

f: general info. / DEC

1990 ANNUAL MEETING OF  
STOCKHOLDERS  
PREPARATORY MATERIAL

\*\*\* DIGITAL CONFIDENTIAL \*\*\*

1990 ANNUAL MEETING

WORLD TRADE CENTER  
Commonwealth Pier  
164 Northern Avenue  
Boston, MA 02210

1 November 1990

AGENDA

9:30 a.m.	Product Demonstrations Reception Area - Amphitheatre
11:00 a.m.	Annual Meeting Amphitheatre Press Q&A in Federal Complex
12:30 p.m.	Board and Officer's Luncheon (Back Bay Complex)  Product Panel/Q&A City View Room Peter Smith, Bill Demmer, David Stone, Dom LaCava, Gary Eichhorn will be the only presentors. Other officers interested in attending please contact Mark or Brad  Washington Room Phone Contact/Availability (617) 439 - 5731
1:30 p.m.	Board Meeting Congress Board Room
 * Peter Zotto Product demo/setup * Vote is in hand * Unaware of any dissident shareholders attending	
Mark Steinkrauss	(508) 493-7182 or DTN: 223-7182
Brad Allen	(508) 493-8009 or DTN: 223-8009



Enclosed are several possible questions and answers on topics of potential interest to shareholders and the press.

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\*\*\* GENERAL & FINANCIAL \*\*\*

What is your economic outlook?

- o Recent economic data indicate that the economy is either in a recession or heading into one. The consensus view is for a sluggish 0.5 to 1.2% growth in 1990, with most economists forecasting a contraction in Q4. 1991 growth is estimated at 0.5 to 1.0%. A less optimistic view has emerged over the last few months, largely due to uncertainty in the Middle East. Worldwide growth is expected to be around 2% in 1990 and 2.0 - 2.5% in 1991. Japan and Germany are still viewed as having the strongest economies with most estimates for 1990 and 1991 from 5 to 6% for Japan and 3 to 3.5% for Germany. Computer demand will unquestionably be impacted by declining economic growth, however Digital hopes to outperform the market over the next year in a generally softer market environment.

Who are Digital's largest shareholders: Does any one person/institution own 5% or more of the stock?

- o Digital's largest shareholders as of Aug. 1990 are:  
(all approximations)

INSTITUTION NAME	SHARES HELD (million)	CITY
Bernstein (Sanford) & Co.	6.2M	New York
Capital Research & Management Co.	3.9M	Los Angeles
Michigan State Treasurer	3.6M	Lansing
*Rosenberg Inst Equit Mgmt	3.2M	Orinda
California, University of	2.4M	Berkeley
Oppenheimer Group, Inc.	2.0M	New York
*Wells Fargo Bank	2.0M	San Francisco
Boston Company, Inc.	2.0M	Boston
Capital Guardian Trust Co.	1.9M	Los Angeles
*Bankers Trust Co.	1.8M	New York
Dreman Value Management	1.6M	Jersey City
NYS Common Retirement Fund	1.3M	Albany
College Retirement Equity	1.3M	New York
Lehman Ark Mgmt. Co.	1.2M	New York
Dodge & Cox	1.2M	San Francisco
State Street Research	1.1M	Boston
Cashman Farrell & Assoc.	1.0M	Philadelphia

\*(principally indexed)



Attached is a recent research report on Digital from an investment firm (Cowen & Company) which synthesizes the issues many investors feel the company currently faces.

October 1, 1990

Richard S.Chu  
617-523-3221

## Digital Equipment (DEC: \$51)

**INVESTMENT THESIS** - Because perceptions of Digital's "normalized" EPS power are likely to remain highly erratic, we believe the stock will remain extremely volatile in coming months. Our assessment of downside from current levels is in the \$35-40 area, if investor belief becomes pervasive that "normalized" EPS is but \$2-3 and concerns about a severe economic downturn mount; conversely, we believe near-term upside to \$70-75 or higher is readily attainable, but only with evidence that management is willing to take further strong action on costs and/or use a more substantial part of its untapped and very sizable \$2 billion in cash reserves for the benefit of the stockholders. On balance, we are essentially neutral on the longer-term investment case for DEC, although our short term trading bias towards the stock is, positive.

- o **Earnings Outlook Remains Very Iffy** -- Near-term aggregate order and earnings visibility remains low and we have reduced our F91 EPS estimate to \$4.15, bracketed in a \$2-5 range. This estimate remains heavily back-end loaded since Digital seems unlikely to post EPS of more than \$1 for all of H1:F91. Although we believe the VAX9000 rampup is now in good shape (we assume 600-700 systems=\$1 billion for FY91), we are increasingly concerned about the potential for eroding mid-range VAX revenues as competition intensifies broadly.
- o **Recent Cowen/DATAMATION User Survey Results Raise Serious Longer Term Questionmarks Re Digital's Ability to Respond to Unix Challenge** -- Our survey results (a) underscore the survivability of Digital's proprietary VMS environment but at the same time (b) point to the enormous challenges Digital will face in carving out a frontline position in the much higher growth mid-range UNIX markets against competition from Sun Microsystems, IBM and HP.
- o **...but, Untapped Cash Position (\$17/share) Could be a Buffer for Stock** -- Still, Digital's financial strength remains impeccable, with \$1.85 billion in net cash on the balance sheet. In practice, this creates a significant pool of resources that could be tapped for the benefit of shareholders---options of course range from significant further restructuring moves, dividend initiation, to stock buy backs, all likely to be viewed positively. In theory, some combination of these moves, should they materialize, could have the potential effect of improving investor confidence that "normalized" EPS is more than the \$4-5 seemingly discounted by present valuations.

	EPS(Jun)	Rev	CY-P/E	Q1	Q2	Q3	Q4
F1990	\$0.59			\$1.20	\$1.25	\$0.20	(\$2.11)
F1991E	4.15	-2.85	10X	0.01	0.83	1.16	2.14
F1992E	6.25	-2.50	8				
Book Value: \$66		Market Cap: \$6.1 Billion		52-Week Range: \$95-50			



## KEY INVESTMENT ISSUES

1. **The Backdrop: Near-to-Intermediate Term Earnings Outlook Remains Very Clouded.** Although the VAX9000 is off to a decent start, our questionmarks re the potential vulnerability of Digital's VAX/MicroVAX mid-range are intensifying. As a consequence, we are paring our F1991 revenue growth projection from 8% to the 3-4% vicinity, this following growth of only 1.6% last year. In turn, and in the absence of further significant cost-cutting moves, we have reduced our single figure EPS estimate for F1991 to \$4.15 (previously \$7), recognizing that this projection remains heavily back-end loaded, given that it is highly unlikely Digital will post EPS of more than \$1 (if that much) for all of H1:F91.
  - o **Revenue Dynamics** - For F1991 as a whole, we assume revenue growth of 3-4%, including an approximately \$1 billion increment (about 660 systems) from the VAX9000 and a 15% decline in the VAX mid-range.
  - o **Cost/Expense Dynamics:** We also assume a further 1-1.5% point erosion in gross margins as benefits from the VAX9000 cycle are outweighed by continuing pressures on VAX6000/MicroVAX pricing and margins; moreover, we assume no further cutbacks beyond recently implemented "phase 2" reductions planned to yield an additional 6000 headcount reduction, reserves associated with these cuts having been provided for in Q4:F90.
  - o **Calendar 1991 EPS Pegged at \$5:** The heavy back-end loading makes fiscal 1991 EPS estimates somewhat irrelevant from an investment standpoint. From a calendar 1991 perspective, the following matrix captures the range of possible EPS outcomes as a function of: (a) the level of full year incremental VAX9000 revenue contributions and erosion in the VAX mid-range, arrayed against (b) various levels of workforce reductions from June 1990 levels.

## RANGE OF CALENDAR YEAR 1991 EPS POSSIBILITIES

Headcount Reduction* by YE Cal.91 vs Now	Poss. Calendar 1991 Revenues, %Ch. vs CY90		
	\$13.0B(+0%)	\$13.7B(+5%)	\$14.0B(+7%+)
	VAX9000 = \$0.8B	VAX9000 = \$1.3B	VAX9000 = \$1.5B
	MidRange = -20%	MidRange = -15%	MidRange = -12%
-4000	\$1.70	\$4.50	\$5.60
-6000	\$2.00	\$5.00	\$6.00
-8000	\$2.35	\$5.35	\$6.35
-11000	\$2.80	\$5.80	\$6.80

\*Already announced programs envision 5-6000 reduction from F90-YE headcount of 124,000.

2. **Cowen/DATAMATION Survey Results Portray Major Structural Challenges for DEC Longer Term.** Findings from the recent Cowen/DATAMATION large-scale user survey raise critically important issues for DEC:
  - o **Commercial UNIX Accelerating** - Foremost, the survey suggests that the acceptance of UNIX (as opposed to a proprietary operating system) as the primary operating system for new applications development is now moving into a significant acceleration phase, as it has, already, in the technical/scientific sphere.



- o **Digital UNIX Strategy Not Taking Hold** - Although survey results make it abundantly clear that Digital's proprietary mid-range operating environment is apt to be one of only two such proprietary OS's (IBM OS/400 being the other) that can retain significant user "share-of-mind" longer term, user perception of Digital's execution of its Ultrix/Unix strategy is much more troubling. Survey respondents accorded much higher longer-term "share-of-mind" in both technical and high-growth commercial UNIX markets to the likes of Sun, IBM (courtesy of the aggressive RS/6000 AIX entry), and HP (rapidly building commercial UNIX presence via the 9000/800 series) than to DEC.

It would appear to us that Digital, by virtue of its very large and hence much more likely to be survivable share in the VMS arena, has to date been shielded from taking as aggressive a thrust in Unix as it otherwise might have—contrast this, for example, with the relatively more fragile position for the MPE operating system at HP, longer-term concerns about which may have served as the catalyst for HP management's much more belligerent stance re Unix.

3. **Probabilistic View Suggests Current "Normalized" EPS Are In Vicinity of \$5.** With current expectations apparently widespread that Digital will post at best break-even results in the September quarter, any PE-based valuation case for DEC stock hinges all the more on the level of confidence investors will attach to recovery slopes off the Q1 bottom in coming quarters -- most observers are presumably likely to accord little confidence in these slopes until either: (a) business takes a strong turn for the better (seems increasingly unlikely under current economic conditions) or (b) management makes decisive moves on the cost curve to get ahead of fundamentals (possible, but the probabilities favor management making adjustments in the wake of, rather than in advance of, developments). In the absence of either development, perception of Digital's "normalized" earning power is apt to be not only elusive but also extremely volatile.

Given the above, we recognize that any exercise that attempts to come up with calculations of "normalized" EPS for Digital is likely to be viewed as highly suspect. The following table nonetheless portrays a range of possibilities, assuming roundly \$13 billion revenue levels and an effective normalized tax rate of 25%. All of these scenarios (see below) assume that the industry-wide shift to open-architectures will remain pervasive and that Digital will have its work cut out to generate meaningful revenue growth in the face of (a) a much more aggressive presence by IBM and (b) less room to maneuver its VAX/VMS strategies vis-a-vis UNIX and open architecture alternatives. They also incorporate differing degrees of management response to these challenges.

#### ALTERNATIVE "NORMALIZED" CURRENT EPS SCENARIOS

Scenario Probability	2-3 Year Assumptions	Management Cost Actions	NORMALIZED		
			OPM	EPS	ROE
A 20%	Rev growth=0-2%/yr Aggressive IBM; VAX/VMS erodes at >15% rate; 9000 disappoints	-cutbacks significantly lag the fundamentals; plans for higher growth rates remain intact	2-3%	\$2.50	4-5%
B 40%	Rev growth=5%/yr VAX/VMS erodes at >10%; modest success vis 9000 & RISC/Ultrix	-headcount down additional 5K @ \$50K/employee from already announced levels	5%	\$5-	7-8%
C 25%	Rev growth=6-8% -same as above but VAX9000 builds to \$2B pdct line 2-3 yrs	-same as above, but with sustained downward pressures on headcount via attrition	8%	\$7	10-11%
D 15%	Rev growth=>10%/yr -highly successful VMS+Ultrix strategy + MF penetration	-no more beyond those already announced	>11%	>\$9	14%+



Based on a probabilistic assesment of these scenarios, we believe that DEC's present EPS power is best normalized at something in excess of \$5 — in short, per this analysis, the stock is currently trading on the order of 9-10X normalized EPS, not cheap in the context of IBM trading at a similar multiple on estimated 1991 EPS but carrying a substantial yield to boot.

