of 9% and 11% in fiscal 1993 and 1992, respectively.

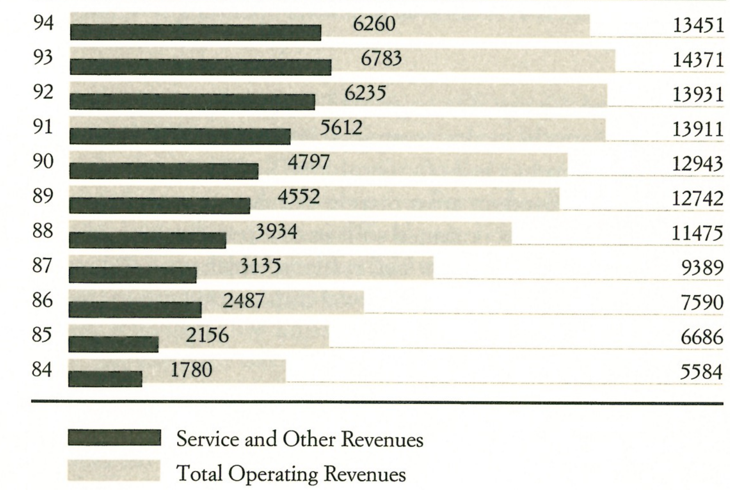
Revenues *(continued)*

The decline in service revenues for fiscal 1994 was due to several factors, including lower levels of revenue from the Corporation's VAX systems maintenance business, greater reliability of and lower maintenance revenue associated with the Corporation's newer, lower-priced products, and increased competition in the maintenance business. In addition, revenues from systems integration and consulting services were essentially unchanged from fiscal 1993, as the Corporation became more selective in pursuing systems integration and other consulting opportunities. Service revenue associated with the maintenance of other vendors' products grew in fiscal 1994, partially offsetting the declines noted above. The Corporation expects the market trends affecting service revenues from maintenance of VAX systems to continue over the next year.

Movements in currency exchange rates are one of many competitive, industry and economic factors which affect the Corporation's operating results. The Corporation does business in more than 100 countries in major and emerging markets. Revenues and costs in non-U.S. operations, including certain product costs, are denominated in applicable local currencies. While the effects of foreign currency translation for a fiscal period are included in applicable revenue and expense categories, they are difficult to quantify precisely because the Corporation responds to movements in currency exchange rates through pricing, expense, sourcing or other management actions, as market conditions permit. During fiscal 1994 and prior periods, the Corporation entered into foreign exchange contracts covering most of its net monetary assets, liabilities and firm commitments, with maturities which generally did not exceed six months, to increase the predictability of the rate at which non-U.S. revenues were translated into U.S. dollars. During fiscal 1994, the net effect of foreign currency translation and gains and losses on foreign exchange contracts was negative compared with fiscal 1993, whereas the net effect in fiscal 1993 compared with fiscal 1992 was positive. (See Notes A and I.)

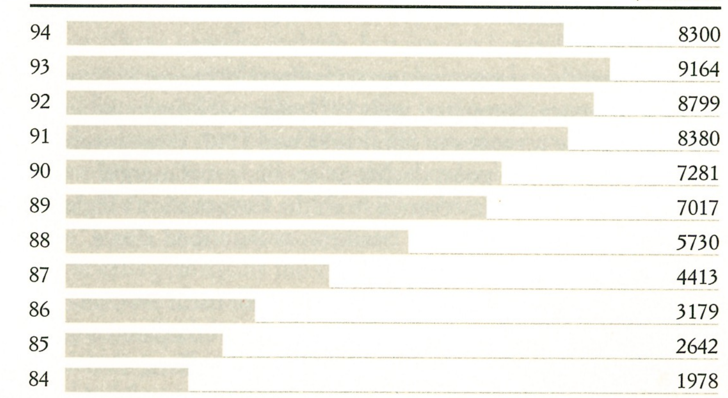
Total Operating Revenues

Year *$ Millions*



Non-United States Revenues

Year *$ Millions*



Expenses and Profit Margins

The Corporation's total gross margin for fiscal 1994 was 34% of total operating revenues, compared with 40% of total operating revenues in fiscal 1993 and 42% of total operating revenues in fiscal 1992.

The Corporation's gross margin on fiscal 1994 product sales was 31% of product sales, compared with 41% of product sales and 45% of product sales for fiscal 1993 and 1992, respectively. The decline in product gross margin was due to several factors, including pricing, a continued shift in the Corporation's mix of product sales toward low-end systems, which typically carry lower margins, and a business model shift toward greater use of indirect channels of distribution.

Recognizing these competitive conditions and the need to lower manufacturing costs, the Corporation closed several manufacturing plants in fiscal 1994, and recently announced the closure of three more plants in fiscal 1995. The Corporation has implemented and will continue to refine organizational changes intended to increase accountability in order to improve profitability and facilitate the design and manufacture of products for volume markets.

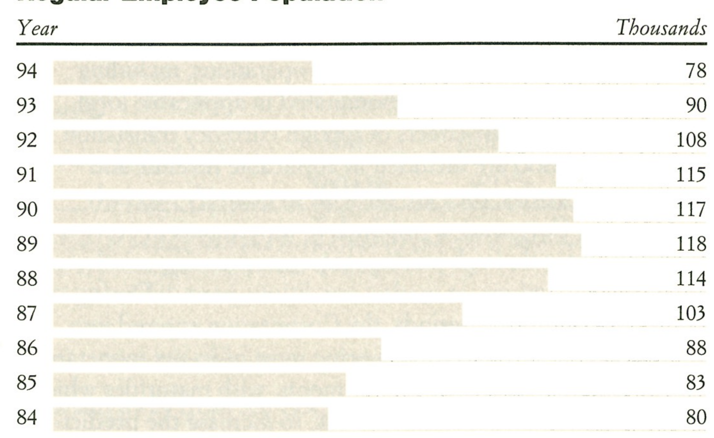
Gross margin on service revenues for fiscal 1994 was 37% of service revenues, compared with 39% of service revenues and 38% of service revenues in fiscal 1993 and 1992, respectively. The two percentage point decline in service gross margin was due to a decline in revenue from the Corporation's higher-margin systems maintenance business, as described above.

Research and engineering (R&E) spending for fiscal 1994 totaled $1.3 billion (10% of total operating revenues), compared with $1.5 billion (11% of total operating revenues) in fiscal 1993 and $1.8 billion (13% of total operating revenues) in fiscal 1992. The decrease in R&E expenses was due to several factors, including ongoing actions to eliminate redundant engineering efforts and streamline product offerings, which resulted in a reduction in employee population. The Corporation's R&E investment program is focused on maintaining a strong, consistently market-driven product set and on attaining and sustaining technology leadership in selected areas.

Fiscal 1994 selling, general and administrative (SG&A) expenses were $4.0 billion (30% of total operating revenues) compared with $4.4 billion (31% of total operating revenues) and $4.7 billion (34% of total operating revenues) for fiscal 1993 and 1992, respectively. Included in SG&A expenses for fiscal 1994 were $310 million of non-cash write-offs and write-downs associated with intangible assets. (See Note J.) The decrease in SG&A expenses in fiscal 1994 was due principally to reductions in employee population, as well as reductions in other overhead costs.

Research and Engineering

Regular Employee Population



While expenses continue to decline, the Corporation's cost structure is still too high for the level and mix of total operating revenues. As a result, at the end of fiscal 1994 the Corporation approved additional restructuring actions.

In the fourth quarter of fiscal 1994, the Corporation accrued restructuring costs of $1.2 billion to cover actions taken in the fourth quarter and planned actions for fiscal 1995 and 1996. Approximately $679 million of this charge was to cover the cost of employee separations to be completed by the end of fiscal 1995. The remaining $527 million was for facility closures and related costs. The cost of employee separations includes termination benefits for approximately 20,000 employees. A portion of these employee separations occurred near the end of the fourth quarter of fiscal 1994 and the remainder will occur by the end of fiscal 1995. These employees are located principally in the United States and Europe.

Planned restructuring actions for fiscal 1995 include employee separations across most organizations and functions, with approximately 40% to come from sales and marketing, as the Corporation sells more products and services through indirect channels of distribution. The planned facility closures cover 10 million square feet of office and manufacturing space, principally in the United States and Europe. Cash expenditures associated with these restructuring actions are expected to be approximately $580 million in the first half of fiscal 1995, $420 million for the remainder of fiscal 1995 and $240 million related to facility closures beyond fiscal 1995. These actions do not include workforce or facility reductions that may result from divestments.

See Note E for a description of the Corporation's restructuring actions and related costs.

As a result of actions associated with restructuring charges to operations in fiscal 1992, 1991 and 1990, the Corporation has eliminated an estimated $2.8 billion of annualized operating expenses, including approximately $2.5 billion of annual cash expense related to workforce reductions and approximately $335 million related to facility operating costs. When completed, the actions associated with the restructuring charge in fiscal 1994 are expected to result in the elimination of additional annualized operating expenses of approximately $1.8 billion, including $1.5 billion of cash expense.

Total employee population decreased by 11,400 during fiscal 1994. The Corporation had approximately 77,800, 89,900 and 107,900 regular employees at the end of fiscal 1994, 1993 and 1992, respectively, and an additional 5,000, 4,300 and 5,900 temporary and contract workers at the end of fiscal 1994, 1993 and 1992, respectively.

