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INTEROFFICE MEMORANDUM

Date: 20 March 1997
From: Ray Schmalz - Jack Cutler @MSO
Dept: Benefits Finance & Investments
Tel No: 508/493-7736 DTN: 223-7736

TO: Benefit Plans Investment Committees

Charlie Christ
Sam Fuller
Win Hindle
Ilene Jacobs
Gail Mann
Paul Milbury

cc: Jack Cutler
Dot Jacobson
Rob McMicking

Subject: Next Meeting - March 25 - 8:30 a.m. - 11:00 a.m.
Narragansett Bay Conference Room (MS02-3/E22)

Enclosed is the background reading package for the upcoming meeting of the Savings and Investment Plan Investment Committee and the Pension Investment Committee on March 25.

The first major topic of the Savings and Investment Plan portion of the meeting will be the annual review of our SAVE Plan investment options. We will also revisit our SAVE Plan Investment Strategy and present several straw proposals for minor refinements to this strategy.

The Pension Plan portion of this meeting will update the results of the asset-liability study we reviewed with you during last year's March meeting. This updated study will focus on updating our pension expense, cash contributions and charge to net worth based on our current asset mix.

A significant portion of this meeting will be devoted to a discussion of possible changes to our current pension investment policy. There have been several changes to the membership of the Committee since this policy was last updated in 1993. We look forward to a lively discussion on a variety of straw proposals to modify and update various portions of this investment policy.

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BENEFIT PLANS INVESTMENT COMMITTEES

111 Powdermill Road
Narragansett Bay Conference Room
(MSO2-3/E22)

Tuesday, March 25, 1997
8:30 a.m. - 11:00 a. m.

AGENDA

TIME	SECTION	TOPIC	PRESENTOR
		SAVINGS AND INVESTMENT PLAN	
8:30 - 8:35	1	Minutes	Rob McMicking
8:35 - 8:45	2	SAVE Plan Internal Audit	Jack Cutler
8:45 - 8:55	3	SAVE Plan Annual Investment Performance	Jack Cutler
8:55 - 9:15	4	SAVE Plan Investment Strategy Enhancements	Jack Cutler
		U.S. PENSION PLAN (CAPP)	
9:15 - 9:20	5	Minutes	Rob McMicking
9:20 - 9:30	6	Fund Update • Change in International Managers	Ray Schmalz
9:30 - 9:40	7	Cash Account Pension Plan Audit	Jack Cutler
9:40 - 10:00	8	Pension Valuation • Asset Liability Study Update	Ray Schmalz
10:00 - 11:00	9	Discussion: Revised Investment Policy	All

APPENDICES

Appendix 1	Investment Performance
Appendix 2	SAVE Plan Management Letter
Appendix 3	SAVE Plan Investment Review
Appendix 4	SAVE Plan Investment Policy
Appendix 5	CAPP Financial Statements
Appendix 6	CAPP Management Letter
Appendix 7	Executive Summary: CAPP Valuation

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MEETING OF INVESTMENT COMMITTEE

DIGITAL EQUIPMENT CORPORATION

SAVINGS AND INVESTMENT PLAN

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25 September 1996 - 8:30 A.M.
Laurence G. Ricci Conference Room
111 Powdermill Road/MSO2
Maynard, MA 01754

Present at the Meeting were:	Mr. Charles F. Christ Mr. Winston R. Hindle, Jr. Ms. Gail S. Mann Mr. Paul J. Milbury
Apologies:	Mr. Samuel H. Fuller Ms. Ilene B. Jacobs
Present by invitation were:	Mr. John W. Cutler, Jr. Mr. David Harris Mr. Robert N. McMicking, and Mr. A. Raymond Schmalz *all of Digital Equipment Corporation*

The Committee was called into session at 8:30 a.m.

Approval of Minutes

The Committee approved the minutes of the 5 March 1996 meeting as presented and welcomed Mr. Milbury to the Committee.

Thereafter, there being no further business to come before the meeting, the meeting was adjourned at 8:35 a.m.

A true record.

Robert N. McMicking
Secretary

RNM_10/96

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SAVE PLAN

INTERNAL AUDIT

Internal Audit

- Conducted October-November, 1996
- Focus on Outsourcing Management Profiles
- Unrated Audit
  - Management Letter Only
  - "Good" System of Internal Control
  - Two "Very Good" Control Activities
- No Major Findings

Minor Areas for Improvement

- **Extent of independent review applied at Hewitt Associates**
- **Compliance testing required for business controls plan**
- **Improved monitoring of Hewitt Associates and The Northern Trust Company**

SAVE Plan

Annual Investment Performance

App_30596

Treasury
March, 1997

SAVINGS AND INVESTMENT PLAN

Asset and Participant Distribution
As of December 31, 1996

($ Millions)

	Assets	% Total	Participants	% Total
Stable Value Fund	$276	24.9 %	13,476	46.0 %
Bond Fund	27	2.5	3,921	13.4
Equity Index Fund	99	8.9	9,278	31.7
Stock Fund A	223	20.1	14,744	50.3
International Fund	77	6.9	7,779	26.6
Stock Fund B	204	18.4	15,521	53.0
Portfolio 1	25	2.3	1,918	6.5
Portfolio 2	91	8.2	4,732	16.2
Portfolio 3	87	7.9	4,824	16.5
TOTAL	**$1,110**	**100.0 %**	**29,195**	**100.0 %**