4. **Strength of Balance Sheet and Sizable Cash Position Remain a Major Potential Untapped Source of Benefits for Stockholders.** Plainly, the recent action of the stock tends to quickly disabuse us of any notion that some suitable fraction of book value (90%, 105%, depending on which version of history one chooses to believe in) establishes a floor on the stock. The fact that such prior conceptions regarding the stock's downside have been violated does not make it any less meaningful to examine asset parameters supporting Digital's valuation. Specifically, DEC's net cash position at the end of F1990 totalled \$1.85 billion, equating to over \$15/share. These cash assets support related earnings of about \$0.85/share, imputing a pretax return of 7-8% to cash and equivalents. Viewed alternatively, the implied market valuation for DEC's non-cash net assets today is approximately \$36/share, capitalized at just under \$4.4 billion, relative to net-of-cash book value of approximately \$51. Ultimately, the financial and strategic flexibility afforded by the Company's strong balance sheet cannot be overlooked. As we look at alternative extreme implications—none of which we are suggesting will occur, moves that would certainly be viewed constructively by shareholders would include:

- o **Further "Restructuring".** If Digital chose today to undertake additional "restructuring", even at a very generous \$35K/employee in cash severance, we calculate that, without impairing the Company's operating structure and/or balance sheet, each \$350MM provision (covering 10,000 employees) would boost normalized earning power by \$2.50/share!!
- o **Dividends.** We have argued in the past that Digital could comfortably self-finance low-to-mid teens growth rates even at 50% payout ratios---such a move, would suggest in no uncertain terms that management not only intends to manage to these more realistic growth rates (versus 20%+ goals in the past) but to "normalized" EPS of over \$7-8. We acknowledge however that the probability of a near-term move on the dividend front has receded significantly in view of intensifying questionmarks re short-term fundamentals and pressures on management to institute further spending cuts/layoffs.
- o **Major Buyback.** A \$1.5 billion limited self-tender at \$57-60/share should readily yield better than 25 million shares and provide an easy exit path for disgruntled holders while reducing capitalization by over 20%. Our calculations suggest, in all but scenario A, normalized EPS would be boosted by between 50¢ and \$1.50-2.00 with a similar kicker for normalized ROE (1-2% points).

On the other hand, we recognized that DEC could choose to do nothing with its cash, or alternatively, choose to make any level of "strategic acquisitions", either with existing cash balances, or if necessary, with borrowed funds.



Plainly, stockholders are apt to be considerably more supportive of some combination of the first three measures than the last. The point, however, is that these options are in fact open to the Company and are exercisable without impairing its excellent finances, something that cannot be said of most of its traditional peers in the mid-range systems arena. In short, the questions we have raised earlier re prospects for Digital's proprietary mid-range do nothing to affect our basic judgment about the ultimate survivability of the Company.

5. **Investment Posture.** The fact that DEC stock is currently selling at a \$15 (or 23%) discount to tangible book of \$67 suggests that investors believe in no uncertain terms that book is likely to erode substantially further before it rises again. In the absence of more dramatic actions by management to reduce the cost structure, investors will choose to focus on Scenario A as the basis for the longer-term assessment of potential returns at DEC. Any developments/news surrounding the Q1 release that tend to entrench beliefs in Scenario A can be expected to create further downside for the stock. Conversely, we believe that the single most important trigger on the upside will be evidence that cost/expense reduction efforts are intensifying, in advance of fundamental changes.

Our very rough framework for assessing stock price possibilities over the next 6 months suggests that: (a) the stock is likely to remain extremely volatile as assumptions about normalized operations remain highly unstable, (b) if anything, we have a somewhat more positive rather than negative trading bias towards the stock at current prices, even though we are essentially neutral at present on the longer-term investment case. Since uncertainties regarding exogenous demand variables remain a common denominator for every company we follow; everything else being equal, any significant modification in our investment stance on the stock will almost certainly be keyed to a change in our perception of management's disposition towards attacking the Company's cost/expense equation.

#### POSSIBLE STOCK PRICE SCENARIOS

Probability	Near-term Picture	Result	6-Month Stock Price
30%	Q1=Major disappointment; orders weak, VAX9000 skepticism builds; management attitudes intransigent on cost structure; recession fears rampant	Scenario A gains credence	8-9x \$2-3 normalized EPS + \$15 cash = \$36
50%	Q1=lackluster as expected including poss. loss; VAX9000 ships 50-100; some evidence that further belt-tightening may occur	Scenario B	8-9x \$5 normalized EPS + \$15 cash = \$55-60
20%	Q1 EPS=upside surprise (20-30c); operations blah but expense control measures evident; VAX9000 order commentary neutral to positive	Scenario B or better	9-10x \$6 normalized EPS + \$15 cash = \$70-75
			Risk/reward = down 30% up 35-40% from present levels



DIGITAL'S FORTUNE 500 RANKINGS: 1989

	<u>ALL 500</u>	<u>COMPUTER INDUSTRY</u>
REVENUE	27	2
PROFITS	20	2
PROFIT MARGIN	101	8
ASSETS	37	2
ROA	82	3
EQUITY	13	2
ROE	252	9
10 YEARS EPS GROWTH	57	5
10 YR TOTAL RETURN	283	8

What is the "Wall Street" consensus for revenue growth and EPS for FY91?

- o NOR growth of approximately  $\pm$  5%.
- o EPS range \$4.00 - \$5.75.
- o Tax rate approximately 25%.
- o These estimates are published October 17th, prior to Q1 earnings release and subject to change, based on analysts' reaction to the Company's operating results.
- o Securities analyst forecasts for Digital are changing daily depending on the economic scenarios of their firms, news of the economy and psychology of the market. Over the last several months expectations for FY91 have been reduced by virtually every analyst.

Does the Company have "Golden Parachute" arrangements with executives?

- o Digital does not have "golden parachute" arrangements with executives.

The 1990 Proxy refers to a "former executive officer" who received a lump-sum payment of about \$1.2 million. Who is this person and how do you explain him being paid this amount of money?

- o This refers to Jack Shields. In the many years he worked at Digital he contributed significantly to the Company's success. As indicated in the Proxy, this payment is part of an agreement between Digital and Shields, further details of which are confidential by agreement.



What was capital spending in FY90 and your projection for FY91?

- o \$1.028 billion in FY90. Of this amount 72% was for machinery and equipment, 16% for buildings, and the remainder for land and leasehold improvements. It is anticipated that FY91 capital spending will be in the same general range as that of FY90.

Has pricing been a factor in your reported results?

- o Prices for the Company's computer systems have generally been reduced as new products have been introduced or existing products improved. The pricing of new products, in most cases, is intended to provide the customer with an improved price/performance ratio. During the fiscal year ended June 30, 1990, prices were decreased for a selected number of hardware products.
- o During the year, price increases were instituted on some software products to recognize enhanced functionality. Other price increases were also selectively effected during the year.
- o The Company expects to continue its policy of adjusting the prices of its products and services on an individual basis either upward or downward as economic, competitive or other circumstances warrant.

Digital's growth has been internally generated to date. With the Company's substantial cash balances and positive cash flow, are there any plans to actively seek acquisitions to enhance its product mix and growth?

- o It is the Company's policy not to comment on questions of this nature.

What is Digital's approach to alliances with other companies and industry consortia?

- o Digital has a substantial strategic alliance effort. It is well underway and an integral part of each our organization's strategies. Alliances will continue to grow as a business architecture, but equity is not the driving force in our alliance strategy. We prefer to attract a broad range of partners to work with us on Industry and Cross Industry solutions for our customers. We work with our partners in a number of flexible and creative arrangements, including the Cooperative Marketing Program, the Complimentary Software House Program, and our Independent Software Vendor Assistance Program. In certain situations, it may be necessary to enter into more



complex business arrangements, including equity ownership in order to meet the needs of our customers. We expect to continue to seek out opportunities for alliances in the future.

- o To date, Digital has invested ~\$250 million in its alliance effort.

Did the Company have any significant changes in accounting policy or procedures last year?

- o In 1990, the Company adopted Statement of Financial Accounting Standard No. 105 which requires disclosure of information about financial instruments with off balance sheet risk and about concentrations of credit risk for all financial instruments (Note L).
- o In 1990 the Company recorded restructuring charges of \$550,000,000 on a pretax basis. Employee separation, redeployment and related expenses were \$455,000,000 and facility consolidations and equipment retirements were \$95,000,000.

How were you investing your cash and temporary cash investments at year end?

- o Our investment objective for all portfolios is to realize the maximum after-tax rate of return from investments in high quality, fixed income, money-market securities. The types of securities purchased will depend upon each portfolio's legal and tax structure as well as its liquidity requirement.
- o At year-end a majority of our investments were in time deposits and certificates of deposit of high quality banks. Additionally, a significant portion of the portfolio is invested in repurchase agreements, collateralized principally by U.S. Government securities of the best capitalized financial institutions. A large portion of these investments are invested in Puerto Rico at an attractive after-tax rate of return.

How will FAS #96 impact the Company's accounting for income taxes and when will the Company adopt FAS #96?

- o FAS #96 changed the emphasis of tax-deferred accounting from the Income Statement to the Balance Sheet. The Income Statement should reflect year-to-year changes in the Balance Sheet amounts.



- o Deferred tax assets are recognizable only to the extent of income taxes paid within the current year and allowable carryback period. The most recent pronouncement requires that the Company must adopt SFAS No. 96 no later than fiscal 1993. Management does not anticipate that the adoption of SFAS No. 96 will have a material impact on the Company's consolidated financial position and results of operations. There will be no cash flow impact from these adjustments.
- o The FASB is currently reviewing certain major requirements of this pronouncement.

Do the independent Auditors prepare or review the Company's Tax returns?

- o The Company's Corporate Tax department prepares all of its U.S. Federal and state income tax returns and consults with the independent auditors with respect to certain positions taken on the Company's tax returns. The U.S. Federal return is reviewed by the independent auditors in connection with their review of the financial statements.
- o The independent auditors are involved with the filing of some of the foreign tax returns.

Is it Digital's aim to reduce its fair share of taxes to as low a rate as possible?

- o In the evaluation of where and how Digital structures its business around the world, taxes are one of many important considerations. It is not Digital's intent to pay the lowest possible taxes but instead to optimize the mix of taxes paid.

What is Digital's commitment to supporting women and minorities in the workplace?

- o More than a decade ago, Digital initiated its commitment to Equal Employment Opportunity and Affirmative Action practices. Since that time, the policy has expanded to reflect changing demographics, new issues and the complex needs of a diverse workforce. The Company's goal is to provide a work environment free from discrimination — one which ensures that minorities, women, handicapped persons, Vietnam Era Veterans and disabled veterans are brought into the workforce and considered for promotional opportunities as they arise.

Moreover, the Company is committed to the concept of "Valuing Differences," a work ethic that empowers people and is naturally respectful of all employees. Our belief is that in order for people to be able to contribute to their fullest potential, they must first be valued.



Valuing Differences work takes place across the Company in the form of formal training programs, leadership workshops and core group activities where women, minorities and other special interest groups meet to discuss and examine the issues and barriers posed by race, color, sex, religion, age, national origin, citizenship, physical ability and veteran status.

Digital has been recognized publicly for its leadership work in this area. In October, 1990, the Company received the Opportunity 2000 Award from the Department of Labor/Office of Federal Contract Compliance (OFCCP). The award is given annually to an employer who anticipates and takes control of future workforce challenges while assuring equal opportunity and full human resource utilization.

**What is Digital's position on drug-testing in the workplace?**

- o Digital does have a drug testing policy. Using a process approved by Digital's management, drug testing is instituted only under defined circumstances.

Following federal law and requests by some customers, Digital has begun testing some employees for the presence of illegal controlled substances. Testing is conducted when federal law or regulations require us to do so. For example, the U.S. Department of Transportation recently issued regulations that require a defined group of our interstate truck drivers to submit to drug testing. In some cases, testing may also be conducted when governmental procurement statutes or regulations require contractors and/or sub-contractors to test employees as a condition for doing business. Examples include the Department of Defense Drug-Free Workforce regulations. Also, new regulations by the Nuclear Regulatory Commission require nuclear-powered utilities to impose drug (and alcohol) testing on certain classes of employees. Testing may also be required in response to customer demands that we test as a condition of doing business. Oil and gas refineries or chemical plants are examples of customers who ask for testing.

**Has the Company experienced any uptick in union activity? Have any unions actively sought to organize any facilities/functions anywhere in the world? Is any part of the worldwide Digital organization unionized?**

- o No — we have not experienced any uptick in union activity. The only union we have is in Taiwan and it has been there since 1975.



What was the cost of this year's Annual Report? How many copies are printed?

- o Digital's 1990 Annual Report cost approximately \$550K or \$1.90 per copy. Total press run was 290,000.



\*\*\* R E S T R U C T U R I N G \*\*\*

What have your goals been in the officer changes and reorganization that has occurred? Have you achieved those objectives? Should we anticipate further restructuring?

- o Changes in the field organization are aimed at simplifying decision-making processes and operating environments and positioning our resources as close as possible to our customers.

Emphasis is on account management to drive customer focus, which should in turn build industry focus.

Planning and budgeting responsibility is moving closer to the customer thereby further empowering our unit managers and large account managers. They will be capable of mobilizing Digital resources to solve customer problems.

We have every reason to believe our changes will be positive and that our goals will be met.

Changes are always occurring within the Digital organization as it evolves to better meet customer needs. We are always looking for ways to eliminate red tape and work towards simplifying and improving our environment, systems and processes.

What is occurring in Digital's transition program?