Interest income in fiscal 1994 decreased to $49 million from $64 million in fiscal 1993 and $96 million in fiscal 1992, reflecting lower interest rates and lower average cash balances. Interest expense increased to $73 million from $51 million in fiscal 1993 and $39 million in fiscal 1992. The increase in fiscal 1994 interest expense was due principally to the full year's interest expense on $1 billion of long-term debt issued during fiscal 1993. Interest expense for fiscal 1994 included the differential received on interest rate swap agreements entered into in the first quarter of fiscal 1994, relating to $750 million of long-term debt.

In fiscal 1994, the Corporation's income tax expense was $85 million on a pre-tax loss of $2.0 billion. (See Note C.) In fiscal 1993, the Corporation's income tax expense was $27 million on a pre-tax loss of $224 million. Income tax expense reflects several factors, including income taxes provided for profitable non-U.S. operations and an inability to recognize currently U.S. and certain non-U.S. tax benefits from operating losses. In addition, fiscal 1994 income tax expense includes a $70 million reduction in net deferred tax assets associated with non-U.S. operations.

The Corporation adopted Statement of Financial Accounting Standards (SFAS) No. 109 – Accounting for Income Taxes, effective July 4, 1993. The Corporation had previously accounted for income taxes under Accounting Principles Board Opinion No. 11. In the first quarter of fiscal year 1994, the Corporation recorded a one-time benefit of $20 million, or $.14 per share, for the recognition of previously unrecognized tax benefits. There is no cash flow impact from the adoption of SFAS No. 109. The standard was adopted on a prospective basis and amounts presented for prior years were not restated. (See Note C.)

In the fourth quarter of fiscal 1994, the Corporation adopted SFAS No. 112 – Employers' Accounting for Postemployment Benefits, effective as of the beginning of the fiscal year. SFAS No. 112 requires accrual accounting of benefits provided to former or inactive employees after employment but before retirement. These benefits include, but are not limited to, salary continuation, supplemental unemployment benefits, severance benefits, disability-related benefits, and continuation of benefits such as health care benefits and life insurance coverage. The cumulative effect of adopting this standard resulted in a one-time charge to income of $71 million (the "transition obligation"), or $.51 per common share. This transition obligation represents principally the cost of providing medical, dental and life insurance benefits to individuals in the U.S. currently on long-term disability during the estimated remaining period in which they will receive disability benefits. The annual expense under the new standard, exclusive of the transition obligation, is not significantly different than the annual expense under the Corporation's former practice. There is no cash flow impact from the adoption of SFAS No. 112. The first quarter of fiscal 1994 has been restated to reflect the change in accounting principle. (See Supplementary Information, Quarterly Financial Data.) Prior years' consolidated financial statements have not been restated to reflect the adoption of SFAS No. 112.

In November 1992, the Financial Accounting Standards Board issued SFAS No. 115 – Accounting for Certain Investments in Debt and Equity Securities. SFAS No. 115 expands the use of fair value accounting for certain debt and equity securities. The Corporation will adopt SFAS No. 115 in the first quarter of fiscal 1995. At the end of fiscal 1994, the Corporation had unrecognized gains on long-term investments of approximately $65 million that would be subject to SFAS No. 115 treatment.

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

Cash and cash equivalents totaled $1.2 billion, $1.6 billion and $1.3 billion at the end of fiscal 1994, 1993 and 1992, respectively.

Net cash used by operating activities was $375 million in fiscal 1994, compared with net cash generated of $47 million and $431 million in fiscal 1993 and 1992, respectively. The $375 million net use of cash from operating activities in fiscal 1994 was due principally to restructuring activities, the net loss for the year and increased inventory levels in support of increased demand for Alpha AXP, personal computer and certain storage products. Net cash generated by operating activities in fiscal 1993 was principally the result of improved accounts receivable, offset by expenditures for restructuring activities, the net loss for the year and decreased accounts payable.

Net cash used for investing activities was $626 million, $884 million and $981 million in fiscal 1994, 1993 and 1992, respectively. Capital expenditures totaled $682 million in fiscal 1994, compared with $529 million and $710 million in fiscal 1993 and 1992, respectively. Capital expenditures in fiscal 1994 included $206 million toward the construction of and purchase of equipment for a new semiconductor fabrication facility in Hudson, Massachusetts. This project has a currently estimated total cost of $425 million. Approximately $54 million of the remaining $91 million of unexpended costs on the Hudson project is expected to be spent in fiscal 1995. The Corporation expects total capital expenditures in fiscal 1995 to be less than $500 million.

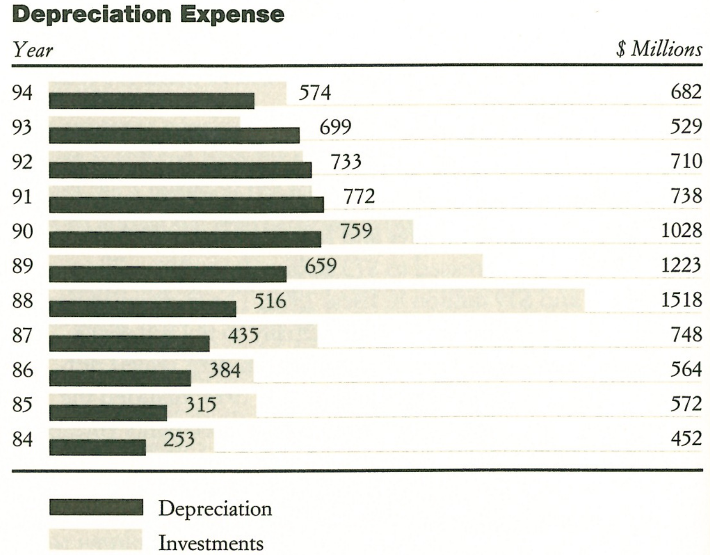
The Corporation disposed of property, plant and equipment and other assets in fiscal 1994, generating approximately $121 million in cash proceeds, compared with $68 million and $15 million in fiscal 1993 and 1992, respectively, principally as a result of restructuring activities. Subsequent to the end of the fiscal year, the Corporation and Quantum Corporation ("Quantum") signed an agreement providing for Quantum's purchase of a portion of the Corporation's storage business for $400 million. (See Note M.) The Corporation also sold its shares of the common stock of Ing. Olivetti & C. S.p.A. subsequent to the end of fiscal 1994 for approximately $148 million in cash. (See Note J.)

Net cash generated from financing activities was $538 million and $1.1 billion in fiscal 1994 and 1993, respectively, and net cash used was $36 million in fiscal 1992. The principal financing activity in fiscal 1994 was the issuance and sale of preferred stock, as discussed below, generating net proceeds of $387 million. The Corporation also received $150 million during fiscal 1994 from the issuance of common stock under the Corporation's stock plans, compared with $196 million and $232 million in fiscal 1993 and 1992, respectively.

On January 21, 1994, the Corporation filed with the Securities and Exchange Commission a shelf registration statement on Form S-3 under the Securities Act of 1933, as amended, covering the registration of debt securities, preferred stock, depositary shares, and warrants to purchase equity and debt securities, in an aggregate amount of $1.0 billion. In March 1994, the Corporation issued and sold 16,000,000 Depositary Shares under the shelf registration statement, each representing a one-fourth interest in a share of the Corporation's Series A 8⅞% Cumulative Preferred Stock (the "Series A Preferred Stock"), par value $1.00 per share. Dividends on the Series A Preferred Stock accrue at the annual rate of 8⅞% (approximately $36 million in the aggregate). The Corporation paid approximately $2 million in dividends in the fourth quarter of fiscal 1994. In addition, prior to the end of fiscal 1994, the Corporation's Board of Directors declared a quarterly dividend on the Series A Preferred Stock (totaling approximately $9 million), which was paid on July 15, 1994. (See Note L.)

Total long-term debt was $1.0 billion at the end of fiscal 1994 and fiscal 1993 and $91 million at the end of fiscal 1992. At the end of fiscal 1994, substantially all of the Corporation's available lines of credit were unused, including a three-year $750 million committed credit facility. Shortly after the end of the fiscal year, the Corporation terminated its credit facility, having replaced it as a source of liquidity with an accounts receivable securitization facility. (See Note F.)

Investments in Property, Plant and Equipment
Depreciation Expense



Availability of Funds to Support Current and Future Operations and Spending for Operations *(continued)*

The Corporation estimates that $1.0 billion of cash will be expended on planned restructuring activities in fiscal 1995, and an additional $240 million beyond fiscal 1995. The Corporation intends to fund planned restructuring activities from operations, asset management efforts and existing cash, although if required, additional sources of cash are expected to be available, as discussed above.

The Corporation's need for, cost of and access to funds are dependent on future operating results, as well as conditions external to the Corporation. The Corporation historically has maintained a conservative capital structure, and believes that its current cash position and its sources of and access to capital are adequate to support planned restructuring actions and operations.

Report of Management

The Corporation'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 Corporation 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 Corporation's independent public accountants annually review the accounting and control systems of the Corporation. 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, which is composed of four Board members who are independent of management, is responsible for determining that management fulfills its responsibility with respect to the Corporation's financial statements and the system of internal accounting controls.

The Audit Committee meets regularly with representatives of management, the independent accountants and the Corporation's internal auditors to review audits, financial reporting and internal control matters, and when appropriate, meets with the Corporation's outside counsel on relevant 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 Corporation's financial statements. Their report follows.