*** Assets do not include participant loans receivable: As of December 31, 1996, there were $21M in outstanding participant loans.**

SAVINGS AND INVESTMENT PLAN

Asset Distributions

($ Millions)	Assets as of 12/31/96	Assets as of 12/31/95	Percentage Change
Stable Value Fund	$276	$282	-2.13%
Bond Fund	27	22	22.73%
Equity Index Fund	99	50	98.00%
Stock Fund A	223	200	11.50%
International Fund	77	52	48.08%
Stock Fund B	204	145	40.69%
Portfolio 1	25	23	8.70%
Portfolio 2	91	80	13.75%
Portfolio 3	87	71	22.54%
TOTAL	**$1,110**	**$925**	**20.00%**

SAVINGS AND INVESTMENT PLAN

Participant Distributions

	Participants as of 12/31/96	Participants as of 12/31/95	Percentage Change
Stable Value Fund	13,476	15,399	-12.49%
Bond Fund	3,921	3,468	13.06%
Equity Index Fund	9,278	6,686	38.77%
Stock Fund A	14,744	15,590	-5.43%
International Fund	7,779	6,676	16.52%
Stock Fund B	15,521	13,614	14.01%
Portfolio 1	1,918	1,745	9.91%
Portfolio 2	4,732	4,443	6.50%
Portfolio 3	4,824	4,146	16.35%
TOTAL	**29,195**	**29,300**	**-0.36%**

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SAVE Plan

Comparative Fund Performance Summary as of December 31, 1996

This summary presents updated performance information for the investment funds currently offered through the DIGITAL SAVE Plan. The results reflect current and historical performance of the plan's underlying fund managers, including performance before the funds were offered under SAVE. Each fund is compared against a benchmark index considered to be similar in strategy and investment mix *(shown in italics and described on the reverse side of this statement)*. Current quarter returns are not annualized and represent performance only for the specified period. Please note that actual SAVE Plan returns may vary slightly from the underlying fund returns in some cases.

	Current Quarter	Calendar YTD	Compound Annualized Total Returns For Periods Ending December 31, 1996 — 1 Year	3 Year	5 Year	10 Year
Stable Value Fund*						
Actual: Digital's Stable Value Fund	1.52%	6.14%	6.14%	6.22%	6.75%	7.79%
Benchmark: T. Rowe Price Rolling 3-Year GIC Index	*1.56%*	*6.17%*	*6.17%*	*5.89%*	*6.35%*	*7.42%*
Bond Fund						
Actual: PIMCO Total Return Fund	3.73%	4.68%	4.68%	6.54%	8.35%	———
Benchmark: Lehman Brothers Aggregate Bond Index	*3.00%*	*3.63%*	*3.63%*	*6.02%*	*7.04%*	*8.47%*
Equity Index Fund*						
Actual: Barclays Global Investors Equity Index Fund	8.33%	22.90%	22.90%	19.63%	———	———
Benchmark: S&P 500 Stock Index	*8.42%*	*23.13%*	*23.13%*	*19.71%*	*15.24%*	*15.26%*
Stock Fund A*						
Actual: Neuberger & Berman Guardian Trust	8.96%	17.74%	17.74%	16.42%	16.34%	15.44%
Benchmark: S&P 500 Stock Index	*8.42%*	*23.13%*	*23.13%*	*19.71%*	*15.24%*	*15.26%*
International Fund						
Actual: Templeton Foreign Fund	7.46%	17.97%	17.97%	9.60%	12.49%	15.17%
Benchmark: Morgan Stanley EAFE Index	*1.59%*	*6.05%*	*6.05%*	*8.32%*	*8.15%*	*8.42%*
Stock Fund B						
Actual: Putnam Voyager A Fund	-1.98%	12.81%	12.81%	16.67%	15.58%	17.55%
Benchmark: 34%/33%/33% Mix (Russell 2000/S&P 400/S&P 500)	*6.53%*	*19.59%*	*19.59%*	*15.95%*	*15.01%*	*14.61%*
Pre-Mixed Portfolios						
Actual: Portfolio 1	2.97%	8.63%	8.63%	———	———	———
Actual: Portfolio 2	3.68%	11.35%	11.35%	———	———	———
Actual: Portfolio 3	4.39%	13.80%	13.80%	———	———	———

[illegible]

*Please see the "Notes" section on the reverse side of this statement.

This summary represents past performance and should not be considered indicative of future performance. Annualized total returns measure net investment income and capital gain or loss from investments as an annualized average, assuming reinvestment of dividends. During the periods noted, securities prices fluctuated, and redemption value may be more or less than your original cost.

Investment Performance Summary

- All Mutual Funds have retained a 4 or 5-star *Morningstar* rating. how good is this

- 3 Year Performance of all active funds except Neuberger & Berman Guardian Fund above manager's benchmark.

- Continue to closely monitor Neuberger & Berman Guardian Fund performance.

- Equity Index Fund exhibits tight tracking error relative to the S&P 500 index benchmark.