- o Digital has used "transition" programs for many years. In previous years they have involved extensive retraining and redeployment programs; however, as is the case with many companies in the computer industry, Digital has a workforce imbalance in terms of supply, skills, and location. As a result, Digital added a voluntary financial support option to its transition programs. In FY90, about 3000 employees chose a voluntary financial support option and decided to leave the company. The Company has announced that it intends to reduce its workforce size an additional 5000 - 6000 persons by the end of this fiscal year by using a voluntary financial support option, significantly reduced hiring, and normal attrition. Our focus is to eliminate unnecessary work, reduce costs, and become more competitive. Transition programs are developed on a business-by-business basis, with each organization evaluating its business plan to determine if workforce changes are needed. The costs for this program are covered in the \$400 million restructuring charge taken in Q4 FY90.



Is this voluntary financial support option an early retirement program?

- o No. It represents a financial bridge for persons who select it and choose to leave the Company, some of whom may be starting new careers, starting education programs, or taking similar positions at a different company.

Has Digital ever used financial support options before?

- o Yes - in the 1985-1986 period at our Phoenix, Albuquerque, Tempe, and Puerto Rico plants (San German and Aguadilla). In these programs approximately 1100 persons elected to choose a financial support option.

Will all of Digital's employees be affected or only U.S.?

- o Each location will be evaluated to determine whether there are any imbalances in the supply or skills of available employees. While most of the employees involved will be in the U.S., not all will be.

You say you will rely, in part, upon attrition to lower your employee population. What is Digital's rate of attrition?

- o Our rate of attrition is not information we provide to the public. Normal attrition includes elements such as retirement or persons who leave the company to take positions at other companies.

What are the components of the financial support package?

- o Components include:
  - o Voluntary, limited to identified employees
  - o Four week "window" to select the program
  - o Allowance based on years of service
    - 0-2 years = 13 weeks of pay
    - 3-10 years = 13 weeks pay plus 3 weeks of pay per year of service between 3 and 10 years
    - 11-20 years = 37 weeks pay plus 4 weeks of pay per year of service between 11 and 20 years
  - 77 WEEKS PAY - MAXIMUM
  - o Maintenance of medical, dental, and life insurance for 1 year
  - o 5-year acceleration of any restricted stock options
  - o Use of formal outplacement/employment assistance

If a person accepted a financial support package and left Digital to work at another company, would you ever hire him/her back?

- o It's highly unlikely.



How much will this program cost Digital? How much will Digital save through this program?

- o Data on costs associated with any program is considered to be internal business information.

Has Digital set aside a reserve for this program?

- o The Company set aside a \$550 million reserve in FY90. The bulk of this charge is for employee transitions including separation, redeployment and retraining. The remainder of the charge (\$95 million) is for facility consolidations and equipment retirements.

Describe the 5-year acceleration of restricted stock options.

- o Some employees have received restricted stock options allowing them to purchase a specific number of shares of Digital stock at a specific price over a ten-year period subject to restrictions which lapse over a specific number of years. This 5-year acceleration frees from restriction five year's worth of options as part of the transition financial support option.

Does the Company plan to have any layoffs? Plant closings?

- o The Company is considering a number of options as downsizing requirements dictate. No option is being eliminated.

Does that mean you are considering a layoff?

- o As was indicated, no option is being eliminated.



\* \* \* L E G A L \* \* \*

Does Digital's corporate charter or by-laws include any antitakeover devices?

- o Digital's corporate charter does not contain any such devices. The proxy statement contains a description of the classified (staggered) board of directors now required by Massachusetts law, as well as a description of the stockholder rights plan adopted by the Board of Directors in December 1989 and certain by-law amendments adopted in January of this year which have a potential anti-takeover effect.

How does the Stockholder Rights Plan work and why did the Board adopt the plan ("Poison Pill") last year?

- o The Stockholder Rights Plan is described on pages 9 and 10 of the proxy statement. The purpose of the Plan is to protect all stockholders from coercive and inadequate takeover tactics aimed at Digital. The Plan encourages third parties interested in acquiring Digital to negotiate with the Board of Directors so that a fair value may be offered to all stockholders.

Prior to 1990, all of Digital's directors were elected annually. The Company now has a classified (staggered) Board of Directors and only three directors are standing for election at the annual meeting. Why has the company decided to change the term of office of its directors?

- o Pursuant to legislation enacted by the Massachusetts legislature in April 1990, every publicly-held corporation organized under Massachusetts law is required to have a classified (staggered) board of directors.

Could the Company have decided to opt out of the new law and continue to have a Board of Directors elected annually?

- o A corporation may elect to be exempt from the classified board requirement by vote of the directors, or by vote of the holders of 2/3 of the outstanding shares at a meeting held after January 1, 1992.

Why didn't Digital elect to be exempt from the classified board requirement?

- o The Company and the Board of Directors believe that a classified board helps to ensure continuity and stability of the Company's management and policies. Also, because a classified board tends to slow the pace of any change in control of the Company, the Company believes that a classified board will discourage changes in control which are unsolicited and not negotiated with the Board of



Directors and would therefore provide the Board time to study a purchaser's proposal adequately, to evaluate alternatives to a proposal and to ensure that the best possible price is obtained in any transaction in which control of the Company is transferred.

Is anyone attempting to gain control of the Company at the present time?

- o It is the Company's policy not to comment on these types of questions or rumors.

Note: The Company stated publicly both at the time the Rights Plan was adopted and in the proxy statement (which speaks as of mid-September) that it was not aware of any attempt by a third party to gain control of the Company. Therefore, it is acceptable to state that neither the Rights Plan nor the staggered board were reactions to a takeover attempt. It is important not to comment on the current situation or on any rumors that may be floating around at the time of the meeting.

In these difficult times for the Company, why is the Company proposing a new and expanded equity-based compensation plan?

- o (Purpose) The Company's existing stock option plan expires at the end of this year. The proposed 1990 Equity Plan is intended to advance the interests of the Company and its stockholders by improving the Company's ability to attract and retain qualified individuals who are in a position to contribute to the management and growth of the Company and its subsidiaries and to provide an increased incentive for such individuals to contribute to the Company's future success.

(Expanded Benefits) The 1990 Plan, which permits additional types of award and greater latitude as to the terms and conditions of awards than the Company's expiring stock option plan, will provide the Company with greater flexibility to adapt the compensation of employees to new circumstances such as changing business conditions, developments in applicable tax and other laws and trends in executive compensation practices.

(Description of Plan is contained on pages 20 through 26 of the Proxy Statement.)



Why is the Company proposing additional compensation in the form of stock options for nonemployee directors?

- o The proposed 1990 Stock Option Plan for Nonemployee Directors is intended to increase the proprietary interest of nonemployee directors in the continued success of the Company and to provide them with an incentive to continue to serve as directors. All stock options under the plan must have an exercise price equal to the fair market value of Digital Common Stock on date of grant.

(Description of Plan is contained on pages 26 through 29 of the Proxy Statement.)

What is the Company doing to attract qualified women and minorities for Board membership?

- o The Company seeks and considers all qualified applicants for Board membership. Dorothy Rowe, who had been a valued member of the Company's Board of Directors since 1962, passed away at the end of 1989.

Why did the Company repurchase shares of its common stock last year?

- o The Company undertook a stock repurchase program to avoid further dilution and because we believed it would enhance shareholder value by virtue of improved return on equity and earnings per share. The Company repurchased 1.3 million shares of its stock for \$111 million in cash on the open market in Q4 FY90. An additional 3.7 million shares were repurchased in Q1 FY91 for \$241 million. A total of 23 million shares have been repurchased by the Company since 1986 for more than \$2 billion in cash.

What is Digital's policy regarding the disclosure of material, Company information and "insider" trading?

- o No employee shall disclose "material, non-public information" relating to Company matters (information to which the average investor would attach importance in deciding whether to purchase or sell the Company's stock) to either non-employees or employees who have no need to know the information, until the information has been effectively disclosed in a manner sufficient to ensure its availability to the investing community as a whole.
- o A director, officer or employee possessing material, non-public information must abstain from trading securities while material information of which he or she has knowledge remains undisclosed to the investment community. Such persons also may not make favorable or unfavorable recommendations relative to Digital Common Stock to others.



A number of Digital's competitors continue to introduce new products which connect to the Company's computers. Do any of these products infringe upon Digital's intellectual property rights, and if so, what actions are you considering to protect and enforce the Company's rights?

- o The Company remains committed to protecting its intellectual property rights. From time to time we evaluate third party products to determine whether they infringe the Company's rights. However, the Company cannot comment on any specific situation at this time.

Digital currently is involved in patent infringement lawsuits against Systems Industries, and observers expect Digital to sue other manufacturers over patent infringement issues. Does this represent a shift in Digital's strategy and an attempt to increase revenues through litigation?

- o No. Digital has a long-standing policy and commitment to protect its innovations resulting from investments in research and development. We will continue to protect aggressively the Company's intellectual property rights on a worldwide basis.

With respect to the SI suit, what is the current status of that litigation, and will Digital settle this suit as it has others in the past?

- o The patent infringement litigation with SI concerning Digital's SDI technology is still pending in federal district court in Boston. It would be inappropriate and it is Digital's policy not to comment on the existence or content of any settlement discussions with third parties.

Does the Company intend to sue (any competitor or company) for infringement of its intellectual property rights?

- o It would not be appropriate to comment at this time.

SEC Law suits: Is there anything to these cases?

- o Digital believes that the claims asserted against it are without merit. Moreover, Digital is unaware of any valid claims against any of the persons named in either of the complaints. In fact, the claims against the individual defendants have been dismissed from the 1988 case ("Capri Optics").

Why is Digital subject to these suits?

- o These suits were filed by plaintiffs and their lawyers. Digital does not know and will not speculate what their motivation may have been in doing so.



Does Digital anticipate being sued again in the future?

- o Digital does not comment on the likelihood or prospect of future litigation, particularly when doing so would require it to speculate about the future actions of others.

We noticed in your proxy material that some of your Directors are beyond age 65. Do you have a mandatory retirement age, and if not, why not?

- o We believe that our present Directors have considerable expertise and experience to offer the Company. We do not believe that age alone should mandate the retirement of a director who still has years of valuable contribution to make to the Company.

Does the Board file conflict of interest statements? If so, who reviews them?

- o Yes, each year a questionnaire is completed by Directors and Officers, which includes this subject.

Is the list of shareholders available for inspection?

- o Under Massachusetts law, the list of shareholders is available, at the principal office of the Corporation or at the office of its transfer agent, for inspection at reasonable times for any proper purpose, but not to secure a list of shareholders for the purpose of selling the list or using the list for a purpose other than in the interest of the shareholder as a shareholder, relative to the affairs of the Company.

Did any officers or directors buy or sell large blocks of Digital stock during the year?

- o Officers and directors buy and sell Digital stock from time to time as deemed appropriate by the individuals conducting transactions, taking into account the timing of transactions and personal financial circumstances. Transaction in Digital stock are reported by officers and directors as required by law.

Has the company extended loans to officers or directors?

- o No.

Were there any significant transactions with officers or directors?

- o The Proxy statement discusses certain relationships between directors and officers and the Company.



\*\*\* PENSION PLAN - HEALTH BENEFITS \*\*\*

Why does the company have such a high ratio of pension assets relative to liabilities?

- o The company's pension plan assets totaled \$2219 million of which \$1516 million was in the U.S. Pension Fund as of the 1990 Annual Report. This figure is greater than the common definitions of liability represented by the plan, but the size of the liability depends on how it is defined:
  1. \$692 million, reflecting only those pension obligations to employees with vested benefits.
  2. \$786 million, including unvested benefits but excluding future salary increases in service.
  3. \$1949 million if salary increases are included and future service increases excluded.
- o Digital is well funded on the basis of any definition of the pension liability, reflecting a young employee base, a desire to recognize pension expense evenly over the working lives of our employees, and a policy of contributing to the plan as early as possible and to the maximum extent permitted by tax law.

What is the effect of the full-funding limitation of the Omnibus Budget-Reconciliation Act of 1987?

- o The full funding limit of 150% of current obligations will restrict Digital from making tax-deductible contributions to the U.S. Pension Plan over the next 4 to 6 years. This restriction on tax deductible contributions would increase pension expense by at least 50%.

Either the Treasury or Congress, however, may issue regulations or legislation that apply a different full-funding limitation based on factors other than the present 150% of current liability limitation.

Has the company considered using one of the techniques currently available to reacquire the excess assets in the pension plan?

- o No. Even though recovery of excess pension assets can be used to improve earnings in the near term, those "excess" assets are needed to meet the long-term pension obligations of the company. To withdraw the assets now would only mean that they would have to be contributed again at some future date. It is more cost-effective to leave the assets in the plan to earn tax-exempt investment income.



What is the pension fund's investment strategy? What is the percentage of assets invested in stocks, bonds, money market securities, etc.?

- o Our investment strategy reflects our young employee base and our long-term investment horizon. As a result, our pension assets are concentrated in stocks and real estate.
- o Actual asset mix at June 30, 1990:

	Actual
Equity	74%
Bonds	15%
Real Estate	11%
Cash	0%

How will the company be affected by the new accounting rules on Other Postretirement Medical Benefits?

- o Currently, like nearly all other companies, we account for these benefits on a pay-as-you-go basis. In FY90, they amounted to almost \$3 million, up from \$1.5 million due to a larger number of retirees and larger claims.