RB Palmer

Robert B. Palmer
President and Chief Executive Officer

Vincent J Mullarkey

Vincent J. Mullarkey
Vice President, Finance and Chief Financial Officer

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 July 2, 1994 and July 3, 1993, and the related consolidated statements of operations, cash flows, and stockholders' equity for each of the three fiscal years in the period ended July 2, 1994. These financial statements are the responsibility of the Corporation'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 July 2, 1994 and July 3, 1993, and the consolidated results of its operations and cash flows for each of the three fiscal years in the period ended July 2, 1994, in conformity with generally accepted accounting principles.

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

Coopers & Lybrand

Coopers & Lybrand

Boston, Massachusetts
July 26, 1994

Consolidated Statements of Operations
Digital Equipment Corporation

(in thousands except per share data)			*Year Ended*
	July 2, 1994	July 3, 1993	June 27, 1992
Revenues *(Notes A and B)*			
Product sales	**$ 7,191,251**	$ 7,587,994	$ 7,696,029
Service and other revenues	**6,259,539**	6,783,375	6,234,843
Total operating revenues	**13,450,790**	14,371,369	13,930,872
Costs and Expenses *(Notes A, G, and K)*			
Cost of product sales	**4,968,025**	4,464,445	4,248,118
Service expense and cost of other revenues	**3,943,612**	4,166,946	3,883,705
Research and engineering expenses	**1,301,347**	1,530,119	1,753,898
Selling, general and administrative expenses *(Note J)*	**4,027,869**	4,447,160	4,680,822
Restructuring charges *(Note E)*	**1,206,000**	–	1,500,000
Operating loss	**(1,996,063)**	(237,301)	(2,135,671)
Interest income	**49,422**	63,831	96,176
Interest expense	**73,353**	50,837	38,517
Loss before income taxes and cumulative effect of changes in accounting principles	**(2,019,994)**	(224,307)	(2,078,012)
Provision for income taxes *(Notes A and C)*	**85,043**	27,023	232,000
Loss before cumulative effect of changes in accounting principles	**(2,105,037)**	(251,330)	(2,310,012)
Cumulative effect of changes in accounting principles, net of tax *(Notes C and G)*	**51,026**	–	485,495
Net Loss	**(2,156,063)**	(251,330)	(2,795,507)
Dividends on preferred stock *(Note L)*	**10,650**	–	–
Net loss applicable to common stock	**(2,166,713)**	(251,330)	(2,795,507)
Per Common Share *(Note A)*			
Loss applicable before cumulative effect of changes in accounting principles	**$ (15.43)**	$ (1.93)	$ (18.50)
Cumulative effect of changes in accounting principles	**(.37)**	–	(3.89)
Net Loss Applicable per Common Share *(Note A)*	**$ (15.80)**	$ (1.93)	$ (22.39)
Weighted average common shares outstanding	**137,090**	130,409	124,864

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

Consolidated Balance Sheets
Digital Equipment Corporation

(in thousands)	**July 2, 1994**	July 3, 1993
Assets		
Current Assets		
Cash and cash equivalents *(Note A)*	**$ 1,180,863**	$ 1,643,195
Accounts receivable, net of allowance of $111,925 and $110,764	**3,318,854**	3,020,252
Inventories *(Note A)*	**2,063,978**	1,755,140
Prepaid expenses and deferred income taxes *(Note C)*	**324,676**	463,928
Total current assets	**6,888,371**	6,882,515
Net property, plant and equipment *(Note A)*	**3,129,489**	3,178,291
Other assets *(Notes A, C, D and J)*	**561,911**	889,537
Total assets	**$10,579,771**	$10,950,343
Liabilities and Stockholders' Equity		
Current Liabilities		
Bank loans and current portion of long-term debt *(Note F)*	**$ 32,614**	$ 21,335
Accounts payable	**1,197,350**	822,434
Income taxes payable *(Note C)*	**20,753**	57,614
Salaries, wages and related items	**619,756**	556,151
Deferred revenues and customer advances *(Note A)*	**1,239,792**	1,138,323
Accrued restructuring costs *(Note E)*	**1,351,075**	738,989
Other current liabilities	**594,925**	583,868
Total current liabilities	**5,056,265**	3,918,714
Deferred income taxes *(Note C)*	**4,758**	–
Long-term debt *(Note F)*	**1,010,680**	1,017,577
Postretirement and other postemployment benefits *(Note G)*	**1,228,269**	1,128,653
Total liabilities	**7,299,972**	6,064,944
Commitments and contingencies *(Note H)*		
Stockholders' Equity *(Notes K and L)*		
Preferred stock, $1.00 par value; authorized 25,000,000 shares; 4,000,000 shares of Series A 8⅞% Cumulative Preferred Stock issued and outstanding	**4,000**	–
Common stock, $1.00 par value; authorized 450,000,000 shares; 142,287,078 shares and 135,489,805 shares issued	**142,287**	135,490
Additional paid-in capital	**3,390,040**	2,851,960
Retained earnings/(deficit)	**(256,528)**	1,937,627
Treasury stock at cost; 0 shares and 497,551 shares	**–**	(39,678)
Total stockholders' equity	**3,279,799**	4,885,399
Total liabilities and stockholders' equity	**$10,579,771**	$10,950,343

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

Consolidated Statements of Cash Flows
Digital Equipment Corporation

(in thousands)	July 2, 1994	July 3, 1993	June 27, 1992
Cash Flows from Operating Activities			
Net loss	**$(2,156,063)**	$ (251,330)	$(2,795,507)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation	**573,970**	698,631	732,536
Amortization	**106,584**	139,552	100,292
Reduction in carrying value of intangible assets *(Note J)*	**310,000**	–	–
Other adjustments to income	**84,026**	185,617	269,095
(Increase)/decrease in accounts receivable	**(298,602)**	574,016	(86,163)
(Increase)/decrease in inventories	**(308,838)**	(141,106)	155,881
(Increase)/decrease in prepaid expenses	**82,513**	(26,552)	42,908
Increase/(decrease) in accounts payable	**374,916**	(218,866)	277,918
Increase in taxes	**18,913**	75,590	55,142
Increase/(decrease) in salaries, wages, benefits and related items *(Note G)*	**163,221**	(49,581)	1,115,240
Increase/(decrease) in deferred revenues and customer advances	**101,469**	(70,312)	101,421
Increase/(decrease) in accrued restructuring costs *(Note E)*	**612,086**	(807,915)	510,200
Decrease in other current liabilities	**(39,101)**	(60,828)	(48,259)
Total adjustments	**1,781,157**	298,246	3,226,211
Net cash flows from operating activities	**(374,906)**	46,916	430,704
Cash Flows from Investing Activities			
Investment in property, plant and equipment	**(682,100)**	(528,691)	(710,436)
Proceeds from the disposition of property, plant and equipment	**97,456**	46,049	15,141
Investment in other assets *(Note J)*	**(64,377)**	(423,573)	(139,459)
Proceeds from the disposition of other assets	**23,516**	22,100	–
Business acquisitions, net of cash acquired *(Note J)*	–	–	(146,387)
Net cash flows from investing activities	**(625,505)**	(884,115)	(981,141)
Net cash flows from operating and investing activities	**(1,000,411)**	(837,199)	(550,437)
Cash Flows from Financing Activities			
Proceeds from issuance of debt	**22,742**	984,482	25,821
Payments to retire debt	**(19,451)**	(36,860)	(108,472)
Purchase of treasury shares	–	–	(185,292)
Issuance of preferred, common and treasury shares, including tax effects	**536,563**	195,600	231,502
Dividends paid	**(1,775)**	–	–
Net cash flows from financing activities	**538,079**	1,143,222	(36,441)
Net increase/(decrease) in cash and cash equivalents	**(462,332)**	306,023	(586,878)
Cash and cash equivalents at beginning of year	**1,643,195**	1,337,172	1,924,050
Cash and cash equivalents at end of year	**$ 1,180,863**	$1,643,195	$ 1,337,172

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

Consolidated Statements of Stockholders' Equity
Digital Equipment Corporation

(in thousands)	*Preferred Stock*	*Common Stock*	*Additional Paid-in Capital*	*Retained Earnings/ (Deficit)*	*Treasury Stock*	*Total Stockholders' Equity*
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					(185,292)	(185,292)
Shares issued under stock plans				(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
Shares issued under stock plans		5,482	149,321	(93,731)	134,528	195,600
Restricted stock plans, charge to operations			42,038			42,038
Repurchase unexercised option shares			(31,843)			(31,843)
Net loss—1993				(251,330)		(251,330)
July 3, 1993	–	$135,490	$2,851,960	$ 1,937,627	$ (39,678)	$ 4,885,399
Issuance of preferred stock	$4,000		382,745			386,745
Shares issued under stock plans		6,797	130,785	(27,442)	39,678	149,818
Restricted stock plans, charge to operations			24,550			24,550
Dividends declared—preferred stock				(10,650)		(10,650)
Net loss—1994				(2,156,063)		(2,156,063)
July 2, 1994	**$4,000**	**$142,287**	**$3,390,040**	**$ (256,528)**	**$ –**	**$ 3,279,799**

See Notes K and L of Notes to Consolidated Financial Statements.