SAVE PLAN INVESTMENT

STRATEGY ENHANCEMENTS

Agenda

REVIEW AND PROPOSE FOUR ENHANCEMENTS TO OUR CURRENT SAVE PLAN INVESTMENT STRATEGY

- **Add a small capitalization fund as a core choice**
- **Appointment of the Chair as the Committee's representative for the final selection of the specific small capitalization fund choice**
- **Formalize addition of a participant directed account to our SAVE Plan**

Current Strategy

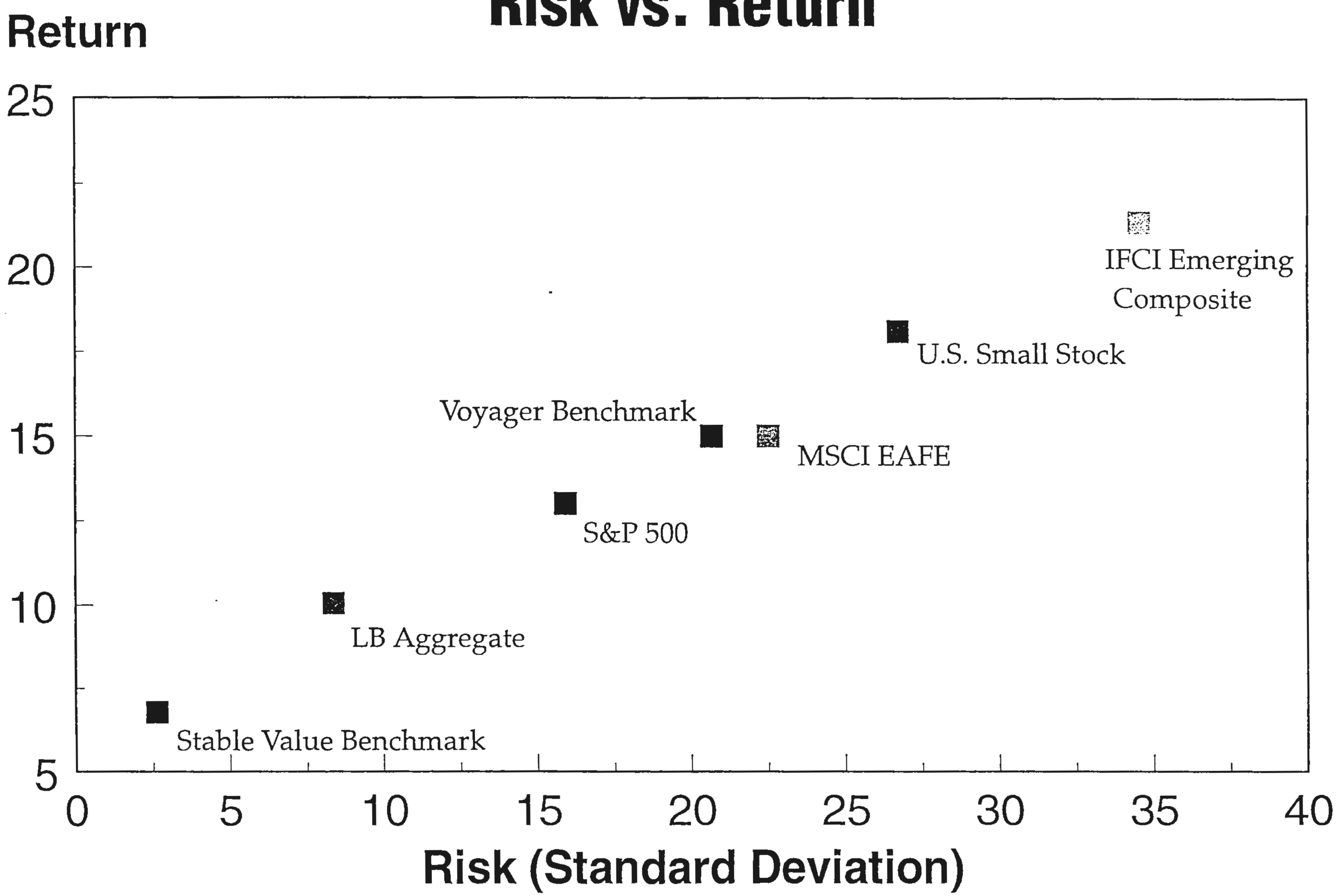
OFFER PLAN PARTICIPANTS A RANGE OF INVESTMENT ALTERNATIVES WHICH SPAN THE RISK-REWARD SPECTRUM INCLUDING:

- **Broadly diversified core funds for each of the major asset classes**
- **Three different pre-mixed funds which are a mix of stock and bond funds**
- **A non-US stock fund**
- **A participant-directed account may be available in future**

Problem Definition

A "hole" has developed as a result of Putnam Voyager fund becoming a mid-cap growth fund

Benchmark Analysis
Risk vs. Return



Proposal

Add a small capitalization stock fund as a core investment option.

New Fund Investment Selection and Incorporation into Pre-Mix Portfolios Approval Processes

CURRENT STRATEGY

- *Investment manager selection delegated by the Committee to ~~Ilene Jacobs~~* VP, Treasurer
- *Asset mix, relative weighting of funds and selection of funds in pre-mix portfolios delegated to Ilene Jacobs*

PROPOSED STRATEGY

- *Investment manager selection delegated by the Committee to the Chair*
- *Asset mix, relative weighting of funds and selection of funds in pre-mix portfolios delegated to the Chair*

Proposals

Delegate to the Chair of the Committee, investment manager selection of the SAVE Plan investment offerings.

Delegate to the Chair of the Committee, the asset mix, relative weighting of funds and selection of funds in pre-mix portfolios.