When the proposed FASB standard is adopted, (currently anticipated in FY94) we would need to recognize these costs using accrual accounting similar to our pension expense. As a result, our expense will increase significantly.

How is Digital being affected by health care cost inflation in the United States?

- o Digital health care costs are increasing almost 20% per year. To manage these costs Digital's company-sponsored indemnity plans employ utilization review, case management and second surgical opinion programs.

Beginning January 1, 1991, Digital will begin the phased implementation of a point-of-service HMO program in the U.S. designed to better manage costs while maintaining or improving quality.

Digital and its employees have had a long-standing cost sharing arrangement to pay for their health care costs.

In Note D in the Annual Report you report a \$65 million curtailment gain. What exactly does this refer to? What is this resulting from?

- o This represents the pension expense we accrued in prior years for employees who have separated or are expected to separate from the Company.



\*\*\* OCCUPATIONAL HEALTH & SAFETY \*\*\*

Does the Company have the same environmental and occupational safety and health standards for its non-U./S. facilities as for its domestic facilities?

- o Digital practices a risk-based approach; that is, we are committed to controlling potential environmental, health and safety risks wherever they could occur in the world.
- o Digital has recently updated and strengthened its environmental, health and safety policy to reflect its strong commitment to worldwide leadership and excellence.

Does Digital use chemicals in the course of operating its business?

- o Yes. Where our operations require the use of chemicals, we follow safe handling procedures to protect our employees and the environment.

Is Digital affected by new worldwide regulation of chloroflourocarbons (CFCs)?

- o Yes. Digital uses CFCs to clean electrical, electronic and mechanical parts. We follow safe handling procedures to protect our employees and the environment.
- o Digital has a corporate policy and long term commitment to reduce and eliminate the use of CFCs. Digital is a founding member of the Industry Cooperative for Ozone Layer Protection (ICOLP), an international group which acts as a clearinghouse for technology exchange for CFC solvent substitute technologies.

In April of this year, Digital announced a new technology to eliminate CFC solvents used to clean sophisticated printed circuit boards. Digital donated this technology, a water-based cleaning process, to the Industry Cooperative for Ozone Layer Protection (ICOLP) for free use by any company throughout the world. Over 300 companies worldwide have expressed an interest in using the technology.

What is the Company's plant safety record?

- o Digital has an excellent record as compared with other manufacturers and with the rest of the electronics industry.

Digital has trained safety coordinators, occupational health nurses and various safety and health programs in all of its major facilities.



Did Digital have a work related fatality in its Hudson facility this year?

- o A Digital employee was killed in an industrial accident in our Hudson facility. There was a thorough investigation of the accident and steps were taken immediately to ensure that a similar incident does not occur in the future.

Does Digital support the so-called Valdez Principles?

- o Digital has a strong commitment to environmental health and safety. We recently updated and strengthened our worldwide policy. This internal commitment is consistent with most aspects of the proposed Valdez Principles.
- o Digital is a member of the Global Environmental Management Initiative (GEMI), a coalition of major companies. GEMI is working to develop model programs which will assist industry worldwide in achieving environmental, health and safety excellence by continuously improving management practices and performance.

Is Digital participating in the Semiconductor Industry Association Reproductive Health Study?

- o Yes. Digital, along with numerous other companies, is participating in the study of the health experience of semiconductor operators.

What is Digital's response to the controversy regarding possible reproductive health hazards from using VDTs?

- o Digital is committed to providing safe products to our customers. It is Digital's understanding that there is currently no conclusive evidence linking VDTs with reproductive health effects. The results of a U.S. government sponsored study of directory assistance operators using VDTs should be announced in the near future. If that study should indicate that risks do exist, Digital will act accordingly.

Does Digital have an environmental audit program?

- o Yes. In the last fiscal year comprehensive environmental, health and safety evaluations were conducted at several major sites around the world.

Does Digital have programs to reduce the amount of waste it generates?

- o Yes. Digital has a Strategy Waste Management program whose goal is to reduce waste disposal. This is being done by reducing waste at the source and through reclaim, recycle, and reuse efforts.



Does Digital recycle and what?

- o Many Digital facilities have active paper recycling programs. There are on-going efforts to reuse and recycle packaging materials. We are also sponsoring research to develop technologies to effectively recycle and reuse those plastics which can't be recycled today.

Has Digital reduced its emission of toxic chemicals?

- o Digital is strongly committed to reducing all waste streams including chemical emissions. We have recently had an independent consultant do a study of our air emissions to assist us in further reduction efforts. Historically, CFCs were our largest emission. As a result of our overall efforts to reduce the use of CFCs, the emissions have dropped significantly.

Does the increased emphasis on the environment create a market for Digital's products?

- o Yes. Many segments of Digital are marketing applications for use in environmental research and management. Efforts are now underway to develop an integrated global response to this growing market.

What is Digital doing in the area of cumulative trauma disorders?

- o Cumulative trauma disorder (CTDs) is the technical term for injuries caused by repetitive motions. Digital is in the process of developing a comprehensive strategy for minimizing CTDs associated with workplace activities. Digital products are designed to be ergonomically sound.

What caused the fire at the Basingstoke facility?

- o The Basingstoke Crescent leased facility in Hampshire, England was destroyed by a fire. All employees got out safely. The fire was of electrical origin.

How is Digital Equipment Corporation responding to the AIDS epidemic?

- o Digital is, to the best of our knowledge, the only corporation with a dedicated AIDS Program Office. The Program Office administers a strategy and education plan to help managers and employees become better informed and able to deal with the possible impact of AIDS in the workplace.

What is Digital's position concerning employees with AIDS?

- o Digital expects employees to treat one another with compassion and respect, and to manage the workplace in keeping with the Company's policy and philosophy and medical facts. It is Digital's philosophy to recognize that employees with serious



or disabling illnesses or conditions, such as cancer, heart disease or AIDS may wish to engage in many of their normal pursuits, including work.

As long as these employees are able to meet acceptable performance standards and medical evidence indicates that their conditions are not a deterrent to them or others in doing their jobs, they must be treated in a manner consistent with other employees. Managers must be sensitive to employees conditions and ensure that their rights to confidentiality are observed.

**What is Digital's AID testing policy?**

- o Digital does not request or use the results of AIDS blood tests as a condition for hiring or continued employment. In addition, Digital does not make such testing a prerequisite for medical, disability or life insurance coverage. The Company does not ask for the results of any prior testing of an employee or prospective employee.

**Why has Digital put such an extensive AIDS program in place?**

- o Companies reflect the strengths, weaknesses and problems of society as a whole. Societal and health issues become business issues, and how a company deals with them affects its ability to attract and retain a high-quality workforce.

**Do any of Digital's employees have AIDS?**

- o Digital respects its employees' rights of confidentiality regarding their medical and work histories.



\*\*\* GOVERNMENTAL RELATIONS - INTERNATIONAL TRADE \*\*\*

Has the Company hired any former government employees in executive positions or retained their services as lobbyists, consultants, or counsel?

- o There are numerous former government employees within the many law firms hired to work on special projects, including litigation.
- o The Company hired Martin R. Hoffmann as Vice President and General Counsel. While he was a practicing attorney in private practice for the past 12 years, he held a variety of senior offices in the U. S. Government from 1971 to 1977, including Secretary of the Army, General Counsel for the Department of Defense and the Atomic Energy Commission.

How is Digital positioned for the emerging markets of Eastern Europe?

- o Information technology will play a key role in the infrastructure modernization and market development of Eastern Europe. Digital is well positioned to take advantage of these opportunities.

Digital's joint venture in Hungary, which began operations in April, is now marketing, selling and servicing Digital systems and solutions. Demand has exceeded expectations.

In June we opened an operations center in Berlin to prepare for the unified German marketplace. We have already signed two system vendor agreements with eastern German enterprises, and we are planning a new office in Dresden.

In the coming months, Digital will continue to move aggressively to expand our direct presence throughout Eastern Europe.

What do the recent changes in CoCom regulations mean in terms of the level of technology that Digital can export into Eastern Europe?

- o Digital can now receive licenses to ship VAX systems up to and including most VAX 6000 models into Hungary, Poland, eastern Germany and Czechoslovakia. Applications for shipment of even more powerful Digital systems will be considered by the U.S. Government and CoCom, and evaluated based on non-sensitive end-use.

Is Digital active in the U.S.S.R.?

- o CoCom has liberalized regulations governing the shipment of computers to the Soviet Union, essentially decontrolling Digital systems up through the MicroVAX 3000 family. Digital



has announced no plans for direct investment in the Soviet Union, but we are closely monitoring the political and economic climate in preparation for future participation in this potentially large market.

Does Digital have major investments in the Peoples Republic of China?

- o Digital formed a subsidiary in China in 1988. We have a manufacturing plant in Shen Zhen, and sales and service centers in Beijing and Shanghai.

What is the Company's policy with respect to doing business in South Africa?

- o Digital does not maintain a marketing presence of any kind in South Africa, nor does it have any manufacturing facilities, offices or subsidiaries of any kind in the country. This has been the company policy since 1972.
- o Digital will not ship any systems to South Africa nor will the Company service or support any Digital equipment that may be installed there.
- o We do sell our computers to end-users and OEM customers outside of South Africa, who may add value either by incorporating our products into their own or by generating new software to run on our computers. However, we do not participate in the independent business decisions of OEM's, and we have no policy to restrict or prevent OEM's from selling their products anywhere, including South Africa.

Are there any of Digital's computers in South Africa?

- o Our equipment can be in South Africa in one of two ways. One of our multinational customers may purchase equipment and decide to re-export it to their customers or send some of it to an office they maintain in South Africa. In such a case, Digital does not provide service for the equipment. Second, an OEM may incorporate Digital's parts or components in one of their products which is sold in South Africa.
- o End-user and OEM customers who ship their products incorporating Digital components are required to obtain re-export licenses from the U.S. government.

Does the Company support the MacBride principles concerning equal employment in Northern Ireland?

- o Digital is not a signatory to the MacBride Principles; however, major institutional investors and proponents of MacBride have commended Digital's "fine record" in Northern Ireland as an example to others of fair employment practices there.



- o It is the Company's firm conviction that an environment which values differences is critical to each employee's ability to succeed, and employee success is critical to the success of the Company.

Digital will continue vigorously to uphold its policy of non-discriminatory and equal opportunity hiring worldwide and in Northern Ireland.

Digital Equipment Co., Ltd., the Company's United Kingdom subsidiary, maintains a sales and service office in Belfast which employs between 70 and 80 people. The United Kingdom subsidiary subscribes to the Declaration of Principles and Intent as recommended by the Northern Ireland Fair Employment Agency to promote and protect equality of opportunity in employment in Northern Ireland. The U.K. subsidiary has been certified as an Equal Opportunity Employer/Organization by the Agency.

What position is the Company taking regarding the CLT petition?

- o The Company has taken no position regarding the CLT petition. In general we believe that government by initiative petitions often exacerbates the problem that elected officials are trying to solve. We believe that the primary challenge for elected officials is to bring the state's expenses in balance with the current and projected revenue stream.



\*\*\* COMMUNITY RELATIONS \*\*\*

What is the Company's philosophy as it relates to Community Relations?

- o Digital accepts the responsibility to become involved in the world in which it functions. It is our belief that being a responsible corporate citizen is good business.
- o One of the ways we fulfill these responsibilities is through our Corporate Contributions Program.
- o The Company's activities extend worldwide through our local community relations committees. Over 30 local committees worldwide develop and support programs which impact their communities.

What was the amount and nature of charitable contributions in this past year?

- o Digital has one of the top corporate giving programs in the country. This year its total Corporate Contributions in cash and equipment reached over \$37 million worldwide.
- o We have focused our priorities into five major program areas: Education, Health Care, Disabilities, Culture and the Arts, Civic and Environmental Affairs.
- o Examples of education programs include: National Merit Scholarships for high school children of Digital employees; Digital Faculty Program which directs grants to leading non-tenured faculty designed to encourage them to stay in the teaching profession; Support to programs for women and minorities pursuing education in computer science and engineering.
- o We have a commitment to support programs that provide engineering expertise and enhanced technology to programs that offer opportunities for people with disabilities. That commitment is best exemplified by a recent equipment grant to the Communications Enhancement Clinic at Children's Hospital, Boston which allowed the hospital to adapt DECTalk into portable units for wheelchair-bound patients. Digital also provided engineering and technical expertise as part of this partnership with Children's Hospital.
- o Digital, through a variety of internal resources, has taken an active role in promoting and supporting education and critical research efforts to help fight the spread of AIDS. The Company continues to provide grant



support to organizations and activities that are directed to medical research and the education and public awareness of the epidemic.

- o For the past ten years, Digital has sponsored the national underwriting of the Evening at the Pops Series produced by WGBH-TV, Boston, and aired on more than 270 PBS Stations nationwide. Recently, the Company also underwrote "MONET in the 90's" a major exhibition of Claude Monet's works which opened in Boston in 1990 and traveled to Chicago and London.

Does Digital provide research grants to universities?