Cash dividends on common stock have never been paid by the Corporation. The Corporation commenced paying dividends on preferred stock issued in fiscal 1994.

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 Corporation include the financial statements of the parent and its U.S. and non-U.S. subsidiaries. All intercompany accounts and profits have been eliminated. Certain prior years' amounts have been reclassified to conform with current year presentation.

Fiscal Year □ The fiscal year of the Corporation is the fifty-two/fifty-three week period ending the Saturday nearest the last day of June. The fiscal years ended July 2, 1994 and June 27, 1992 included 52 weeks. The fiscal year ended July 3, 1993 included 53 weeks.

Translation of Foreign Currencies □ For non-U.S. 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 Corporation enters into foreign exchange option and forward contracts to hedge the impact of exchange rate movements on operations and the asset and liability positions of non-U.S. subsidiaries. The impact of exchange rate movements on contracts used to hedge transactions is included in income when the operating revenues and expenses are recognized and, for contracts used to hedge assets and liabilities, in the period in which the exchange rates change. The cash flows related to these contracts are classified in the Consolidated Statements of Cash Flows, as part of cash flows from operating activities. See Note I for information on the Corporation's foreign exchange contracts.

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 revenues are recognized ratably over the warranty period; warranty-related costs are recognized as service expense is incurred. The Corporation also provides warranty coverage as a product attribute on certain products. Estimated costs to repair such products are accrued as product cost when the product is shipped.

Net Income/(Loss) Applicable per Common Share □ Per common share amounts are calculated based on the weighted average number of common shares and common share equivalents outstanding during periods of net income, after deducting applicable preferred stock dividends. Common share equivalents are attributable to stock options. Per share amounts are calculated based only on the weighted average number of common shares outstanding during periods of net loss, after deducting applicable preferred stock dividends.

Cash Equivalents □ The Corporation 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.

Taxes □ In general, the Corporation'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.

(in thousands)

	July 2, 1994	July 3, 1993
Raw materials	**$ 476,172**	$ 331,506
Work-in-process	**605,503**	502,200
Finished goods	**982,303**	921,434
Total inventories	**$2,063,978**	$ 1,755,140

Property, Plant and Equipment □ Property, plant and equipment are stated at cost.

(in thousands)

	July 2, 1994	July 3, 1993
Land	**$ 356,586**	$ 363,264
Buildings	**1,967,815**	1,887,211
Leasehold improvements	**414,622**	532,369
Machinery and equipment	**4,281,866**	$4,410,586
Total property, plant and equipment	**7,020,889**	7,193,430
Less accumulated depreciation	**3,891,400**	4,015,139
Net property, plant and equipment	**$3,129,489**	$ 3,178,291

Note A – *Significant Accounting Policies (continued)*

Depreciation expense is computed principally on the following bases:

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)

When assets are retired, or otherwise disposed of, the assets and related accumulated depreciation are removed from the accounts. Gains or losses resulting from restructuring actions are included in accrued restructuring costs. Other resulting gains and losses are included in income.

Other Assets □ Other assets include equity investments, capitalized software development costs, goodwill, deferred taxes and other intangible assets.

Software development costs are capitalized 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 use.

Goodwill is amortized using the straight-line method over the estimated useful life of the asset, subject to periodic review of realizability.

Other intangible assets are amortized using unit-volume and straight-line methods, as applicable, over their estimated useful lives, subject to periodic review of realizability.

Note B – *Geographic Operations*

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

Non-U.S. 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 distributorship arrangements and value-added resellers. The Corporation's non-U.S. manufacturing operations include plants in the Americas, Europe, Asia and the Pacific Rim. The products of these manufacturing plants are sold to the Corporation'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 $8.3 billion, $9.2 billion, and $8.8 billion for the fiscal years ended July 2, 1994, July 3, 1993 and June 27, 1992, respectively, which represented 62%, 64% and 63%, respectively, of total operating revenues. Where applicable, the retained earnings of substantially all of the Corporation's international subsidiaries have been reinvested to support operations. These accumulated retained earnings, before elimination of intercompany transactions, aggregated $2.9 billion, $4.0 billion and $3.6 billion at July 2, 1994, July 3, 1993 and June 27, 1992, respectively.

Note B – *Geographic Operations (continued)*

(in thousands) Year Ended	July 2, 1994	July 3, 1993	June 27, 1992
Net Revenues			
United States:			
Unaffiliated customer sales	**$ 5,176,748**	$ 5,219,276	$ 5,154,159
Inter-area transfers	**1,830,749**	1,793,832	1,900,455
	7,007,497	7,013,108	7,054,614
Europe:			
Unaffiliated customer sales	**5,832,332**	6,973,709	6,751,222
Inter-area transfers	**373,354**	633,935	520,953
	6,205,686	7,607,644	7,272,175
Canada, Asia, Latin Americas, Pacific Rim:			
Unaffiliated customer sales	**2,441,710**	2,178,384	2,025,491
Inter-area transfers	**1,707,291**	1,378,870	1,168,956
	4,149,001	3,557,254	3,194,447
Eliminations	**(3,911,394)**	(3,806,637)	(3,590,364)
Net revenue	**$13,450,790**	$14,371,369	$13,930,872
Income/(Loss)			
United States	**$ (740,709)**	$ (363,454)	$ (1,971,032)
Europe	**(1,109,188)**	12,446	(184,951)
Canada, Asia, Latin Americas, Pacific Rim	**(170,097)**	115,091	68,313
Eliminations	**23,931**	(1,384)	(48,001)
Operating loss	**(1,996,063)**	(237,301)	(2,135,671)
Interest income	**49,422**	63,831	96,176
Interest expense	**73,353**	50,837	38,517
Loss before income taxes and cumulative effect of changes in accounting principles	**$(2,019,994)**	$ (224,307)	$ (2,078,012)
Assets			
United States	**$ 4,997,184**	$ 4,202,395	$ 4,766,206
Europe	**4,098,780**	4,910,165	5,195,715
Canada, Asia, Latin Americas, Pacific Rim	**1,945,236**	1,730,754	1,854,167
Corporate assets	**1,180,863**	1,444,259	1,183,387
Eliminations	**(1,642,292)**	(1,337,230)	(1,715,166)
Total assets	**$10,579,771**	$10,950,343	$11,284,309

Note C – *Income Taxes*

Income/(loss) before income taxes and cumulative effect of changes in accounting principles (in thousands)

Year Ended	July 2, 1994	July 3, 1993	June 27, 1992
U.S.	**$ (754,844)**	$ (383,808)	$ (1,934,186)
Non-U.S.	**(1,265,150)**	159,501	(143,826)
Total	**$(2,019,994)**	$ (224,307)	$ (2,078,012)

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

Year Ended	July 2, 1994	July 3, 1993	June 27, 1992
U.S. federal statutory tax (benefit) rate	**(35.0)%**	(34.0)%	(34.0)%
Tax benefit of manufacturing operations in: (a)			
Puerto Rico	**–**	(8.1)	1.7
Ireland	**(2.3)**	(16.0)	(3.4)
Singapore	**(0.1)**	(7.8)	–
Benefit not recorded due to net loss carryforward position			
U.S.	**13.5**	60.5	31.5
Non-U.S.	**41.1**	21.6	16.5
Non-U.S. tax rates	**(12.0)**	(0.8)	0.2
Other	**(1.0)**	(3.4)	(1.3)
Effective tax rate	**4.2%**	12.0%	11.2%

Note (a) The income from products manufactured for export by the Corporation's manufacturing subsidiary in Ireland is subject to a 10% tax rate through December 2010. The income from certain products manufactured by the Corporation's manufacturing subsidiary in Singapore is taxed at 15% through December 1995. During fiscal year 1993, the Corporation discontinued its manufacturing operation in Puerto Rico.

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

Year Ended	July 2, 1994	July 3, 1993	June 27, 1992
U.S. federal:			
Current	**$ –**	$ (5,023)	$ (155,883)
Deferred	**(14,431)**	(19,871)	107,249
Total	**(14,431)**	(24,894)	(48,634)
Non-U.S.:			
Current	**5,618**	(57,525)	92,794
Deferred	**92,989**	103,497	183,998
Total	**98,607**	45,972	276,792
State income taxes	**867**	5,945	3,842
Total income taxes	**$ 85,043**	$ 27,023	$ 232,000

The Corporation adopted Statement of Financial Accounting Standards (SFAS) No. 109 – Accounting for Income Taxes, effective July 4, 1993. The Corporation had previously accounted for income taxes under Accounting Principles Board Opinion No. 11. In the first quarter of fiscal year 1994, the Corporation recorded a one-time benefit of $20,000,000 or $.14 per common share, for the recognition of previously unrecognized tax benefits. There is no cash flow impact from the adoption of SFAS No. 109. The standard was adopted on a prospective basis and amounts presented for prior years were not restated.

Note C – *Income Taxes (continued)*

Significant components of deferred tax assets and liabilities (in thousands)

Year ended	July 2, 1994	
	Assets	Liabilities
Inventory-related transactions	$ 101,933	$ 8,437
Depreciation	61,335	44,693
Deferred warranty revenue	80,506	–
Postretirement/postemployment benefits	400,037	18,323
Restructuring	446,505	–
Tax loss carryforwards	1,424,927	–
Tax credit carryforwards	149,013	–
Intangible assets	106,368	–
Other	168,392	98,465
Gross deferred tax balances	2,939,016	169,918
Valuation allowance	2,677,673	–
Net deferred tax balances	$ 261,343	$ 169,918

The gross deferred tax asset from tax loss carryforwards of $1.4 billion represents $3.7 billion of net operating loss carryforwards on a tax return basis which will generally expire as follows: $200,000,000 in 1998, $350,000,000 in 1999, $1.2 billion in 2007, $500,000,000 in 2008, $600,000,000 in 2009, and the remainder thereafter.