Current Strategy

CURRENT STRATEGY	*- A participant-directed account, with highly rated, publicly available mutual fund choices, may be available at a future date*
PROPOSED STRATEGY	*- Offer a three-tiered level of participant choice* *- Each tier to offer an array of choice across the risk reward spectrum* *- Participants will be able to select investment options from more than one tier if they so choose*

Enhanced Investment Strategy

Possible Schematic

Level 3 **Broad array of investment options**

Level 2 **Core Funds**

Active + Passive

Level 1 **Pre-Mixed Portfolios**

What's Changed?

- **Increased overall and individual rate of participation**
- **Asset allocation changes (plan level) indicating heightened awareness by plan participants**
- **Received additional employee feed-back since inception of current investment options**
- **Recognition that the level of financial acumen varies widely across partici-pant spectrum**

Proposal

Offer a participant-directed account with highly rated, publicly available mutual fund choices.

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MEETING OF INVESTMENT COMMITTEE

DIGITAL EQUIPMENT CORPORATION

PENSION PLAN

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25 September 1996 - 8:35 A.M.
Laurence G. Ricci Conference Room
111 Powdermill Road/MSO2
Maynard, MA 01754

Present at the Meeting were:	Mr. Charles F. Christ Mr. Winston R. Hindle, Jr. Ms. Gail S. Mann Mr. Paul J. Milbury
Apologies:	Mr. Samuel H. Fuller Ms. Ilene B. Jacobs
Present by invitation were:	Mr. John W. Cutler, Jr. Mr. David Harris Mr. Robert N. McMicking, and Mr. A. Raymond Schmalz *all of Digital Equipment Corporation*

The Committee was called into session at 8:35 a.m.

RNM_10/96

Approval of Minutes

The Committee approved the minutes of the 5 March 1996 meeting as presented and welcomed Mr. Milbury to the Committee.

Update - Cash Needs

Mr. Schmalz informed the Committee that of the approximately $160 million cash required for benefit payments, much of this amount had already been successfully raised through crossing arrangements within the passive portfolios, at very low cost. Raising cash from the Emerging Markets portfolios would take longer, perhaps three to six months. The cash-generating process is being managed so as to rebalance to the Committee's asset mix target for the fund.

Update - Real Estate

Mr. Schmalz informed the Committee that the real estate transition portfolio has now been liquidated. The internal rate of return experienced by the fund on real estate portfolio was -7.64%.

Enhanced Index Strategies

Mr. Schmalz introduced this subject as an alternative approach to the current policy concerning active or passive allocation of the fund's assets. After describing enhanced index strategies, Mr. Schmalz provided examples of various types of such strategies and their investment characteristics. Focusing on one specific strategy, guaranteed returns, Mr. Schmalz explained that these carry contractual guarantees of index outperformance by high quality insurance companies. This was illustrated by contract terms offered by Pacific Mutual. Risks would include the quality of the performance guarantee, the opportunity cost (particularly for higher returns from active management) and trading costs. Mr. Schmalz concluded by informing the Committee that he proposed to place the current Jennison fixed income portfolio of $51M in Guaranteed Return Contracts targetted to the Lehman Aggregate, with either Prudential (Jennison's parent), or any other strong insurer. This action was within the authority delegated by the Committee to Digital Treasury.

Mr. Schmalz also proposed placing up to $100M of the Bankers Trust Stock Index portfolio in guaranteed return contracts with suitable credit and diversification characteristics targetted to the S&P 500.

Following a discussion, the Committee, unanimously

VOTED: *That one fifth of the passive domestic equity portfolio may be invested through guaranteed return contracts.*

RNM_10/96

International Equity Benchmark

Mr. Cutler presented his analysis of alternative benchmarks to the MSCI EAFE index, and the asset class benchmark for the developed markets portion of the fund's international equity investments. He compared the characteristics of the MSCI EAFE, MSCI Extended, SB EuroPac and FTS World Ex US/Canada indeces. Mr. Cutler explained that the SB EuroPac index provided a broader base, analagous to the Frank Russell 3000 used by the Committee as the US equity benchmark and concluded by proposing a switch from MSCI EAFE to SB EuroPac.

Following a discussion the Committee, unanimously

VOTED: *That the benchmark for the developed markets portion of the fund's international equity allocation will be the Salomon Brothers European Pacific Index (SB EuroPac).*

This decision will be implemented immediately with respect to the active managers. The Committee asked Mr. Cutler to report back with an impact analysis, including tracking error and adjustment costs, concerning the passive international developed market portfolio.

International Equity Completeness Fund

Mr. Cutler informed the Committee that Corporate Treasury planned to add a completeness manager for the developed market international equity allocation. Working in the same way as the Completeness component of the US equity portion of the fund, this would virtually eliminate benchmark misfit caused by active managers' systematic underweightings/overweightings of certain markets, and enable the fund to benefit from the active managers' stock selection capabilities.

Annual Performance Review

Mr. Schmalz presented the performance of the fund for the year ending June 30, 1996. Highlights were: high real returns over one, three, five and ten year periods; performance relative to other funds improving over the past five years; new active investment managers are adding value; and real estate continues to adversely impact longer term performance.

Thereafter, there being no further business to come before the meeting, the meeting was adjourned at 10:30 a.m.

A true record.