- o Digital's External Research Program (ERP) is an important dimension of the technology investment strategy of Corporate Research. ERP staff, advisory committees, and liaisons manage the company's involvement in more than 200 active projects at 115 universities.
- o Of ERP's total resources, more than 30% is invested in Europe and G.I.A. Here the program has been growing rapidly to support Digital's expanding engineering, manufacturing, and research investments.

Given the fact that profitability is down, and the stock has languished for two years, why does the Company continue to give shareholders' money to institutions such as the Boston POPS, Nightly Business Report, and Museums? Shouldn't the Company return the money to its shareholders?

- o The EVENING AT POPS series, the MONET exhibition, and the NIGHTLY BUSINESS REPORT are part of a long-term strategy that is integrated into the Company's business goals. A part of those business goals include the view that corporate giving is more than philanthropy or social responsibility. The Company sees it as a long-term investment in the future of both the company and the community. The continued well-being of one is linked inseparably to the continued well-being of the other.

Are you going to cut the Contributions Program in light of the current business environment?

- o Digital has had an ongoing commitment to support critical issues that are important to the Company and the community. That commitment is exemplified through the Corporate Contributions Program, the funding for which is based on the profitability of the Company. When profitability is down, this ability to share with the community is limited.



The Company's reputation reflects, in part, a positive 30-year relationship with its communities. We will continue to be involved with our communities in a variety of ways — volunteers, technical assistance, the United Way to name a few. The Company will also continue to provide some support to its long-term, strategic programs and activities — focusing primarily on education and human service programs.



1989 ANNUAL MEETING OF

STOCKHOLDERS

PREPARATORY MATERIAL

\*\*\* DIGITAL CONFIDENTIAL \*\*\*



RECEIVED

OCT 31 1989

SAM FULLER

1989 ANNUAL MEETING OF  
STOCKHOLDERS  
PREPARATORY MATERIAL

\*\*\* DIGITAL CONFIDENTIAL \*\*\*



1989 ANNUAL MEETING

WORLD TRADE CENTER  
Commonwealth Pier  
164 Northern Avenue  
Boston, MA 02210

6 November 1989

AGENDA

9:30 a.m.	Product Demonstrations Reception Area - Amphitheatre
11:00 a.m.	Annual Meeting Amphitheatre Press Q&A in Federal Complex
12:30 p.m.	Board Luncheon (Back Bay Complex)  Washington Room Phone Contact/Availability (617) 439 - 5799
1:30 p.m.	Board Meeting Congress Board Room

- \* Marion Dancy Product demo/setup
- \* Vote is in hand
- \* Unaware of any dissident shareholders attending

Mark Steinkrauss (508) 493-7182 or DTN: 223-7182

Brad Allen (508) 493-8009 or DTN: 223-8009



Enclosed are several possible questions and answers on topics of potential interest to shareholders and the press.

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\*\*\* GENERAL & FINANCIAL \*\*\*

What is your economic outlook?

- o Recent economic data indicate a continued expansion with little sign of imbalances or sector weakness that would signal an impending recession. The consensus view is for sluggish growth in the 1% to 2% range through 1990, but no recession. A less optimistic view holds that a mild, two quarter recession seems probable. The prospects for computer demand through 1990 (up an estimated 5-7%), would not be greatly different in either a mild recession or "soft landing" scenario. In either event, we expect Digital to outperform the market over the next year in a generally softer market environment.

Who are Digital's largest shareholders: Does any one person/institution own 5% or more of the stock?

- o Digital's largest shareholders as of Aug. 1989 are:  
(all approximations)

INSTITUTION NAME	SHARES HELD	CITY
Bernstein (Sanford) & Co.	5.8M	New York
Michigan State Treasurer	3.7M	Lansing
Wellington Management Co.	3.1M	Boston
Capital Research & Management Co.	3.1M	Los Angeles
California, University of	2.4M	Berkeley
Capital Guardian Trust Co.	2.1M	Los Angeles
Dreman Value Management	2.0M	Jersey City
Lazard Freres & Co.	1.8M	New York
Wells Fargo Bank	1.8M	San Francisco
College Retirement Equity	1.7M	New York
Oppenheimer Group, Inc.	1.7M	New York
Bankers Trust Co.	1.6M	New York
Calif Public Employees	1.5M	Sacramento
NYS Common Retirement Fund	1.3M	Albany
Shearson Lehman Hutton	1.3M	New York
Dodge & Cox	1.0M	San Francisco
Boston Company Inc.	1.0M	Boston

- o The Company is not aware of any person/institution that owns 5% or more of its stock. Sanford C. Bernstein holds the largest accumulation in Digital stock to date.
- o Approximately 950+ institutions own 85% of Digital's stock.
- o Due to the liquidity in Digital's stock, institutions are constantly moving in and out of the stock. Any list of



owners is subject to hourly change.

Are your long-term ROE and ROA goals reasonable given the increased competitiveness of the industry and resulting lower profitability? Shouldn't they be revised downward?

- o We continually test the reasonableness of our long-term financial goals and have done so within the last year. They remain unchanged.
- o They are as follows:

	PROPOSED (INTERNAL) Not for Public Release	*HISTORICALLY STATED GOALS	FY89 ACTUALS
ROE	22%-25%	* 22%	13.8%
ROA	16%-18%	* 15.8%	10.3%
DSO	57 DAYS	* 75 DAYS	76 DAYS
INV. TURNS	4.0x +	* 2.5x	3.9x
NET	11%-12%	* 10%-11%	8.4%

- o We continue to work toward the achievement of these goals.
- o Our long-term financial goals call for the debt to debt-plus-equity ratio to be in the area of 10% maximum. We might exceed this if circumstances warrant (being locked out of equity market), but would seek to work it back down to 10% over time.
- o Our debt to debt-plus-equity ratio at year-end was 1.7%.

DIGITAL'S FORTUNE 500 RANKINGS: 1988

	<u>ALL 500</u>	<u>COMPUTER INDUSTRY</u>
REVENUE	30	2
PROFITS	16	2
PROFIT MARGIN	61	4
ASSETS	34	2
ROA	56	4
EQUITY	14	2
ROE	188	11
10 YEARS EPS GROWTH	33	4
10 YR TOTAL RETURN	253	8

What is the "Wall Street" consensus for revenue growth and EPS for FY90?

- o NOR growth of approximately 7% - 10%.
- o EPS range \$7.50+ - \$8.25+.



- o Tax rate approximately 25%.
- o Securities analyst forecasts for Digital are changing daily depending on the economic scenarios of their firms, news of the economy and psychology of the market.

Does the Company have "Golden Parachute" arrangements with executives?

- o Digital does not have "golden parachute" arrangements with executives.

What was capital spending in FY89 and your projection for FY90?

- o \$1.2 billion in FY89. Of this amount 66% was for equipment 25% for buildings, and the remainder for land and leasehold improvements. It is anticipated that FY90 capital spending will be in the same general range as that of FY89.

How much were advertising costs in FY89 vs. the previous years?

As reported in 10-Ks:

- o FY87 - \$95 million, about 1.0% of NOR.
- o FY88 - \$129 million, about 1.1% of NOR
- o FY89 - \$160 million, about 1.3% of NOR

Has pricing been a factor in your reported results?

- o The computer industry continues to be highly competitive, international in scope and comprised of many companies.
- o One of the primary methods of competition is pricing and this was the case in FY89.
- o During FY89 prices were decreased for a selected number of hardware products. Also, a change in the manner warranty service levels are offered to customers affected pricing as did user-based licensing pricing on the operating system software on selected systems.
- o In July FY90, prices in Europe were increased approximately 7-9% to offset the strong U.S. dollar.

Digital's growth has been internally generated to date. With the Company's substantial cash balances and positive cash flow, are there any plans to actively seek acquisitions to enhance its product mix and growth?

- o It is the Company's policy not to comment on questions of this nature.



Below are two recent reseach reports on Digital from Wall Street investment firms, (First Boston & Furman Selz). They reflect the range of opinion on the Company at present.

First Boston Corporation  
Equity Research  
Broadcast - All Offices  
Code: A \_\_\_\_\_

Analyst: Steve Milunovich  
Industry: Minicomputers

Date: September 13, 1989

Company: Digital Equipment

Symbol: DEC

Subject: Larger VAX 9000-400s May Not Ship Until Fiscal 1991

Opinion: Sell

Our latest intelligence regarding the upcoming VAX 9000 (aka Aridus or Aquarius) is that larger configurations for commercial users will not ship until July of 1990. If true, this would negatively impact fiscal 1990 earnings (year ends in June). In addition, demand for minis is weak as evidenced by ASK Computer's comment yesterday that it's seeing deferral of purchases for DEC systems. To be cautious, we are cutting our 1990 estimate from \$8.50 to \$8.20. Our opinion is Sell; we see downside to \$80-85 on the stock.

Speculation surrounding the VAX 9000 is confusing because DEC has altered its plans numerous times. We believe DEC is settling on an air cooled line with two parts. The single processor VAX 9000-210 is aimed at technical users. The 9000-400 line is for commercial users and should be air cooled. The second generation, Aquarius II, may be water cooled and introduced a year later.

Aridus: VAX 9000-210. Air cooled, 30 VUPS. One processor, not upgradable. Announce around November 1, ship in January. Vector accelerator at 125 MFLOPS. Price of \$800,000. Aridus is aimed at Convex.

Aquarius I: VAX 9000-410, 420, 430, 440. Air cooled, 30-108 VUPS. One to four processors. Announce around November 1, ship July 1. Price range of \$1.2-4.4 million. Aquarius is aimed at IBM.

#### Consequences

1. Second half fiscal 1990 earnings are at risk if Aquarius does not ship until fiscal 1991. The impact is difficult to estimate, but we would guess sales of \$300-400 million or \$0.30 per share could be deferred from fiscal 1990 to 1991.



DEC is using the advanced TAB (Tape Automated Bonding) packaging technique, which could play a part in any shipment delay. TAB is a new way to package chips without pins to increase density and therefore performance. The processor runs hotter, however, so DEC will have to struggle with heat dissipation for larger VAX 9000 configurations. DEC is one of the few companies using TAB. Cray is going to TAB for its C-90, but that product is not due until 1991.

2. Some users may resist buying the 9000-400 (Aquarius) if they believe, as we do, that the next generation (Aquarius II) is to be water cooled. Upgrading from an air cooled to a water cooled system could be a pain depending on how it is implemented.

3. If Aridus, or the 9000-210, is a uniprocessor with no upgradability, DEC will be unable to stop the incursions made by Convex. Royal Dutch Shell recently chose Convex over DEC after seeing the specs for Aridus.

4. Selling mainframe class systems to MIS will be a new and lengthy sell. DEC does not sell business solutions to commercial users as well as IBM. Furthermore, we don't see many new applications being ported to a \$1 million VAX. For large transaction processing jobs IBM and Tandem have superior solutions. A number of upgrades will occur but these will not be sufficient to turn earnings around.



## Digital Equipment Corporation (NYSE-DEC)

### Progress Report

DEC's first quarter report exhibited trends that were well discounted. U.S. orders for the quarter were flat with a year ago, and foreign orders were up, but may have slowed some compared with prior quarters — especially after translation into U.S. dollars. As indicated by our quarter earnings analyses on Tables I and II, DEC's equipment sales increased by 5 percent, service revenues by 9 percent and total revenues by 6 percent. The company is still plagued with severe overcapacity as well as by a product mix shift from higher margin medium systems to MicroVAX and RISC based workstations. As a consequence, gross margin for the quarter eroded to 48.5% compared with 50.7% of a year ago and 49.9% for the immediately preceding fourth quarter. DEC has had a hiring freeze for some time and in the past quarter instituted a salary freeze as well. For the first period the employment count dropped by 300 people — consisting of a net decline of 800 employees in the United States and net additions of 500 employees in Europe. Notwithstanding its tight hiring policy, both R&D and SG&A expenses increased by 11%. Without some top line revenue impetus from the new high-end machine DEC will probably find it difficult to keep expense growth in line with revenue growth.

### Outlook

In our notes of September 29th we discussed that DEC's user community is anticipating the VAX 9000 a high-end machine estimated to compute at 30 VUPS or 30 million VAX instructions per second. This large machine, currently code named *Aquarius* will be introduced on October 24th. For the last 18 months DEC has not had a new generation high-end machine to sell; therefore, DEC should benefit from a substantial level of pent-up demand. However, volume availability of *Aquarius* will probably start in the fourth quarter of fiscal June 1990 and will accelerate even more with vigor in the first half of fiscal 1991. In the meanwhile DEC's revenue growth is

apt to lag behind its operating expense growth. Because of both gross and operating margin pressures, unfavorable earnings comparisons are likely for the balance of the year. We have reduced our fiscal 1990 estimate from \$7.66 per share to \$6.65 per share.

### Valuation

Because DEC's operations are so leveraged, small swings in volume can create material changes in the earnings outlook. However, our fundamental long term thinking is unchanged from our Sept. 29 notes where we indicated:

- The stock is terribly out of favor and is selling at less than one times trailing sales and only 1.4 times book value.
- U.S. orders for large computer companies like IBM, Hewlett Packard and DEC are flattish to down.
- Earnings prognostications from the Street have been pared back by 30% to 40% from the beginning of the year.
- The company has taken and will continue to take vigorous measures to contain costs.