Tax credit carryforwards will generally expire as follows: $40,000,000 in 2001, $50,000,000 in 2002, $50,000,000 in 2003, and the remainder thereafter.

Major changes in the components of temporary differences and carryforwards for the period ended July 2, 1994 include increases in gross deferred tax assets relating to restructuring, tax loss carryforwards and intangibles in the amounts of $211,938,000, $399,725,000 and $106,368,000, respectively.

For the period ended July 2, 1994, the total valuation allowance for deferred tax assets increased $872,887,000. The increase in the valuation allowance resulted from increased gross deferred tax assets associated with tax loss carryforwards, restructuring and other deferred tax assets.

Gross deferred taxes were increased by $32,410,000 as a result of statutory tax rate changes, fully offset by valuation allowances.

Fiscal year 1994 income tax expense includes a $70,000,000 reduction in net deferred tax assets associated with non-U.S. operations.

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

In fiscal years 1994, 1993 and 1992, income taxes paid were approximately $42,419,000, $53,889,000 and $144,620,000, respectively.

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

Note D – *Capitalized Computer Software Development Costs*

Unamortized computer software development costs were $124,780,000 and $138,024,000 at July 2, 1994 and July 3, 1993, respectively. Amortization expense was $67,515,000, $68,978,000 and $63,956,000 for the years ended July 2, 1994, July 3, 1993 and June 27, 1992, respectively. Accumulated amortization was $208,837,000 and $168,845,000 at July 2, 1994 and July 3, 1993, respectively.

Note E – *Restructuring Actions*

Accrued restructuring costs and charges include the cost of involuntary employee termination benefits, facility closures and related costs associated with restructuring actions. Employee termination benefits include severance, wage continuation, notice pay, medical and other benefits. Facility closures and related costs include gains and losses on disposal of property, plant and equipment, lease payments and related costs.

Restructuring costs are accrued and charged to expense in accordance with an approved management plan, supported by an appropriate level of specificity for the planned actions. Actual restructuring costs are recognized as a reduction in the accrued liability in the period incurred.

While expenses continue to decline, the Corporation's cost structure is still too high for the level and mix of total operating revenues. As a result, at the end of fiscal year 1994, the Corporation approved additional restructuring actions and accrued related costs of $1.2 billion. Cash expenditures associated with these actions are expected to be approximately $580,000,000 in the first half of fiscal 1995, $420,000,000 in the second half of fiscal 1995 and $240,000,000 related to facility closures beyond fiscal 1995. These actions do not include workforce or facility reductions that may result from divestments.

The cost of employee separations associated with the fiscal year 1994 charge includes termination benefits for approximately 20,000 employees. A portion of these employee separations occurred near the end of the fourth quarter of fiscal 1994 and the remainder will occur in fiscal 1995. These employees are located principally in the U.S. and Europe. The greatest portion of employee separations, approximately 40%, are expected to come from sales and marketing functions, as the Corporation sells more products through indirect channels of distribution. Most other organizations and functions also will be affected by the planned reduction in employees. The fiscal 1994 charge also covers costs associated with closure of 10 million square feet of facilities, including office and manufacturing space, principally in the U.S. and Europe.

Restructuring actions have resulted in termination of approximately 12,000, 17,000 and 10,000 employees in fiscal years 1994, 1993 and 1992, respectively.

Accrued restructuring costs (in thousands)

Year ended	**July 2, 1994**	July 3, 1993	June 27, 1992
Balance, beginning of year	**$ 738,989**	$1,546,904	$ 1,036,704
Charges to operations:			
Employee separations	**679,000**	–	1,000,000
Facility closures and related costs	**527,000**	–	500,000
	1,206,000	–	1,500,000
Costs incurred:			
Employee separations	**372,450**	454,900	759,500
Facility closures and related costs	**212,300**	314,250	168,480
Other	**9,164**	38,765	61,820
	593,914	807,915	989,800
Balance, end of year	**$1,351,075**	$ 738,989	$1,546,904
Cash expenditures:			
Employee separations	**$ 532,000**	$ 651,300	$ 822,150
Facility closures and related costs, net of proceeds	**67,550**	174,700	106,050
	$ 599,550	$ 826,000	$ 928,200

At the end of fiscal year 1992, having fully utilized the balance of restructuring costs accrued at the end of fiscal 1991 and in response to an unanticipated decline in product sales during the second half of fiscal 1992 and resulting operating losses, additional restructuring plans were formulated. These actions resulted in the accrual of $1.5 billion of restructuring costs.

Note F – *Debt*

Long-term debt, exclusive of current maturities (in thousands):

	Maturity Date (Calendar Year)	Interest Rate	July 2, 1994	July 3, 1993
Lease obligations	1997–2002	7.64%–11.0%(a)	**$ 17,950**	$ 24,578
Notes (b)	1997	7%	**250,000**	250,000
Notes (b)	2002	7⅛%	**250,000**	250,000
Debentures (b)	2012	8⅜%	**250,000**	250,000
Debentures (b)	2023	7¼%	**250,000**	250,000
Unamortized discount and commissions (b)			**(15,092)**	(16,183)
Other debt obligations			**7,822**	9,182
Total long-term debt, exclusive of current maturities			**$1,010,680**	$1,017,577

Note (a) Weighted average interest rate at July 2, 1994 and July 3, 1993 of 8.5% and 8.7%, respectively.

Note (b) The Notes and Debentures are not redeemable prior to maturity and are not entitled to any sinking fund. The unamortized discount and commissions relate to these Notes and Debentures.

Principal payments during the next five fiscal years are as follows: 1995 – $2,984,000; 1996 – $5,416,000; 1997 – $5,648,000; 1998 – $256,266,000; 1999 – $935,000.

In fiscal years 1994, 1993 and 1992, interest paid was $76,203,000, $37,123,000 and $43,494,000, respectively.

Based primarily on dealer quotes, the fair value of long-term borrowings, including current maturities, was approximately $834,000,000 and $1.1 billion at July 2, 1994 and July 3, 1993, respectively.

The Corporation has entered into interest rate swap agreements which effectively convert a portion of the long-term debt from fixed to variable rates. As of July 2, 1994, the net face amount of interest rate swaps outstanding was $1.3 billion, of which a net $750,000,000 was subject to variable rates as a result of offsetting positions. Based on dealer quotes, the fair value of such agreements, which represents the replacement value, was a net payable of $42,800,000 at July 2, 1994. There were no interest rate swaps in effect at July 3, 1993.

The Corporation had available lines of credit totaling $1.2 billion for fiscal years ended July 2, 1994 and July 3, 1993. Included in these lines of credit was a $750,000,000 committed credit facility which was terminated by the Corporation on July 25, 1994, having been replaced as a source of liquidity with an accounts receivable securitization facility as described below. Substantially all of these lines of credit were unused at the end of fiscal 1994 and 1993. Except for the $750,000,000 credit facility, which was subject to an annual facility fee of 0.25%, commitment fees on the unused lines of credit were neither material nor significant.

In addition to available lines of credit, in June 1994, the Corporation entered into a five-year agreement with a major financial institution (i) providing for the transfer and sale by the Corporation to a wholly-owned subsidiary of the Corporation of a designated pool of domestic trade accounts receivable (the "Receivables") and (ii) allowing the Corporation to sell to a group of investors an undivided ownership interest in the Receivables for proceeds of up to $600,000,000 (the "Purchase Limit"). The agreement includes annual program fees totaling 0.2% of the Purchase Limit. As of July 2, 1994, the entire $600,000,000 was available to the Corporation; however, no interests in the Receivables had been sold.

Note G – *Postretirement and Other Postemployment Benefits*

Pension Plans □ The Corporation 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 Corporation's policy to make tax-deductible contributions to the plans in accordance with local laws. 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 1994, 1993 or 1992 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 Corporation's fiscal year 1994 pension cost, before curtailment gains, declined, reflecting the positive effects of restructuring activities and a change in future discretionary plan improvements. The net periodic pension cost for defined contribution pension plans was $12,585,000, $7,944,000 and $11,202,000 for the fiscal years ended July 2, 1994, July 3, 1993 and June 27, 1992, respectively. The measurement dates for all plans were within 90 days of year-end. The Corporation recognized a one-time charge of $161,658,000 in fiscal 1992 for special early retirement pension benefits as a component of restructuring costs.