Robert N. McMicking
Secretary
RNM_10/96

<u>FUND UPDATE</u>

U.S. PENSION FUND

Cash Account Pension Plan Audit

App_30596

Treasury
March, 1997

COOPERS & LYBRAND

Cash Account Pension Plan

Audit Summary

- Clean audit opinion
- No issues

CAPP

ACTUARIAL VALUATION

cavars.ppt

Treasury
March 25, 1997

CAPP

ACTUARIAL VALUATION

as of

July 1, 1996

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Fiscal 1997 CAPP Valuation

1. Background
   - Definitions
   - Significant events

2. Valuation Results
   - Valuation Assumptions

<u>Graphs</u>

- FAS 87
- Funding
- Balance Sheet Position
- Pension Expense
- Population

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Definitions

EXPENSE

Current period accounting cost of providing pension benefits. The calculations of expense and liabilities must comply with FAS 87.

FUNDING

Cash Contributions made to the pension plan. Contribution amounts are regulated by U.S. tax law and ERISA.

ACTUARIAL VALUATIONS

Performed annually to determine expense, liabilities, and contribution requirements. Calculations depend on:

- employee population profile -- age, service, and salary.
- demographic assumptions -- turnover rates, retirement rates, mortality rates, etc.
- economic assumptions -- return on plan assets, discount rate, and rate of future salary increases.

Significant Events

- **CAPP fully reflected in valuation**
- **Asset growth has reduced pension expense**

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Valuation Assumptions

DEMOGRAPHIC

No significant changes. Assumptions are consistent between the expense and funding valuations.

ECONOMIC

Expense

	Current	Previous	Industry Average *
Inflation	4.0 %	4.5 %	n.a
Return on assets	9.0	9.0	9.2 %
Discount rate	8.0	7.5	7.4 ← target lower [illegible].
Salary increases	5.0	5.0	4.8
Cash balance interest credits**	5.5	5.5	n.a

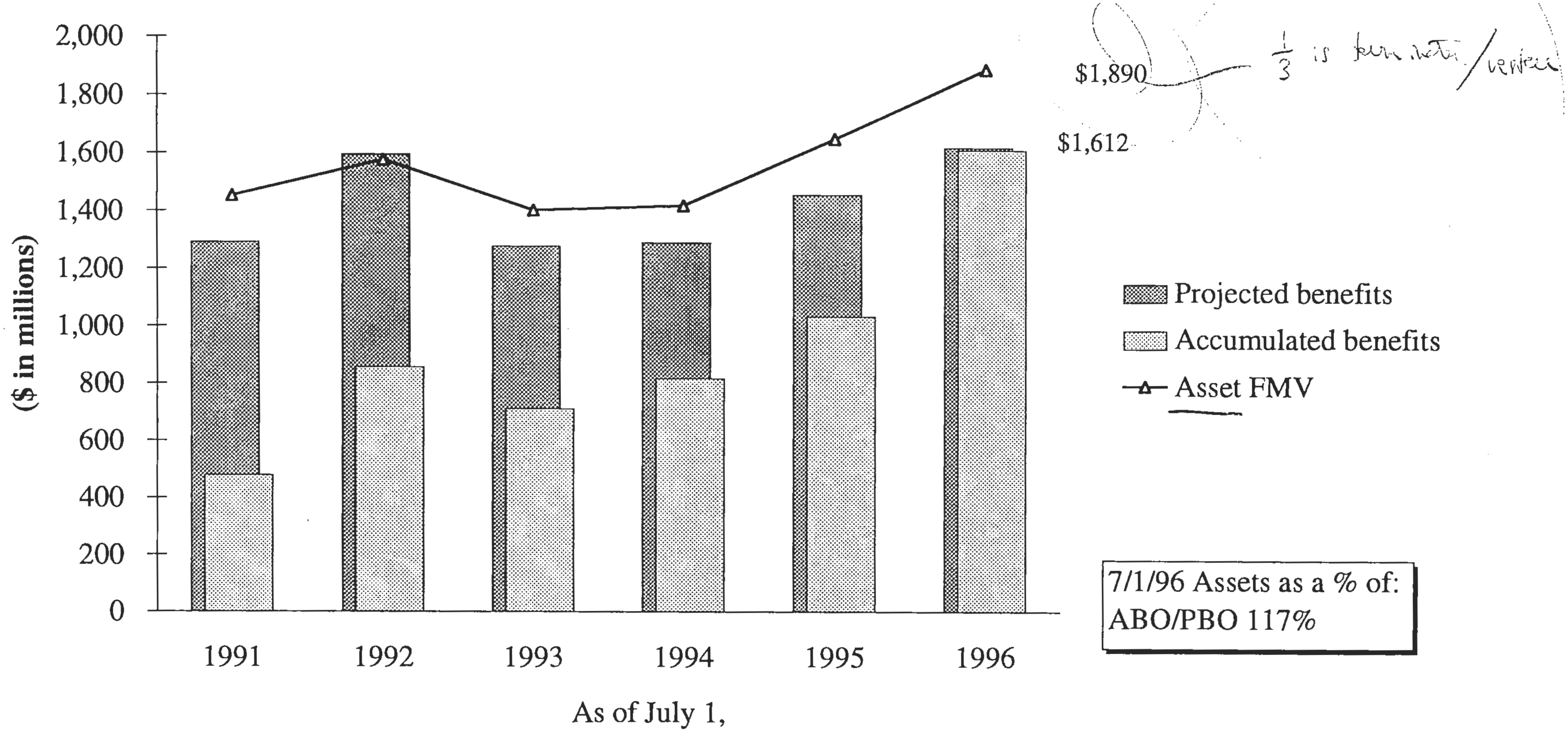
*Source: Benefit Plan Disclosures from Fortune 500, 1995
Hewitt Associates