- Within a few months we expect DEC to garner significant orders from its *Aquarius*, and therefore will begin to benefit from product cycle momentum.
- Technology stocks with significant proprietary advantages and very large customer bases do respond as order conditions improve.
- There will be, of course, enormous upside earnings leverage as DEC eventually brings its operating level in balance with its very substantial manufacturing capacity.

While momentum players will undoubtedly be disenchanted by DEC's near term earnings prospects, we think that it would be inappropriate to give up on the stock at current levels — especially for large fund managers with a long term orientation. Accordingly, we are maintaining DEC on our recommended list.

Peter TT. Lieu

Additional information is available upon request.



Did the Company have any significant changes in accounting policy or procedures last year?

- o There were no significant changes in the Company's accounting policies or procedures for FY89. The Company did adopt SFAS Number 95, Statement of Cash Flows. Prior years' statements of cash flows have been restated for comparative purposes.

How were you investing your cash and temporary cash investments at year end?

- o Our investment objective for all portfolios is to realize the maximum after-tax rate of return from investments in high quality, fixed income, money market securities. The types of securities purchased will depend upon each portfolio's legal and tax structure as well as its liquidity requirement.

At year-end a majority of our investments were in time deposits and certificates of deposit of high quality banks. Additionally, a significant portion of the portfolio is invested in repurchase agreements, collateralized principally by U.S. Government securities of the best capitalized financial institutions. A large portion of these investments are invested in Puerto Rico at an extremely attractive after-tax rate of return.

How will FAS #96 impact the Company's accounting for income taxes and when will the Company adopt FAS #96?

- o FAS #96 changed the emphasis of tax-deferred accounting from the Income Statement to the Balance Sheet. The Income Statement should reflect year-to-year changes in the Balance Sheet amounts.
- o Deferred tax assets are recognizable only to extent of income taxes paid within the current year and allowable carryback period. The most recent pronouncement requires that the Company must adopt SFAS No. 96 no later than December 29, 1990. Management does not expect that the adoption of SFAS No. 96 will have a material impact on the Company's consolidated financial position and results of operations. There will be no cash flow impact from these adjustments.

The FASB is currently reviewing certain major requirements of this pronouncement.

Do the Independent Auditors prepare or review the Company's Income Tax returns?



- o The Company's Corporate Tax department prepares all of its U.S. Federal and state income tax returns and consults with the independent auditors with respect to certain positions taken on the Company's tax returns. The U.S. Federal return is reviewed by the independent auditors in connection with their review of the financial statements.

The independent auditors are involved with the filing of some of the foreign tax returns.

Why is DECWORLD not being held this year? Will it be held in the future?

- o The next DECWORLD is scheduled for Europe in September of 1990. We have not ruled out holding another DECWORLD in the US at some time in the future; however, it has not been scheduled as of this date. Other Customer Event Programs are under evaluation.

Is it Digital's aim to reduce its fair share of taxes to as low a rate as possible?

- o In the evaluation of where and how Digital structures its business around the world, taxes are one of many important considerations. It is not Digital's intent to pay the lowest possible taxes but instead to optimize the mix of taxes paid.

Does Digital have any antidotes/vaccines against computer viruses?

- o There are numerous anti-virus products commercially available to assist in virus detection and virus elimination; however, none of these products has been formally reviewed or evaluated. The decision to use such a product must be taken with risk in mind, and is the responsibility of each organization or company. Digital makes no recommendation on the use of anti-virus software. We do recommend caution be exercised if a detection tool or anti-virus product is utilized.

Could Digital-manufactured software be infected by a virus?

- o Digital takes explicit and extensive steps to protect the development and distribution of its software products. Strict procedures coupled with verification measures ensure the integrity of Digital software.

How do you ensure that EDP controls are adequate to prevent alteration or misappropriation of assets?

- o We have a dedicated Information System audit group as part of Internal Audit. In addition, Operation Reviews are



held by Information Management and Technology Management Committee members (IM&TMC) within their geography/function.

Does the company have adequate plans in case of an EDP "disaster" or sudden turnover of key DP personnel?

- o We have a policy that requires that all critical business systems be reviewed and contingency plans be established, as appropriate. These plans normally require off-site storage of back-up information and alternative operating locations. Additionally, our systems are distributed, nationally and internationally. Our systems are interconnected by our networks, giving us great flexibility.

The book "The Cuckoo's Egg" by Clifford Stoll mentions that there was a security hole in VMS V4.5. Is that true?

- o There was a security hole in V4.5, which was corrected with a patch. Unfortunately, many organizations did not install the patch and didn't rebuild their systems. They were given the tools to secure their systems, but they didn't follow through.

It seems that many of the organizations that were penetrated by hackers described in the book were using VAX computers. Is there a basic weakness in VAX computers?

- o No. Digital is the world's second largest computer supplier. As such, our computers are the systems of choice in many research centers and laboratories. In many research and academic settings, computer security is not very strong; in some cases, it is disdained. There have been countless instances of organizations permitting (directly or indirectly) open access to non-authorized outside users because of widespread use of default passwords, no user controls, and many other breaches of standard system security. It is alarming, but that is the current state of computer security, not only in research and academic settings, but in businesses as well. But the issue is not the hardware or the computer manufacturer. To use an analogy - if people are experiencing the theft of their automobiles because they left the keys in the ignition, you don't question the automobile manufacturer.

There is a statement in the book that the NSA classified a software system of Digital, that Digital changed the system, and it didn't really deserve the security classification. Is that true?

- o You are confusing several items. Manufacturers submit operating systems to be evaluated from a security standpoint; however, the testing process is complex, exhaustive, and takes 1-2 years. Manufacturers frequently



make changes and improvements in operating systems. The speed at which innovation and technology change occurs is faster than the speed at which systems can be evaluated properly. By the time a system has been evaluated, a new system is on the market, awaiting results of testing. Digital has a strong program of quality assurance, and it involves a robust testing process. Moreover, the operating system that was rated C2 has been enhanced continually by additional security features. Digital continues to invest many millions in security features and this enhances our products over time.

Our flexible security features allow our products to be tailored to meet the needs of a customer's unique computing environment, in conjunction with the customer's specific security policy.

Has the Company experienced any uptick in union activity? Have any unions actively sought to organize any facilities/functions anywhere in the world? Is any part of the worldwide Digital organization unionized?

- o No — we have not experienced any uptick in union activity. There was some activity in Korea but it has since diminished. The only union we have is in Taiwan and it has been there since 1975.

What was the cost of this year's Annual Report? How many copies are printed?

- o Digital's 1989 Annual Report cost approximately \$600K or \$1.85 per copy. Total press run was 325,000.

Recent press releases by Massachusetts Citizen Action and Tax Equity Alliance for Massachusetts, Inc. stated that Digital (and Polaroid) are not paying their fair share of Massachusetts excise (income) taxes. What is Digital's response?

- o Digital pays the amount of taxes required by law which includes local property, sales & use, and unemployment taxes as well as the excise tax. Massachusetts law provides tax incentives to encourage hiring and investment, and Digital has taken proper advantage of these provisions.

Digital's expansion and investment in Massachusetts have provided substantial benefit to the local economy. In the years cited in the press releases (1977 - 1979), Digital

- \* Increased employment in Massachusetts by 40% (15,000 to 21,000 employees)



- \* Increased payroll in Massachusetts by 70%  
(\$200M to \$339M)

- \* Invested more than \$200M in plant and equipment  
in Massachusetts

Since those years, Digital has continued to expand in this state and now employs approximately 34,000 people in Massachusetts.



\* \* \* L E G A L \* \* \*

Does Digital's corporate charter or its by-laws include any anti-takeover devices?

- o No. Digital does not believe that these devices are presently necessary to protect the interests of the Company or its shareholders.

Last year you noted that the Company's by-laws were amended to provide that the provisions of Massachusetts law shall not apply to "control share acquisitions" of the Company. Could you elaborate.

- o Coverage under the Massachusetts Control Share Acquisition Act is optional. The Act sets up some fairly rigid procedures to be followed during a hostile or non-negotiated take-over attempt by a small company subject to the Act's provisions. Like the boards of a number of other large Massachusetts corporations, the Company's Board of Directors concluded, after reviewing the Act's provisions, that by opting out of coverage under the Act, the Board would retain maximum flexibility to act to maximize shareholder values.

Your proxy statement indicates that the directors amended Digital's by-laws in August to take advantage of the provisions of recently adopted Massachusetts anti-takeover legislation. Can you explain the amendment?

- o Anti-takeover legislation adopted in July included various amendments to the Massachusetts Business Corporation Law. One of those amendments increased the percentage necessary to call a special meeting of stockholders of the Corporation from 10% to 40%. Digital's by-laws reflected the percentage appearing in the law prior to amendment; the amendment merely changed the by-laws to take advantage of the presumptive percentage included in the new law.

Why did the Company repurchase shares of its common stock last year?

- o The Company undertook a stock repurchase program to avoid further dilution and because we believed it would enhance shareholder value by virtue of improved return on equity and earnings per share.

What is Digital's policy regarding the disclosure of material, Company information and "insider" trading?

- o No employee shall disclose "material information" relating to



Company matters (information to which an investor would attach importance in deciding whether to purchase or sell the Company's stock) to either non-employees or employees who have no need to know the information, until the information has been effectively disclosed in a manner sufficient to ensure its availability to the investing community as a whole.

- o A director, officer or employee possessing material information must abstain from trading securities while the material information of which he or she has knowledge remains undisclosed to the investment community. Insiders must also abstain from making favorable or unfavorable recommendations relative to Digital's stock to others.

A number of Digital's competitors continue to introduce new products which connect to the Company's computers. Do any of these products infringe upon Digital's intellectual property rights, and if so, what actions are you considering to protect and enforce the Company's right?

- o The Company remains committed to protecting its intellectual property rights. From time to time we evaluate third party products to determine whether they infringe the Company's rights. However, the Company cannot comment on any specific situation at this time.

Digital currently is involved in patent infringement lawsuits, and observers expect Digital to sue other manufacturers over patent infringement issues. Does this represent a shift in Digital's strategy and an attempt to increase revenues through litigation?

- o No. Digital has a long-standing policy and commitment to protect its innovations resulting from investments in research and development. We will continue to protect aggressively the Company's intellectual property rights on a worldwide basis.

Does the Company intend to sue (any competitor or company) for infringement of its intellectual property rights?

- o It would not be appropriate to comment at this time.

Does Digital plan any changes in its VAXBI licensing practices?

- o Digital has no plans to modify its practice of licensing VAXBI technology to manufacturers of products which complement Digital's own product offerings.

SEC law suits: Is there anything to these cases?

- o Digital believes that the claims asserted against it are without merit. Moreover, Digital is unaware of any valid



claims against any of the persons named in either of the complaints. In fact, the claims against the individual defendants have been dismissed from the 1988 case ("Capri Optics").

Why is Digital subject to these suits?

- o These suits were filed by plaintiffs and their lawyers. Digital does not know and will not speculate what their motivation may have been in doing so.

During Q3, the Wall Street Journal published an article accusing Digital of leaking financial information to certain insiders on Wall Street. Why did Digital do this?

- o Digital does not believe it leaked information. Digital is dedicated to providing accurate information to its shareholders and the financial markets in a manner which is fair, efficient and consistent with the law.

Does Digital anticipate being sued again in the future?

- o Digital does not comment on the likelihood or prospect of future litigation, particularly when doing so would require it to speculate about the future actions of others.

We noticed in your proxy material that some of your Directors are beyond age 65. Do you have a mandatory retirement age, and if not, why not?

- o We believe that our present Directors have considerable expertise and experience to offer the Company. We do not believe that age alone should mandate the retirement of a director who still has years of valuable contribution to make to the Company.

How often does the Board meet?

- o The Board of Directors met 9 times in FY88. The Audit Committee met 4 times, and the Compensation and Stock Option Committee met 4 times (Pg. 6, proxy material).

What fees are paid to the Board members?

- o Retainer: \$20,000  
Fee for each Board Meeting attended: 1,000  
Fee for each Committee meeting attended: 1,000  
Travel & Miscellaneous Expenses: As incurred

In addition, the Company offers a supplemental retirement benefit upon termination of service equal to the annual retainer for non-employee directors in effect on the date of



termination of service.

What is the attendance record of individual Board members?

- o All Directors attended at least 75% of the total number of meetings of the Board and the Committees of the Board of which they are members.

Does the Board file conflict of interest statements? If so, who reviews them?

- o Yes, each year a questionnaire is completed by Directors and Officers, which includes this subject. These are reviewed by the Company's attorneys and auditors.

Is the list of shareholders available for inspection?

- o Under Massachusetts law, the list of shareholders is available, at the principal office of the Corporation or at the office of its transfer agent, for inspection at reasonable times for any proper purpose, but not to secure a list of shareholders for the purpose of selling the list or using the list for a purpose other than in the interest of the shareholder as a shareholder, relative to the affairs of the Company.

Did any officers or directors buy or sell large blocks of Digital stock during the year?