Components of net periodic pension cost (in thousands)

Year Ended	July 2, 1994	July 3, 1993	June 27, 1992
Service cost for benefits earned during the period	**$ 180,694**	$ 192,546	$ 234,842
Interest cost on projected benefit obligations	**191,525**	201,203	180,898
Actual return on plan assets	**(143,465)**	(291,127)	(166,055)
Net amortization and deferral	**(79,567)**	79,421	(47,927)
Net periodic pension cost before curtailment gains	**149,187**	182,043	201,758
Curtailment gains	**(272,918)**	–	(138,100)
Net periodic pension cost for defined benefit pension plans	**$(123,731)**	$ 182,043	$ 63,658
Total pension cost for all pension plans	**$(107,686)**	$ 189,293	$ 87,833

Significant actuarial assumptions for pension plans

Year Ended	July 2, 1994	July 3, 1993	June 27, 1992
U.S. pension plan:			
Discount rate	**8.0%**	8.0%	8.5%
Expected long-term rate of return on plan assets	**9.0%**	9.0%	9.0%
Rate of increase in future compensation levels	**6.0%**	6.0%	6.5%
Non-U.S. pension plans:			
Discount rate	**5.0– 9.5%**	5.0– 9.0%	5.0– 9.0%
Expected long-term rate of return on plan assets	**6.0–10.0%**	6.0–10.0%	6.0–10.0%
Rate of increase in future compensation levels	**2.8– 7.2%**	3.5– 7.5%	4.8– 8.0%

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

Year Ended	July 2, 1994	July 3, 1993
Actuarial present value of benefit obligations:		
Vested benefit obligation	**$(1,448,067)**	$ (1,321,322)
Accumulated benefit obligation	**$(1,635,422)**	$ (1,497,035)
Projected benefit obligation	**$(2,558,421)**	$ (2,606,673)
Plan assets at fair value	**2,727,675**	2,536,614
Over/(under) funded projected benefit obligation	**169,254**	(70,059)
Contributions made after measurement date but before end of fiscal year	**2,762**	2,916
Unrecognized net gain	**(326,710)**	(275,390)
Unrecognized prior service cost/(credit)	**(88,519)**	67,427
Unrecognized net transition asset	**(88,916)**	(78,597)
Pension liability recognized on the balance sheet	**$ (332,129)**	$ (353,703)

Note G – *Postretirement and Other Postemployment Benefits (continued)*

Postretirement Benefits Other Than Pensions □ The Corporation has defined benefit postretirement plans that provide medical and dental benefits for U.S. retirees and their eligible dependents. Substantially all of the Corporation's U.S. employees may become eligible for postretirement benefits if they reach retirement age while working for the Corporation. The majority of the Corporation's non-U.S. subsidiaries do not offer postretirement benefits other than pensions to retirees.

The Corporation's postretirement benefits plans other than pensions are funded as costs are incurred. Fiscal year 1993 expense reflects a reduction from the prior year resulting from cost sharing changes. Retiree contributions for the U.S. medical plan are based on length of service for employees retiring after fiscal 1993.

The Corporation 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.

The Corporation adopted Statement of Financial Accounting Standards No. 106 – Employers' Accounting for Postretirement Benefits Other Than Pensions in fiscal year 1992 and 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.

Components of net periodic postretirement benefits costs (in thousands)

Year Ended	**July 2, 1994**	July 3, 1993	June 27, 1992
Service cost for benefit earned during the period	**$ 24,949**	$ 25,560	$37,543
Interest cost on accumulated postretirement benefits obligations	**47,309**	50,915	42,525
Actual return on plan assets	**–**	–	–
Net amortization and deferral	**(9,964)**	(8,538)	–
Net periodic postretirement benefit cost before curtailment gains	**62,294**	67,937	80,068
Curtailment gains	**(37,773)**	(30,000)	–
Net periodic postretirement benefits cost	**$ 24,521**	$ 37,937	$80,068

Significant actuarial assumptions for other postretirement benefits plans (dollars in thousands)

Year Ended	**July 2, 1994**	July 3, 1993	June 27, 1992
U.S. plans:			
Discount rate	**8.0%**	8.0%	8.5%
Health care cost trend rate, current year	**9.3%**	10.6%	13.8%
Health care cost trend rate, ultimate year	**5.5%**	6.0%	6.0%
Trend rate decreases to the ultimate rate in the year	**2005**	2005	2005
Effect of a 1% increase in the trend rate:			
Increase in accumulated postretirement benefits obligation	**$110,011**	$ 137,913	$148,386
Increase in net periodic postretirement benefits cost	**$15,643**	$ 17,598	$ 19,674
Non-U.S. plans:			
Discount rate	**5.0– 8.5%**	5.0– 8.5%	5.0– 8.5%
Health care cost trend rate, current year	**4.0–12.0%**	5.0–13.0%	5.0–14.0%
Health care cost trend rate, ultimate year	**4.0– 7.0%**	5.0– 7.0%	5.0– 7.0%
Trend rates decrease to the ultimate rates in the years	**1994–2007**	1993–2050	1992–2050
Effect of a 1% increase in the trend rate:			
Increase in accumulated postretirement benefit obligation	**$ 6,057**	$ 5,861	$ 4,280
Increase in net periodic postretirement benefit cost	**$ 909**	$ 564	$ 578

Note G – *Postretirement and Other Postemployment Benefits (continued)*

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

Year Ended	**July 2, 1994**	July 3, 1993
Accumulated postretirement benefit obligations:		
Retirees	**$(371,191)**	$ (413,887)
Fully eligible plan participants	**(22,180)**	(20,572)
Other active plan participants	**(233,065)**	(298,154)
Unfunded accumulated postretirement benefit obligation	**(626,436)**	(732,613)
Unrecognized actuarial net loss	**1,057**	149,482
Unrecognized prior service credit	**(116,138)**	(139,610)
Other postretirement benefits liability recognized on the balance sheet	**$(741,517)**	$ (722,741)

Postemployment Benefits □ In the fourth quarter of fiscal year 1994, the Corporation adopted Statement of Financial Accounting Standards (SFAS) No. 112 – Employers' Accounting for Postemployment Benefits, effective as of the beginning of the fiscal year. This standard requires the accrual of benefits provided to former or inactive employees, after employment but before retirement. These benefits include, but are not limited to, salary continuation, supplemental unemployment benefits, severance benefits, disability-related benefits and continuation of benefits such as health care and life insurance coverage.

The cumulative effect of adopting this standard resulted in a one-time charge to income of $71,068,000 (the "transition obligation"), or $.51 per common share. This transition obligation represents principally the cost of providing medical, dental and life insurance benefits to individuals in the U.S. currently on long-term disability, during the estimated remaining period in which they will receive disability benefits. The annual expense under the new standard, exclusive of the transition obligation, is not significantly different than the annual expense under the Corporation's former practice. There is no cash flow impact from the adoption of SFAS No. 112. The first quarter of fiscal year 1994 has been restated to reflect the change in accounting principle. Prior years' consolidated financial statements have not been restated to reflect this change.

Note H – *Commitments and Contingencies*

Lease Commitments □ 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)*
1995	$ 304,895
1996	265,081
1997	194,866
1998	190,148
1999	106,002
Later years	514,661
Total minimum lease payments	$1,575,653

Total rental expense for the fiscal years ended July 2, 1994, July 3, 1993 and June 27, 1992 amounted to $436,080,000, $503,094,000 and $544,811,000, respectively.

Litigation □ During the fourth quarter, the Corporation was named as a defendant in several purported class action lawsuits filed in the U.S. District Court for the Southern District of New York and the U.S. District Court for the District of Massachusetts alleging violations of the Federal securities laws arising from alleged misrepresentations and omissions in connection with the Corporation's issuance and sale of Series A 8⅞% Cumulative Preferred Stock (the "Series A Preferred Stock") and the Corporation's financial results for the quarter ended April 2, 1994. The Corporation's directors, certain of its officers and the managing underwriters of the Corporation's Series A Preferred Stock offering were also named as defendants in certain of the actions. Plaintiffs alternatively seek unspecified monetary damages or rescission of their purchase of the Series A Preferred Stock. The Corporation believes that the claims asserted are without merit and intends to vigorously defend itself against the claims.

Note I – *Other Financial Instruments*

Off-Balance-Sheet Risk □ The Corporation enters into foreign exchange option and forward contracts on a continuing basis for periods consistent with its committed exposures to limit potential losses from adverse exchange rate movements on operations and to delay the short-term impact of foreign currency movements on asset and liability positions of non-U.S. subsidiaries. The foreign exchange option and forward contracts generally have maturities which do not exceed three months and six months, respectively. The Corporation does not anticipate any material adverse effect due to exchange rate movements over the short-term period covered by these contracts. The Corporation does not engage in speculation. See Note A for information on the Corporation's accounting policy on foreign exchange.

As of July 2, 1994, the net face amount of foreign exchange option contracts outstanding, substantially all of which were in European currencies, was $363,000,000. Based on dealer quotes, the fair value of such contracts was a net receivable of $2,000,000 at July 2, 1994. There were no foreign exchange option contracts in effect prior to the fourth quarter of fiscal year 1994.

As of July 2, 1994 and July 3, 1993, the net face amount of foreign exchange forward contracts outstanding, substantially all of which were in European currencies, was $558,000,000 and $1.1 billion, respectively. Based on dealer quotes, the fair value of such contracts, which represents the replacement value, was a net payable of $46,000,000 at July 2, 1994 and a net receivable of $14,400,000 at July 3, 1993.

Fair Value □ The fair value of cash equivalents, debt, foreign exchange contracts and investments is disclosed in relevant notes to the financial statements. For all other financial instruments, the carrying amount approximates fair value.

Concentration of Credit Risk □ Financial instruments which potentially subject the Corporation to concentrations of credit risk consist principally of temporary cash investments and trade receivables.