**Not disclosed publicly

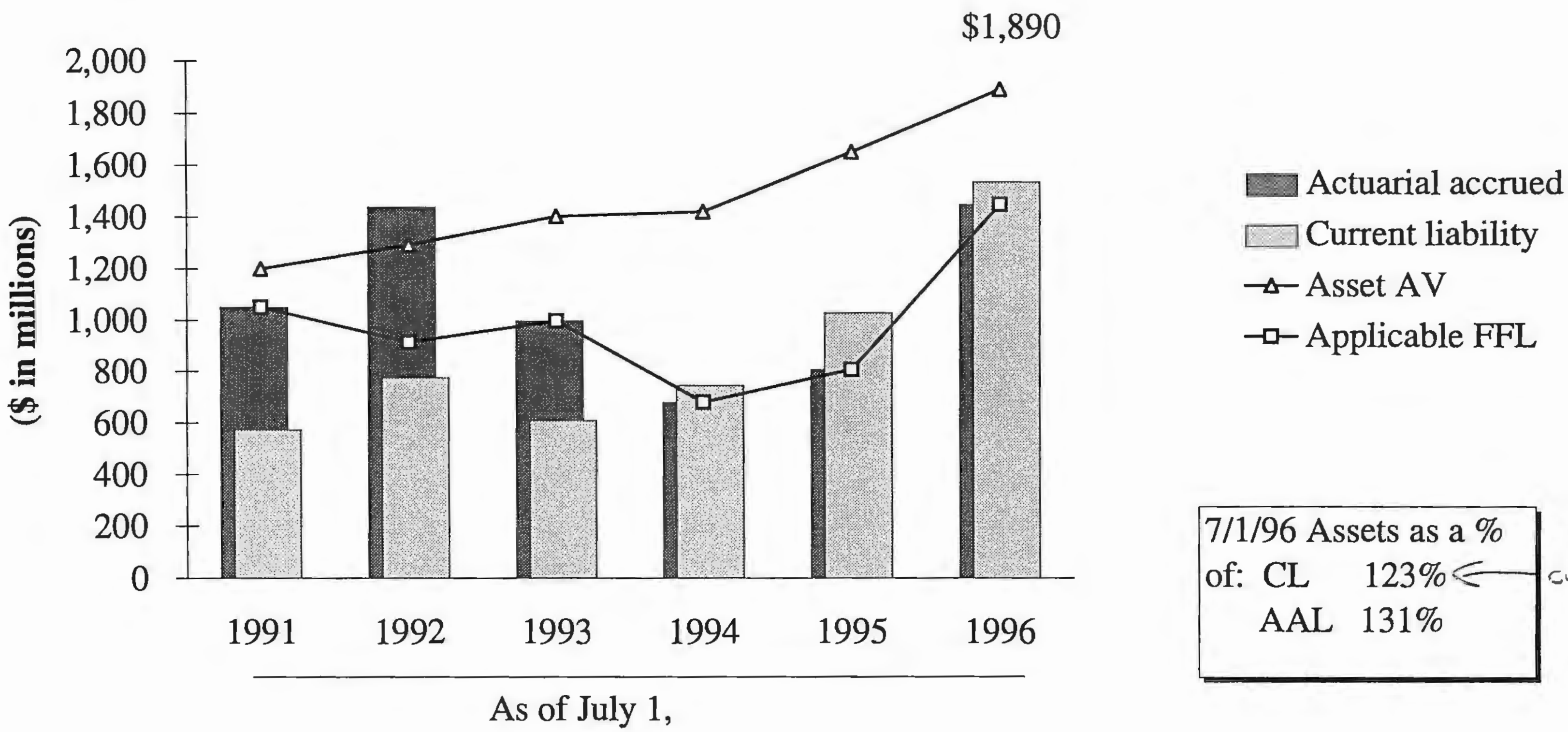
Funding

	Current	Previous
Return on assets/Discount rate	9.00 %	9.00 %
Current liability interest rate	7.47	7.96
Salary increases	5.50	5.50