- o Officers and directors buy and sell Digital stock from time to time as deemed appropriate by the individuals conducting transactions, taking into account the timing of transactions and personal financial circumstances. Management has benefited financially from the Company's recent success, a success to which they have contributed. Transactions in Digital stock are reported by officers and directors as required by law.

Has the Company extended loans to officers or directors?

- o No.

Were there any significant transactions with officers or directors?

- o The proxy material discusses certain relationships between directors and officers and the Company.

Does Digital have an AIDS policy?



- o Yes. The corporation treats AIDS as any other disease. That means that an employee with AIDS would be eligible for medical and disability benefits as would an employee with any other disease. If the employee is determined by his or her doctor and by Digital's medical staff to be able to perform his or her job, the employee will be allowed to return to work.

Does Digital intend to test for AIDS or for exposure to the AIDS virus?

- o No. Such testing is prohibited in some locations and Digital does not believe that testing is indicated in the workplace.

What if the medical evidence changes?

- o Digital takes very seriously its obligation to monitor the medical facts about AIDS and if necessary to change its policies.

There have been discussions in the press about Digital's excess employee population. Has the Company identified such excess and what does the Company intend to do about it?

- o Generally, the Company continues to add employees with critical skills necessary to meet current business needs. We have not identified any significant "excess employee population" within Digital. Rather there are functions, facilities and geographies where work redesign and business needs have created what we believe are temporary imbalances in the workforce. The Company continues to manage these issues through reassignment, retraining and other voluntary programs for shifting and/or reducing employee population. Given the nature of how we identify and manage these transitions, it is not possible to give any meaningful estimate of the costs associated with these activities. Recently the company announced a program that made available to a group of manufacturing employees a voluntary severance arrangement.

Your proxy statement reflects that Pier Carolo Falotti is one of Digital's five most highly compensated executive officers. What is his function?

- o Mr. Falotti is a Vice President of the Corporation and is President of Digital Europe in charge of the Company's European operations.

The papers have been full of articles in the past year discussing seizures of Digital products in connection with attempts to divert those products to the East Bloc. Has Digital been involved in those cases?



- o No. Digital has not been involved in those cases. Digital is committed to obeying the law and cooperating with appropriate federal law enforcement agencies in their enforcement of the U.S. Export Laws.

Digital has received a letter from the Commission of the European Communities (European Commission) regarding a complaint received by the Commission from System Industries (SI). SI alleges in its complaint to the Commission that Digital has abused a dominant market position by refusing to disclose interface information necessary for attachment and full functionality of peripheral storage devices. Would you please elaborate on these allegations.

- o Digital Equipment Corporation sued SI in the United States in 1980 for patent infringement and, following settlement of the case in 1987, Digital filed suit against SI again in 1989 for further patent infringement. The recent complaint issued by SI with the European Commission is nothing more than a continuation of this litigation. Digital does not believe there is any substance to S.I.'s position.

Note: Upon further questioning response should be:

"It would not be appropriate to comment further at this time."

Colby Chandler has just been elected to the Digital Board of Directors for the first time. Would you comment on the Board's selection of Mr. Chandler as a nominee.

- \* Colby Chandler is a distinguished business leader with a global long-term vision and a focus on improving U.S. manufacturing quality and productivity. Digital and Kodak have worked together on projects for a number of years, and we've developed great confidence and admiration for Colby Chandler.

(Additional background on Mr. Chandler from press release)

- \* Mr. Chandler began his Kodak career in 1950 as an engineer at Kodak Park. He subsequently held management positions in quality control and technical services before being named in 1962 as recipient of a Sloan Fellowship to study at the Massachusetts Institute of Technology.
- \* From 1963 to 1971 Mr. Chandler held various management positions in the Color Print & Processing Organization. He was named director of Corporate Photographic Program Development in 1971 and in 1972 elected an assistant vice-president of the company. In 1974, he was named general



manager, U.S. and Canadian Photographic Division, elected a member of the board of directors, and an executive vice-president of the company. He was elected president of Eastman Kodak Company in 1977, and became chairman and chief executive officer in July 1983.

- \* A native of Farmington, Maine, he received a B.S. in engineering physics from the University of Maine before joining Kodak. He also holds an M.S. in industrial management from M.I.T., and has received honorary doctorate degrees from Clarkson College, the University of Maine, the State University of New York at Geneseo, Washington and Jefferson College, and Roberts Wesleyan College. Mr. Chandler has been elected to Tau Beta Pi, Sigma Pi Sigma, Phi Kappa Phi, and Beta Gamma Sigma, honorary scholastic societies.
- \* Mr. Chandler serves on the board of directors of Ford Motor Company, JC Penney Company, and Citicorp. In addition, he serves as Chairman of the President's Export Council. His other business affiliations include The Business Roundtable, The Business Council, The Business-Higher Education Forum, and the Council on Competitiveness.
- \* His public service commitments include service as a board member for the National 4-H Council, the United Negro College Fund, the National Organization on Disability, the MIT Corporation, the Colgate Rochester Divinity School, Rochester Institute of Technology, the University of Rochester, the International Museum of Photography at George Eastman House, and the United Way of Greater Rochester.



\*\*\* PENSION PLAN - HEALTH BENEFITS \*\*\*

Why does the company have such a high ratio of pension assets relative to liabilities?

- o The company's pension plan assets totaled \$1890 million as of the 1989 Annual Report. This figure is greater than the common definitions of liability represented by the plan. The size of the liability depends on how it is defined:
  1. \$472 million, reflecting only those pension obligations to employees with vested benefits.
  2. \$553 million, including unvested benefits but excluding future salary increases and future increases in service.
  3. \$1571 million if salary increases are included and future service increases excluded.
- o Digital is well funded on the basis of any definition of the pension liability, reflecting a young employee base, a desire to recognize pension expense evenly over the working lives of our employees, and a policy of contributing to the plan as early as possible and to the maximum extent permitted by tax law.

What is the effect of the full-funding limitation of the Omnibus Budget-Reconciliation Act of 1987?

- o The full funding limit of 150% of current obligations will restrict Digital from making deductible contributions to the U.S. Pension Plan over the next 4 to 6 years. This restriction on tax deductible contributions would increase pension expense by at least 50%.

Either the Treasury or Congress, however, may issue regulations or legislation that apply a different full-funding limitation based on factors other than the present 150% of current liability limitation.

- o BACKGROUND (NOT FOR PUBLIC RELEASE) Pension expense is currently 3.5% of pay and is estimated to increase to 4-6% of pay over the next 5 years if no relief is provided by the U.S. Treasury's new regulations or congressional legislation.

Has the company considered using one of the techniques currently



available to reacquire the excess assets in the pension plan?

- o No. Even though recovery of excess pension assets can be used to improve earnings in the near term, those "excess" assets are needed to meet the long-term pension obligations of the company. To withdraw the assets now would only mean that they would have to be contributed again at some future date. It is more cost-effective to leave the assets in the plan and produce investment income.

What are your actuarial assumptions regarding the Pension Plan.

o	U.S	Other
		Countries
Investment Return	9.5%	5.0 - 10.0%
Compensation Increase	6.8%	4.0 - 9.5%
Discount Rate	9.0%	5.0 - 12.5%

How many fund managers do you retain and who are they?

- o U.S.
  - Aldrich, Eastman & Walth - Manages real estate
  - Alliance Capital Management Corporation - Manages stocks
  - Bankers Trust - Manages stocks and bonds
  - Boston International Advisors-Manages international stocks
  - Capital Guardian - Manages stocks
  - Digital Internal Investment Department - Manages stocks
  - First Quadrant - Tactical Asset Allocation (Allocates between stocks, bonds and cash) hired January, 1989)
  - Jennison Associates - Manages bonds
  - Wells Fargo Bank, N.A., - Tactical Asset Allocation (hired January, 1989)
  - Pacific Investment Management Company - Manages Stock
- o Overseas
  - Various, depending on locale

Does the U.S. Pension Fund invest internationally?

- o The fund initiated international equity investing in FY88 in an effort to further diversify its investments. At the end of FY89, less than 3% of the fund was invested internationally.

Has the plan engaged in any transactions prohibited by ERISA? Did the auditors express a standard (unqualified) opinion on the pension plan's financial statements? If not, why not? Are company securities held by the employees' pension fund? If so, how are they voted?

- o No transactions prohibited by ERISA.



- o Auditors expressed a standard unqualified opinion. They did note that the portfolio contains real estate investments whose value is subject to ultimate realization. We believe the real estate values used are reasonable.
- o Company securities may be held in a stock index fund at the discretion of the manager, Bankers Trust. The amount of stock reflects Dligital's weighting in the stock index.
- o Shares held in the company's pension funds are voted by our investment managers in what, in their judgment, is in the best interest of the employee pension plan members.

What is the pension fund's investment strategy? What was the return on the pension fund's assets last year? What is the percentage of assets invested in stocks, bonds, money market securities, etc.?

- o Our investment strategy reflects our young employee base and our long-term investment horizon. As a result, our pension assets are concentrated in stocks and real estate.
- o Return on assets for year ended 6/30/89 was 17.0% up from 0.7% for the period ending 6/30/88.
- o Asset mix at June 30, 1989.

	Actual	Target
Equity	71%	70%
Bonds	15%	15%
Real Estate	14%	15%
Cash	0%	0%

- o The U.S. Pension Fund amounted to \$1401 million as of June 30, 1989.

Was the U.S. pension plan changed during the year? Are changes anticipated? Have pension benefits to retirees kept pace with inflation?

- o The U. S. pension plan was changed to comply with the vesting, permitted disparity, and \$200,000 compensation-cap rules established in the Tax Reform Act of 1986. The pension formula was also updated in 1989. Pension expense was not significantly affected by these changes.

The previous update was in 1985, at which time pension-in-payment was increased an amount equal to 75% of inflation.

What is the company pension plan policy regarding use of portfolio insurance? Index arbitrage?

- o Because of the company's young average age and long-term



investment horizon, the company has decided not to use portfolio insurance.

Investment managers may, at their discretion, use index arbitrage.

How does the company evaluate plan managers?

- o We measure the value our investment managers add compared to a passively-invested benchmark over a three to five year time horizon.

How will the company be affected by the new accounting rules on Other Postretirement Medical Benefits?

- o Currently, like nearly all other companies, we account for these benefits on a pay-as-you-go basis. In FY89, they amounted to almost \$1.6 million.

When the proposed FASB standard is adopted, (currently anticipated in FY93) we would need to recognize these costs similar to our pension expense. As a result, our expense will increase significantly.

How is Digital being affected by health care cost inflation in the United States?

- o Digital health care costs are increasing almost 20% per year. To manage these costs Digital's company-sponsored indemnity plans employ utilization review, case management and second surgical opinion programs.

Digital and its employees have had a long-standing cost sharing arrangement to pay for their health care costs.



\*\*\* ORGANIZATION \*\*\*

What have your goals been in the officer changes and reorganization that has occurred? Have you achieved those objectives? Should we anticipate further restructuring?

- o Changes in the field organization are aimed at simplifying decision-making processes and operating environments and positioning our resources as close as possible to our customers.

Emphasis is on account management to drive customer focus, which should in turn build industry focus.

Planning and budgeting responsibility is moving closer to the customer thereby further empowering our unit managers and large account managers. They will be capable of mobilizing Digital resources to solve customer problems.

We have every reason to believe our changes will be positive and that our goals will be met.

Changes are always occurring within the Digital organization as it evolves to better meet customer needs. We are always looking for ways to eliminate red tape and work towards simplifying and improving our environment, systems and processes.

Has a Manager been named to replace Mr. Shields?

- o No. Each of the Senior Field Managers is and will continue to be a member of the Operations Committee (the Principal Operating Committee of the Company). All day-to-day operations within the Field Businesses, will continue.

There have been several reorganizations in the Field Group during the past few months. Does Mr. Shields' resignation culminate the reorganization?

- o His resignation is unrelated to the reorganization. Those organizational shifts were instituted to better position the Company's Sales and Marketing efforts.

Is Mr. Shields' resignation related to any health problem?

- o. No. He made a personal decision to leave the Company to pursue other interests.

Is there a severance package that has been arranged with Mr. Shields?

- o Yes. Details of any agreement between Mr. Shields and Digital are confidential except to the extent disclosure is required by law.



Is Mr. Shields free to join a competitor of Digital?

- o Mr. Shields has an agreement with the Company related to employment. Details of the agreement are confidential.

Is Digital planning to announce any specific layoffs, additional early retirement incentive programs, buyouts, redeployment, retraining, downsizing, etc. programs?

- o Any specific programs that the company has, whether involving new products, new services, workforce changes, etc., are discussed at the time they are announced. When we are in the process of evaluating programs - whether they involve products, services, workforce, costs, spending plans, etc. - they are considered to be internal business information.

Now that you have announced your workforce programs in Salem how have the employees reacted?

- o There is a 13-week window during which employees can make a decision, so it is too soon to tell. In general, Digital's employees are aware of the situation facing U.S. computer companies. Employees understand the competitive pressures on companies today. As Digital has implemented workforce programs in the past, the employees have viewed them positively - we feel that our employees understand the need to be flexible.

Why did you initiate the financial support program at the Salem plant?