The Corporation 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 Corporation's customer base, and their dispersion across many different industries and geographies.

As of July 2, 1994, the Corporation had no significant concentrations of credit risk.

Note J – *Investing Activities*

In June 1992, the Corporation entered into agreements to purchase common stock of Ing. Olivetti & C. S.p.A. ("Olivetti") and to form a strategic alliance with Olivetti. Pursuant to these agreements, as amended, the Corporation purchased a total of 98,533,000 shares of Olivetti common stock in fiscal year 1993 for a total investment of approximately $287,800,000. As part of the alliance agreement, as amended, Olivetti has agreed to purchase a minimum level of Alpha AXP products from the Corporation over a specified period of time.

The Olivetti stock is recorded at $83,800,000. The remainder of the purchase price was recorded as an intangible asset to be amortized over a period not to exceed ten years. While the Corporation expects to generate significant revenues from the sale of Alpha AXP products to Olivetti in the long term, in fiscal year 1994, the sale of Alpha AXP products to Olivetti fell significantly short of levels called for in the alliance agreement. In the fourth quarter, the Corporation concluded that revenues and profits in the future, although significant, would continue below levels called for in the agreement. Accordingly, in the fourth quarter, the Corporation reduced the carrying value of the intangible asset by $116,000,000 to its expected net realizable value and included this amount as a charge to Selling, General and Administration (SG&A) expenses on the Statement of Operations. The remainder of the intangible asset will be amortized over a period not to exceed eight years using the greater of unit-volume or straight-line methods.

At the end of fiscal year 1994, the investment in Olivetti stock had a fair value of $147,000,000. Subsequent to the end of the fiscal year, the Corporation sold all of its shares of Olivetti stock for approximately $147,500,000.

On November 11, 1991, the Corporation signed an agreement with Philips Electronics N.V. of The Netherlands to acquire most of the Philips Information Systems Division ("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 from October 28, 1991, including purchase price adjustments made in the fourth quarter of fiscal 1992.

Note J – *Investing Activities (continued)*

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.

The acquisition had no material effect on the total operating results for fiscal year 1992, the year in which it was acquired.

Revenue and operating results for the Corporation's Digital-Kienzle business, acquired in fiscal year 1991, fell significantly short of operating plan for fiscal 1994 and from results of prior years despite restructuring efforts and management changes in fiscal 1994 aimed at improving results. During the fourth quarter of fiscal 1994, plans for further restructuring actions to be taken in fiscal 1995 were finalized. The Corporation concluded that the discounted cash flow, including restructuring actions associated with the acquired business, will no longer support the carrying value of the unamortized goodwill. Accordingly, the unamortized balance of goodwill related to the acquisition of approximately $194,000,000 was written off as a charge to operations. This was included in SG&A expenses on the Statement of Operations.

Note K – *Stock Plans*

Stock Options and Awards □ Under its Equity Plan, the Corporation has awarded restricted stock to certain officers and key employees. Under such Equity Plan and its Restricted Stock Option Plans, the Corporation has granted options to certain officers and key employees to purchase common stock at a price determined by the Board of Directors. Shares purchased under the plans are either subject to repurchase options and restrictions on sales which lapse over an extended time period not exceeding 10 years, or become exercisable ratably over periods of up to five 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 July 2, 1994 was as follows:

		Options Outstanding	
	Shares Reserved for Future Grants	*Shares*	*Average Price per Share*
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
Additional Shares Available for Grant	1,950,123	–	–
Options Granted	(3,737,045)	3,737,045	$ 41.41
Shares Awarded	(277,650)	–	$ –
Options Exercised	–	(553,486)	$ 27.67
Options Cancelled	1,623,333	(1,623,333)	$ 66.42
Options Cancelled under Repurchase Program	2,653,570	(2,653,570)	$153.00
Options Terminated	(3,362,938)	–	$ –
July 3, 1993	620,891	19,824,551	$ 56.89
Additional Shares Available for Grant	2,032,347	–	–
Options Granted	(896,650)	896,650	$ 23.07
Shares Awarded	(307,460)	–	$ –
Options Exercised	–	(106,612)	$ 33.78
Options Cancelled	2,243,356	(2,243,356)	$ 52.08
Options Terminated	(1,248,476)	–	$ –
Regrant program:			
Cancelled	5,765,914	(5,765,914)	$ 59.10
Terminated	(2,843,639)	–	$ –
Regrant	(2,328,910)	2,328,910	$ 22.88
July 2, 1994	**3,037,373**	**14,934,229**	**$ 49.59**

Note K – *Stock Plans (continued)*

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.

In May 1994, the Board of Directors approved a program to offer employees of the Corporation (other than executive officers of the Corporation), the opportunity to exchange their outstanding stock options for new options to purchase a reduced number of shares of common stock at a per share exercise price equal to the fair market value of the common stock on the date the program was approved (the "Regrant Program"). Under the Regrant Program, outstanding options granted between 1985 and 1993 to purchase up to 11,854,084 shares of common stock with an average exercise price of $59.43 per share could be exchanged for new options to purchase up to 4,554,870 shares with an exercise price of $22.88 per share. The new options vest over four years and have a seven-year term. As of July 3, 1994 and as reflected in the table above, options to purchase 5,765,914 shares had been exchanged and canceled for new options to purchase a total of 2,328,910 shares. As of July 22, 1994, the last date for acceptance of the Regrant Program, options to purchase a total of 10,208,736 shares had been exchanged and canceled for new options to purchase a total of 3,969,630 shares. No compensation expense was reversed as a result of the Regrant Program. Future expense associated with options cancelled, and not replaced by new options under the Regrant Program, will no longer be recognized, resulting in an expense reduction of approximately $31,000,000 over four years.

In April 1993, the Board of Directors approved the repurchase of outstanding options to purchase up to 2.8 million shares of common stock granted to certain employees in fiscal year 1988 at an exercise price of $153.00 per share which represented a discount of $30.00 per share from the fair market value of the common stock on the date of grant. The original options to purchase 3.2 million shares were subject to restrictions lapsing and amortizing ratably over ten years. Optionholders were offered $3.00 per unexercised option share in return for the cancellation of the option. The repurchase price was determined after taking into account option pricing models, the opinion of an independent advisor and the financial and compensation objectives of the program. The Corporation repurchased approximately 2.7 million shares at a cost of approximately $8,000,000, which was charged to operations in fiscal 1993. In addition, the Corporation reversed compensation expense recorded in previous years of $31,843,000 with a corresponding reduction of additional paid-in capital.

Employee Stock Purchase Plans □ Under the Corporation's Employee Stock Purchase Plans, all U.S. and certain non-U.S. 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 5,133,014 shares at July 2, 1994. There were 6,938,772 shares issued at an average price of $23.72 per share during the year ended July 2, 1994; 6,404,574 shares issued at an average price of $28.38 per share during the year ended July 3, 1993; and 4,788,819 shares issued at an average price of $43.21 per share during the year ended June 27, 1992. 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 Corporation'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 Corporation 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 50,000 have been granted at an average purchase price of $49.01 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 July 2, 1994.

Note L – *Stockholders' Equity*

On January 21, 1994, the Corporation filed with the Securities and Exchange Commission a shelf registration statement on Form S-3 under the Securities Act of 1933, as amended, covering the registration of debt securities, preferred stock, depositary shares, and warrants to purchase equity and debt securities, in an aggregate amount of $1 billion. In March 1994, the Corporation issued and sold 16,000,000 Depositary Shares under the shelf registration statement, each representing a one-fourth interest in a share of the Corporation's Series A 8⅞% Cumulative Preferred Stock (the "Series A Preferred Stock"), par value $1.00 per share. Dividends on the Series A Preferred Stock accrue at the annual rate of 8⅞%, or $35,500,000 per year. Dividends of $10,650,000 were declared in fiscal 1994 commencing in March 1994. At July 2, 1994, there were declared and unpaid dividends of $8,875,000. These dividends were paid on July 15, 1994.

The Series A Preferred Stock was offered to the public at $100 per share ($25 per Depositary Share) for a total of $400,000,000, leaving a balance of $600,000,000 available for future issuance under the shelf registration. The net proceeds of $387,000,000 from the Series A Preferred Stock offering is

Note L – *Stockholders' Equity (continued)*

available for working capital and other general corporate purposes. The Series A Preferred Stock is not convertible into, or exchangeable for, shares of any other class or classes of stock of the Corporation. The Series A Preferred Stock is not redeemable prior to April 1, 1999. On or after April 1, 1999, the Corporation, at its option, may redeem shares of the Series A Preferred Stock, as a whole or in part, for cash at the redemption price per share of $100 ($25 per Depositary Share), plus accrued and unpaid dividends to the redemption date. Upon dissolution, liquidation or the winding up of the affairs of the Corporation, the holders of the Series A Preferred Stock will be entitled to receive $100 per share ($25 per Depositary Share), plus accrued and unpaid dividends, before any distribution to holders of the Corporation's common stock.

The Corporation did not purchase any shares of its common stock during fiscal years 1994 and 1993. The Corporation 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. All of the acquired shares were held as common stock in treasury, and subsequently 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.