FAS 87 Valuation Results



Funding Valuation Results

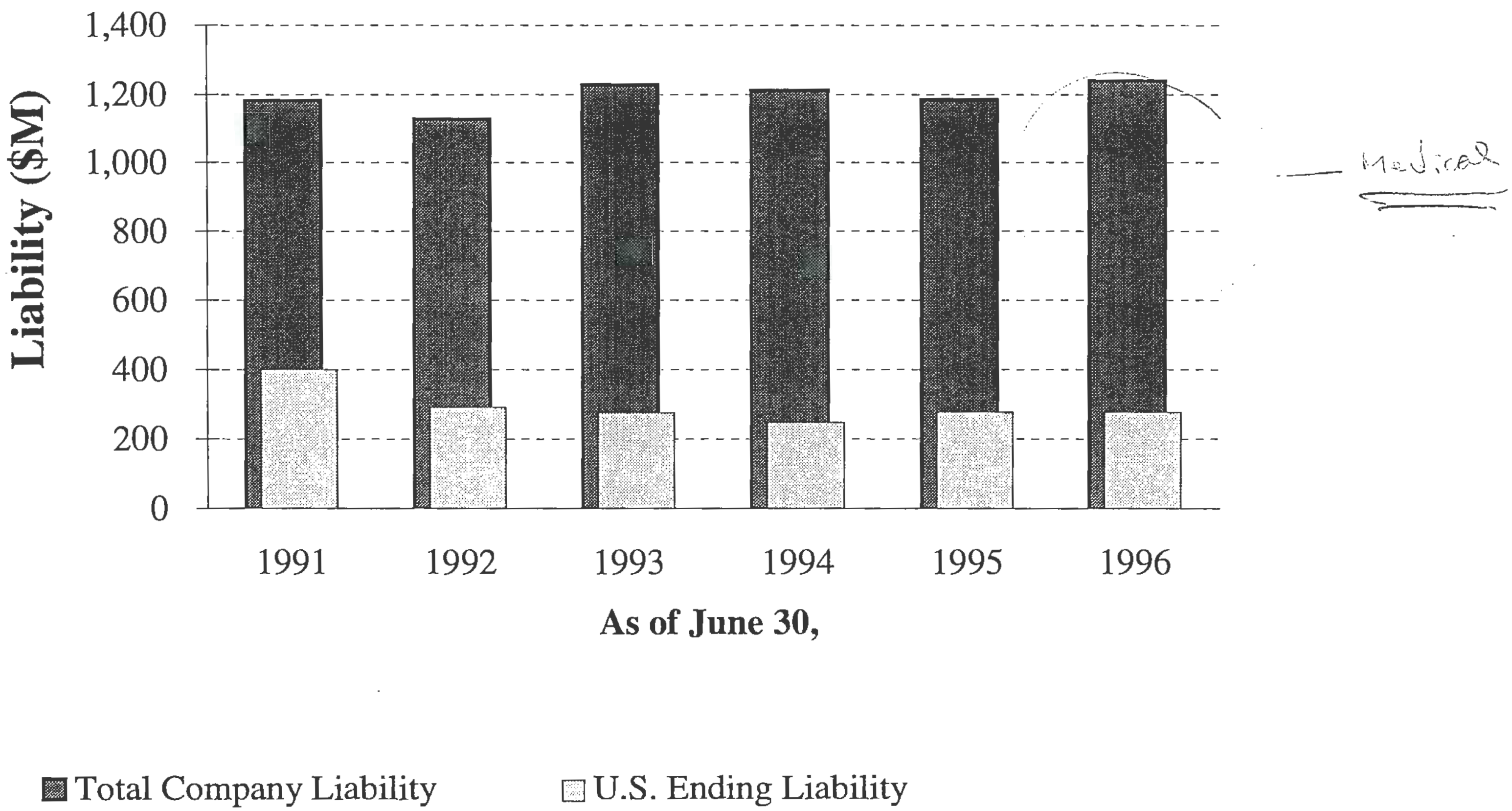


CURR. LIABILITY

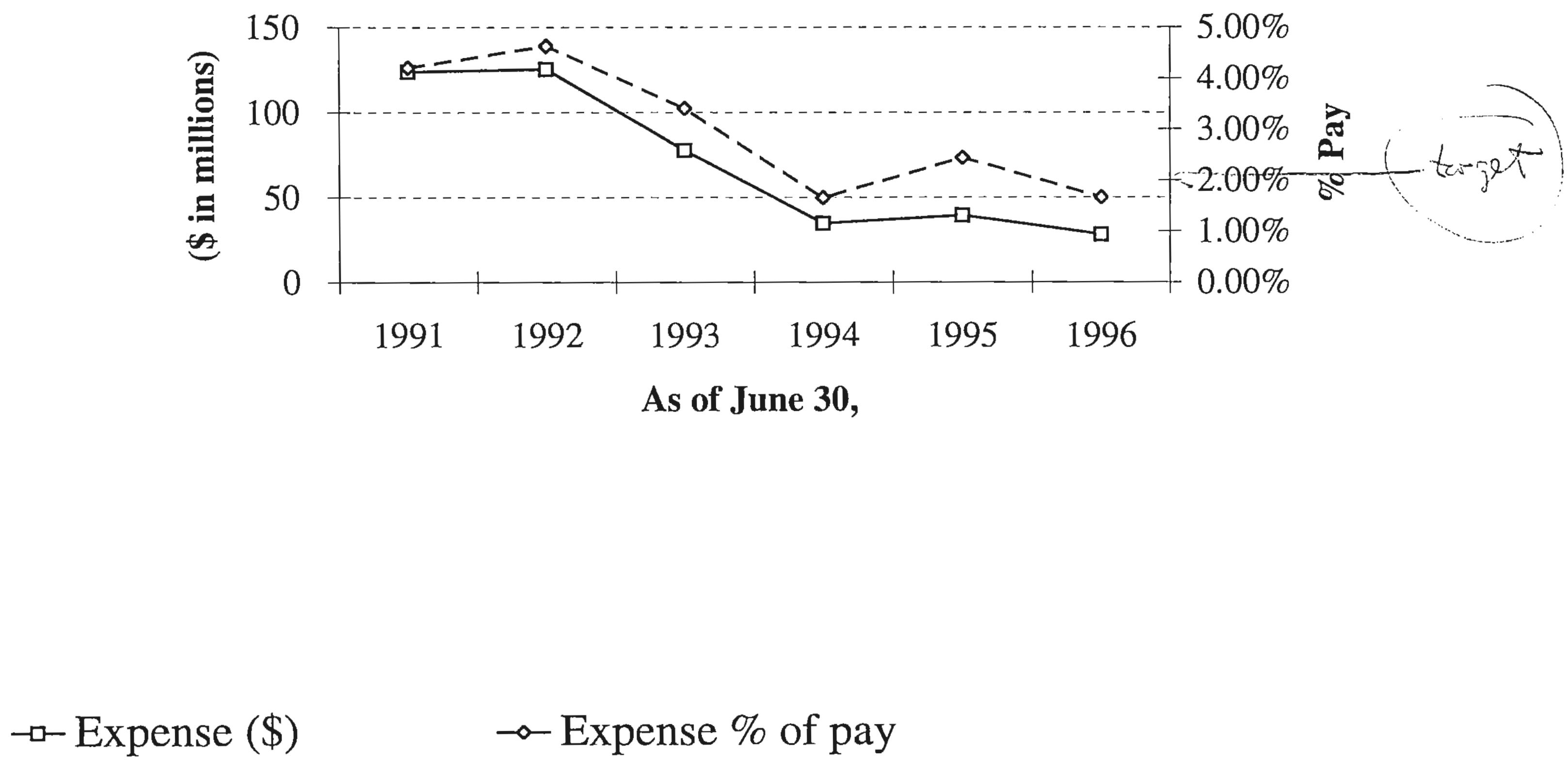
<u>No contributions required or allowed in fiscal 1997.</u>