- o Since we decided to change the focus of this site. (Northeastern Boulevard), we developed a transition plan for workforce utilization at the facility. We have been using redeployment, retraining, reskilling, and various education programs; now we are providing an additional option for persons who may be choosing to pursue other opportunities.

How many people are employed at Salem?

- o In November, 1989, there were approximately 900 employees working in the systems manufacturing group at Salem. In addition, there were about 200 other employees associated with this manufacturing operation but located in other facilities (small numbers of people in Franklin, Westminster, Westford, Marlboro, Northboro and Merrimack) for a total of 1100 employees in early 1989 (all part of the U.S. Area Manufacturing group). About 600 of these employees already have taken new positions in Digital, in a wide variety of positions and locations. Thus, there are currently about 500 persons associated with the Salem (NIO) systems manufacturing operation.

Describe the workforce utilization plan you just announced.



- o It is a multifaceted program that provides a variety of options to the employees, including redeployment, temporary assignments, educational programs, and a financial support option.

Has Digital ever used financial support options before?

- o Yes - in the 1985-1986 period at our Phoenix, Albuquerque, Tempe, and Puerto Rico plants (San German and Aguadilla). In these programs approximately 1100 persons elected to choose a financial support option.

What is the current manufacturing population? By what number does that need to be reduced?

- o The current worldwide manufacturing employee population is 32,500. We are looking to lower the manufacturing population by approximately 4000 people through implementation of a multifaceted transition program. Some will find new positions in Digital, some will be placed in new positions, some may take positions in other companies, some may retire, and some may choose the financial support option if they are eligible.

Will this "multifaceted transition program" be implemented on a worldwide basis or will it only affect the United States?

- o It is focused in the U.S.

Is this downsizing a result of market pressure?

- o The workforce imbalance is the result of a number of factors, including diminished market demand in the United States, and advances in product and process technology. We have been working for nearly three years on this organization change that will better match resources with needs within the company.

Will all of Digital's U.S. manufacturing plants be affected?

- o Each location will be evaluated to determine whether there are any imbalances in the supply or skills of available employees.

Will there be any plant closings as a result of the downsizing of your employee population?

- o We have no plans to close any plants.

You say you will rely, in part, upon attrition to lower your employee population. What is Digital's rate of attrition?

- o Our rate of attrition is not information we provide to the public. Normal attrition includes elements such as retirement



or persons who leave the company to take positions at other companies.

Is this transition program only to reduce manufacturing employment?

- o The intent of transition programs is to balance the workforce organization in terms of supply, skills, and/or locations.

If education, training, and reskilling are options, what kinds of positions would a person be trained for in this program?

- o It includes a variety of types of positions - examples would be positions in computer operations or software applications.

Is this financial assistance option a corporate program? A company benefit?

- o No. It is a program specific to certain parts of the U.S. Area Manufacturing group located at the Salem (NIO) plant and its associated business units (small numbers of people in Franklin, Westminster, Westford, Northboro, Marlboro, and Merrimack).

What are the components of the financial support package?

- o Components include:
  - o Voluntary, limited to identified employees
  - o Thirteen-week "window" to select the program
  - o Allowance based on years of service
    - 0-2 years = 40 weeks of pay
    - 3-10 years = 40 weeks pay plus 3 weeks of pay per year of service between 3 and 10 years
    - 11-20 years = 64 weeks pay plus 4 weeks of pay per year of service between 11 and 20 years
  - 104 WEEKS PAY - MAXIMUM
  - o Maintenance of medical, dental, and life insurance for 1 year
  - o 5-year acceleration of any restricted stock options
  - o Use of formal outplacement/employment assistance

Why are you allowing a person 13 weeks to choose an option?

- o We want to provide a long enough period for an employee to make an informed choice.

If a person accepted a financial support package and left Digital to work at another company, would you ever hire him/her back?

- o It's highly unlikely. If it did occur, it would not be until after a period of two years had elapsed.

How much will this program cost Digital? How much will Digital save through this program?



- o Data on costs associated with any program is considered to be internal business information.

Has Digital set aside a reserve for this program?

- o These expenses are being handled through regular budgeting and spending processes.

Describe the 5-year acceleration of restricted stock options.

- o Some employees have received restricted stock options allowing them to purchase a specific number of shares of Digital stock at a specific price over a ten-year period. This 5-year acceleration frees from restriction five year's worth of options as part of the transition financial support option.

How many people do you expect to take advantage of this financial support option?

- o We expect it to be several hundred persons.

By how many employees do you expect to reduce your workforce through the financial support option?

- o Several hundred. Normal attrition plus the number of people who select this option will account for the change in employee population figures.



\*\*\* OCCUPATIONAL HEALTH & SAFETY \*\*\*

Does the Company have the same environmental and occupational safety and health standards for its non-U./S. facilities as for its domestic facilities?

- o Digital practices a risk-based approach; that is, we are committed to controlling potential environmental, health and safety risks wherever they could occur in the world.
- o Digital's Occupational Health and Safety policies and practices are compared with other companies within the industry by investment funds which evaluate companies in specific areas of social concern as well as financial performance. The company has been declared "eligible for investment" after examination of the company's Occupational Health and Safety policies by one large fund earlier this year.

Does Digital use chemicals in the course of operating its business?

- o Yes. Where our operations require the use of chemicals, we follow safe handling procedures to protect our employees and the environment.

Will Digital be affected by new worldwide regulation of chloroflourocarbons (CFCs)?

- o Yes. Digital uses CFCs to clean electrical parts. We adopted a worldwide policy in 1988 to eliminate these chemicals as quickly as possible. We are actively seeking better alternatives.

What is the Company's plant safety record?

- o Digital has an excellent record as compared with other manufacturers and with the rest of the semiconductor industry.

Digital has trained safety coordinators, occupational health nurses and various safety and health programs in all of its major facilities.

Does Digital support the so-called Valdez Principles?

- o Digital has a strong worldwide commitment to environmental, health and safety. We are currently developing a worldwide policy statement. This internal commitment is consistent with most aspects of the recently proposed



Valdez Principles.

Does Digital support the recently enacted Massachusetts Toxics Reduction Law?

- o Yes. Digital was part of a coalition that worked closely with the state in the development of the new law. It was a good example of cooperation between industry, environmentalists and state regulators.

Is Digital participating in the Semiconductor Industry Association Reproductive Health Study?

- o Yes. Digital, along with numerous other companies, is participating in the study of the health experience of semiconductor operators.

Did Digital recently receive a large fine for violating the Clean Water Act in Puerto Rico?

- o Digital recently paid a fine for non-compliance with certain provisions of the Clean Water Act several years ago at our San German manufacturing site. We have significantly upgraded our wastewater treatment and have been in full compliance with Federal Clean Water Act standards since last year.



\*\*\* GOVERNMENTAL RELATIONS - INTERNATIONAL TRADE \*\*\*

Has the Company hired any former government employees in executive positions or retained their services as lobbyists, consultants, or counsel?

- o There are numerous former government employees within the many law firms hired to work on special projects, including litigation.
- o The Company hired Martin R. Hoffmann as Vice President and General Counsel. While he was a practicing attorney in private practice for the past 12 years, he held a variety of senior offices in the U. S. Government from 1971 to 1977, including Secretary of the Army, General Counsel for the Department of Defense and the Atomic Energy Commission.

What has Digital done to protect its exports from being illegally diverted?

- o Digital is taking numerous steps to ensure the security of its equipment. The fact that we have been targeted by the Soviets has increased our vigilance and that of the U.S. government agencies with whom we work closely regarding the licensing of our shipments. Specifically, we work closely with U.S. government agencies, as well as host governments, to exchange information and to work cooperatively to develop screening procedures. Second, we have expanded our training programs for sales and service personnel to help them better screen customers and orders. Third, we are expanding already vigilant administrative procedures and reviews.

What is the Company's policy with respect to doing business in South Africa?

- o Digital does not maintain a marketing presence of any kind in South Africa, nor does it have any manufacturing facilities, offices or subsidiaries of any kind in the country. This has been the company policy since 1972.
- o Digital will not ship any systems to South Africa nor will the Company service or support any Digital equipment that may be installed there.
- o We do sell our computers to end-users and OEM customers outside of South Africa, who may add value either by incorporating our products into their own or by generating new software to run on our computers. However, we do not participate in the independent business decisions of OEM's, and we have no policy to restrict or prevent OEM's from selling their products anywhere, including South Africa.



Are there any of Digital's computers in South Africa?

- o Our equipment can be in South Africa in one of two ways. One of our multinational customers may purchase equipment and decide to re-export it to their customers or send some of it to an office they maintain in South Africa. In such a case, Digital does not provide service for the equipment. Second, an OEM may incorporate Digital's parts or components in one of their products which is sold in South Africa.
- o End-user and OEM customers who ship their products incorporating Digital components are required to obtain re-export licenses from the U.S. government

Recently Digital was cited by Massachusetts as doing business in South Africa. What was that about?

- o The Commonwealth of Massachusetts has enacted a South Africa Purchasing Policy, aimed at penalizing companies that do business with the Commonwealth and are deemed to be "doing business in South Africa." Although Digital appeared on a draft list (which was never intended to be public), Digital was not on the final list and is therefore not being penalized in its bids for state business.

Digital does not belong on any list of companies doing business in South Africa. Unlike many companies that have struggled to divest, Digital never invested in South Africa. Digital does not and has never had any sales, service, manufacturing, engineering, distribution or other operations in South Africa.

Does Digital do business with the Peoples Republic of China?

- o Digital is one of the leading computer companies doing business in the PRC. We have been active in this market since 1979 and are an active member of the National Council for U.S.-China Trade. All sales to the PRC are individually licensed and approved for export by the U.S. government. We have about 150 employees in our field operations, the majority being Hong Kong-based persons who work in China, and about 300 employees in our plant.

Our current plans are to be responsive to the service needs of our customers, within the framework of PRC's economic policies, U.S. trade directives, and the security requirements of our employees.

Does the Company support the MacBride principles concerning equal employment in Northern Ireland?

- o Digital is not a signatory to the MacBride Principles; however, major institutional investors and proponents of MacBride have commended Digital's "fine record" in



Northern Ireland as an example to others of fair employment practices there.

- o It is the Company's firm conviction that an environment which values differences is critical to each employee's ability to succeed, and employee success is critical to the success of the Company Digital will continue vigorously to uphold its policy of non-discriminatory and equal opportunity hiring worldwide and in Northern Ireland.

Digital Equipment Co., Ltd., the Company's United Kingdom subsidiary, maintains a sales and service office in Belfast which employs between 70 and 80 people. The United Kingdom subsidiary subscribes to the Declaration of Principles and Intent as recommended by the Northern Ireland Fair Employment Agency to promote and protect equality of opportunity in employment in Northern Ireland. Under the Act, religious and political discrimination is unlawful. The U.K. subsidiary has been certified as an Equal Opportunity Employer/Organization by the Agency.



\*\*\* COMMUNITY RELATIONS \*\*\*

What is the Company's philosophy as it relates to Community Relations?

- o Digital accepts the responsibility to become involved in the world in which it functions. It is our belief that being a responsible corporate citizen is good business.
- o One of the ways we fulfill these responsibilities is through our Corporate Contributions Program.
- o The Company's activities extend worldwide through our local community relations committees. Over 30 local committees worldwide develop and support programs which impact their communities.

What was the amount and nature of charitable contributions in this past year?

- o Digital has one of the top corporate giving programs in the country. This year its total Corporate Contributions in cash and equipment reached over \$33 Million.
- o We have focused our priorities into five major program areas: Education, Health Care, Disabilities, Culture and the Arts, Civic and Environmental Affairs.
- o Examples of education programs include: National Merit Scholarships for high school children of Digital employees; Digital Faculty Program which directs grants to leading non-tenured faculty designed to encourage them to stay in the teaching profession; Scholarships to Women and Minorities pursuing education in computer science and engineering.
- o For the past nine years, Digital has sponsored the national underwriting of the Evening at the Pops Series produced by WGBH-TV, Boston, and aired on more than 270 PBS Stations nationwide. Recently, the company also underwrote "MONET in the 90's" a major exhibition of Claude Monet's works which will open in Boston in 1990 and travel to Chicago and London.

Does Digital provide research grants to universities?

- o Digital's External Research Program (ERP) is an important dimension of the technology investment strategy of Corporate Research. ERP staff, advisory committees, and liaisons manage the company's involvement in more than 200 active projects at 115 universities.



- o Of ERP's total resources, more than 30% is invested in Europe and G.I.A. Here the program has been growing rapidly to support Digital's expanding engineering, manufacturing, and research investments.

Given the fact that profitability is down, and the stock has languished for two years, why does the Company continue to give shareholders' money to insitutions such as the Boston POPS, Nightly Business Report, and Museums? Shouldn't the Company return the money to its shareholders?

- o The EVENING AT POPS series, the MONET exhibition, and the NIGHTLY BUSINESS REPORT are part of a long-term strategy that is integrated into the Company's business goals. A part of those business goals include the view that corporate giving is more than philanthropy or social responsibility. The Company sees it as a long-term investment in the future of both the company and the community. The continued well-being of one is linked inseparably to the continued well-being of the other.