The Corporation adopted a Stockholder Rights Plan in December 1989 pursuant to which the Corporation authorized the distribution of one Common Stock Purchase Right for each share of outstanding common stock. Under certain conditions, each Right may be exercised for one share of common stock at an exercise price of $400, subject to adjustment. Under circumstances defined in the Plan, the Rights entitle holders to purchase stock having a value of twice the exercise price of the Rights. Until they become exercisable, the Rights are not transferable apart from the common stock. The Rights may be redeemed by the Corporation at any time prior to the occurrence of certain events at $.01 per Right. The Plan will expire on December 21, 1999, unless the Rights are earlier redeemed by the Corporation.

Note M – *Subsequent Event*

Subsequent to the end of the fiscal year, the Corporation and Quantum Corporation ("Quantum") signed an agreement providing for Quantum's purchase of the Corporation's magnetic disk drive, tape drive, solid state disk and thin-film heads businesses for $400,000,000, $70,000,000 of which is to be paid in the form of an interest-bearing note. The transaction includes the Corporation's interest in Rocky Mountain Magnetics, Inc., facilities in Shrewsbury, Massachusetts and Penang, Malaysia, and the lease of facilities in Colorado Springs, Colorado and Batam, Indonesia. There are approximately 5,000 regular and temporary employees in the businesses being sold.

The sale has been approved by the Board of Directors of both companies, but is subject to appropriate government approvals and other conditions. The transaction is expected to close shortly after October 1, 1994.

Supplementary Information

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*[1]	*Net Income/(Loss)*	*Income/(Loss) per Common Share*[2]
For the year ended July 2, 1994						
Fourth Quarter	$ 3,923	$ 1,175	$(1,673)	$ (1,747)	$ (1,747)	$(12.64)
Third Quarter	3,259	1,101	(178)	(183)	(183)	(1.34)
Second Quarter	3,254	1,173	(69)	(72)	(72)	(.53)
First Quarter[3]	3,015	1,090	(100)	(103)	(154)	(1.14)
Total Year	$13,451	$4,539	$(2,020)	$(2,105)	$(2,156)	$(15.80)
For the year ended July 3, 1993						
Fourth Quarter	$ 3,914	$ 1,576	$ 120	$ 113	$ 113	$ .85
Third Quarter	3,454	1,373	(28)	(30)	(30)	(.23)
Second Quarter	3,689	1,514	(66)	(74)	(74)	(.57)
First Quarter	3,314	1,277	(250)	(260)	(260)	(2.04)
Total Year	$14,371	$ 5,740	$ (224)	$ (251)	$ (251)	$ (1.93)

[1] *Before cumulative effect of changes in accounting principles.*
[2] *Income/(loss) per share is computed independently for each of the quarters presented and therefore does not sum to the total for the year.*
[3] *Restated to reflect the adoption of SFAS No. 112 – Employers Accounting for Postemployment Benefits.*

Stock Information

The Corporation's common stock is listed and traded on the Chicago Stock Exchange, New York Stock Exchange, Pacific Stock Exchange, Montreal Exchange and several European stock exchanges. There were 77,722 shareholders of record as of July 2, 1994. The high and low quarterly sales prices for the past three fiscal years are as follows:

		1994
Fiscal Quarter	*High*	*Low*
Fourth	**$30⅝**	**$18¼**
Third	**38⅛**	**27¾**
Second	**39⅛**	**34⅛**
First	**43⅛**	**35¼**

		1993
Fiscal Quarter	*High*	*Low*
Fourth	$48¼	$38¼
Third	49¼	32¾
Second	40⅝	30⅜
First	44	33¼

		1992
Fiscal Quarter	*High*	*Low*
Fourth	$54⅞	$33¼
Third	65½	49¼
Second	65	48½
First	71¾	53⅞

Officers and Management

*Robert B. Palmer
President and Chief Executive Officer

Bernhard Auer
Vice President and General Manager, Personal Computer Business Unit

Lawrence P. Cabrinety
Vice President, Components and Peripherals Business Unit

*R. E. Caldwell
Vice President, Digital Semiconductor

Bobby A. F. Choonavala
Vice President; President, Asia Pacific

*Charles F. Christ
Vice President and General Manager, Components Division

Harold D. Copperman
Vice President; President, The Americas

Vincenzo Damiani
Vice President and General Manager, Accounts Business Unit
President, Digital Europe

William R. Demmer
Vice President, Software Business Group

*Richard M. Farrahar
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Samuel H. Fuller
Vice President, Corporate Research

Charles B. Holleran
Vice President, Communications

*Ilene B. Jacobs
Vice President and Treasurer

Gail S. Mann
Assistant General Counsel, Secretary and Clerk

Robert E. McNulty
Vice President and Chief Information Officer

*Vincent J. Mullarkey
Vice President, Finance and Chief Financial Officer

*Enrico Pesatori
Vice President and General Manager, Computer Systems Division

*E. C. Mick Prokopis
Vice President and Corporate Controller

*John J. Rando
Vice President, Multivendor Customer Services

Robert J. Rennick
Vice President and General Manager, Storage Subsystems Business Unit

*Thomas C. Siekman
Vice President and General Counsel

*William D. Strecker
Vice President, Advanced Technology Group and Chief Technical Officer

Laurence G. Walker
Vice President and General Manager, Network Product Business Unit

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

Directors

Robert B. Palmer
President and Chief Executive Officer
Digital Equipment Corporation

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

Philip Caldwell
Senior Managing Director of Lehman Brothers Inc.
Retired Chairman of the Board and Chief Executive Officer, Ford Motor Company
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

Kathleen F. Feldstein
President of Economics Studies, Inc.
and Director of several organizations

Thomas P. Gerrity
Dean, Wharton School of the University of Pennsylvania
and Director of several corporations

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

Delbert C. Staley
Director of several corporations, Retired Chairman of the Board and Chief Executive Officer, NYNEX Corporation

Board of Directors, Digital Equipment Corporation: Standing, left to right: Colby H. Chandler, Thomas L. Phillips, Kathleen F. Feldstein, Robert B. Palmer, Arnaud de Vitry, Delbert C. Staley. Seated: Vernon R. Alden, Thomas P. Gerrity, Robert R. Everett, Philip Caldwell.

Committees of the Board

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Vernon R. Alden
Colby H. Chandler
Kathleen F. Feldstein

Compensation and Stock Option Committee
Thomas L. Phillips, Chairman
Robert R. Everett
Thomas P. Gerrity
Delbert C. Staley

Nominating Committee
Arnaud de Vitry, Chairman
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Colby H. Chandler
Thomas L. Phillips

Corporate Consulting Engineers

Peter F. Conklin
Corporate Consulting Engineer
Layered Software Group

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Semiconductor Engineering

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System Software Group

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Semiconductor Operations

Alan Kotok
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Nancy Kronenberg
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System Hardware Group

Butler Lampson
Senior Corporate Consulting Engineer
Corporate Research

Richard Lary
Corporate Consulting Engineer
Mass Storage

Jesse Lipcon
Corporate Consulting Engineer
Vice President, OpenVMS Systems

Alan G. Nemeth
Corporate Consulting Engineer
System Software Group

Mahendra Patel
Vice President and Corporate Consulting Engineer
Computer Systems Division

Jeff Schriesheim
Corporate Consulting Engineer
System Software Group

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Robert E. Stewart
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Robert M. Supnik
Vice President and Senior Corporate Consulting Engineer
Computer Systems Division

Charles P. Thacker
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Corporate Research

Gayn B. Winters
Corporate Consulting Engineer
Advanced Technology Group

Richard T. Witek
Corporate Consulting Engineer
Semiconductor Engineering

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Singapore 0719
Telephone: (65) 299-7188
Fax: (65) 295-1296

Investor Information

The Corporation's common stock (Ticker Symbol "DEC") is listed and traded on the:

Chicago 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 Corporation's Depositary Shares, each representing one-fourth of a share of the Corporation's Series A 8⅞% Cumulative Preferred Stock (Ticker Symbol DEC PRA), are listed and traded on the New York Stock Exchange.

The Corporation 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 Corporation's mailing list should be directed to:

Director, Investor Relations
Digital Equipment Corporation
146 Main Street (MLO3-2/F41)
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 July 2, 1994, including schedules thereto, which is filed with the Securities and Exchange Commission, will be sent without charge upon written request. The Corporation's annual report, filings with the Securities and Exchange Commission, interim reports and additional information about the Corporation and its products can be obtained by addressing:

Digital Equipment Corporation, Inquiry Section
c/o Moore Business Forms
Suite 100
293 Boston Post Road
Marlboro, Massachusetts 01752
Telephone: (508) 229-4752

As a company, we have a tradition of achievement in protecting the environment and in ensuring the health and safety of our fellow employees. A copy of our Environmental, Health and Safety Annual Report can be obtained by writing:

Digital Equipment Corporation
Corporate Environmental Health and 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) 493-3703
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 number (if available), as well as the old and new addresses.

First Chicago Trust Company of New York
P.O. Box 2500
Jersey City, New Jersey 07303-2500
Telephone: (201) 324-0498

Depositary for the Series A 8⅞% Cumulative Preferred Stock:

Citibank N.A.
Address correspondence to:
Citicorp Data Distributor
404 Sette Drive
Paramus, New Jersey 07653
(800) 422-2066

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) 478-5000

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 U.S. Customer Relations at (800) 332-4636.

Digital believes the customer, market, and product information in this annual report is accurate as of its publication date. This information is subject to change without notice. Digital is not responsible for any inadvertent errors.

Digital will conduct its business in a manner that conserves the environment.

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