Balance Sheet Position

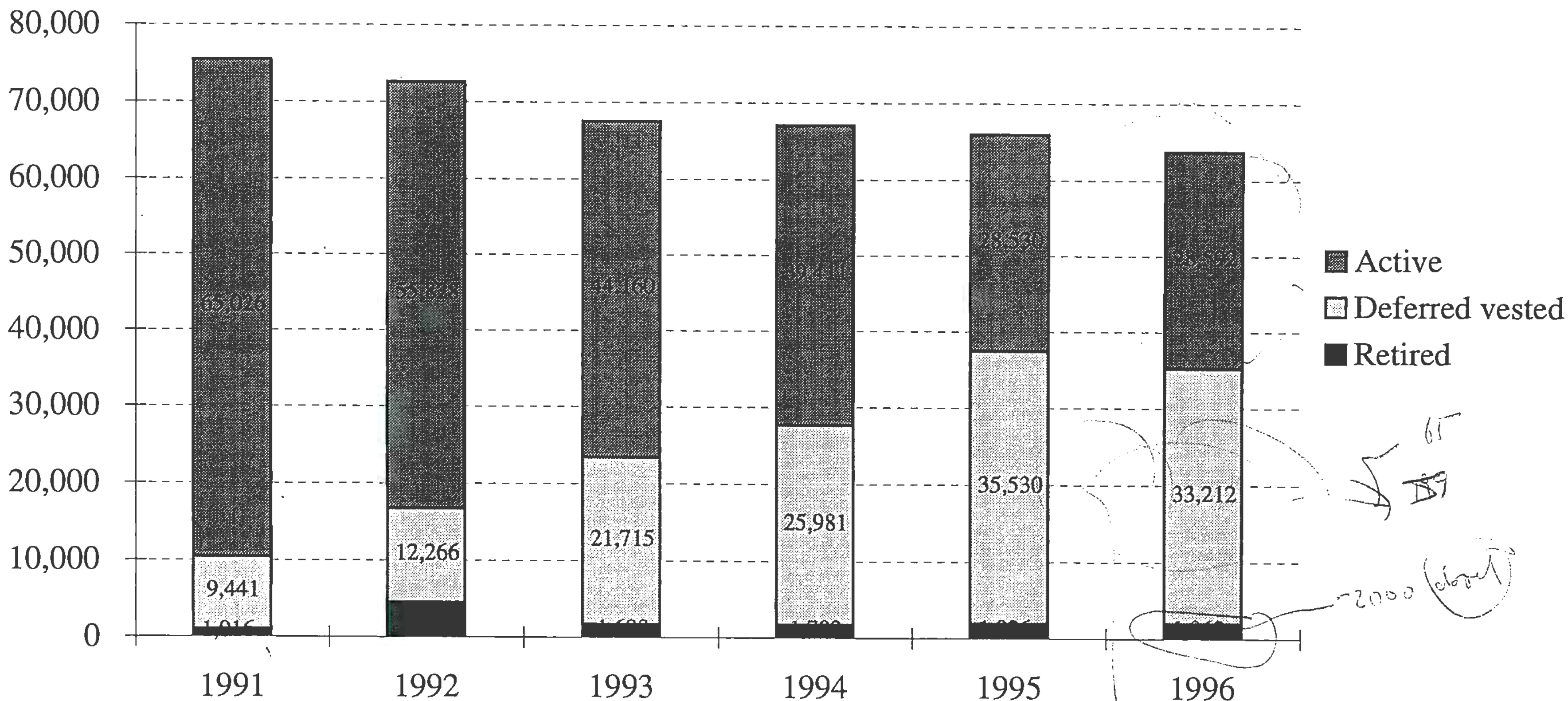
Compared to Total Company Retirement Liability



Pension Expense



Pension Plan Population



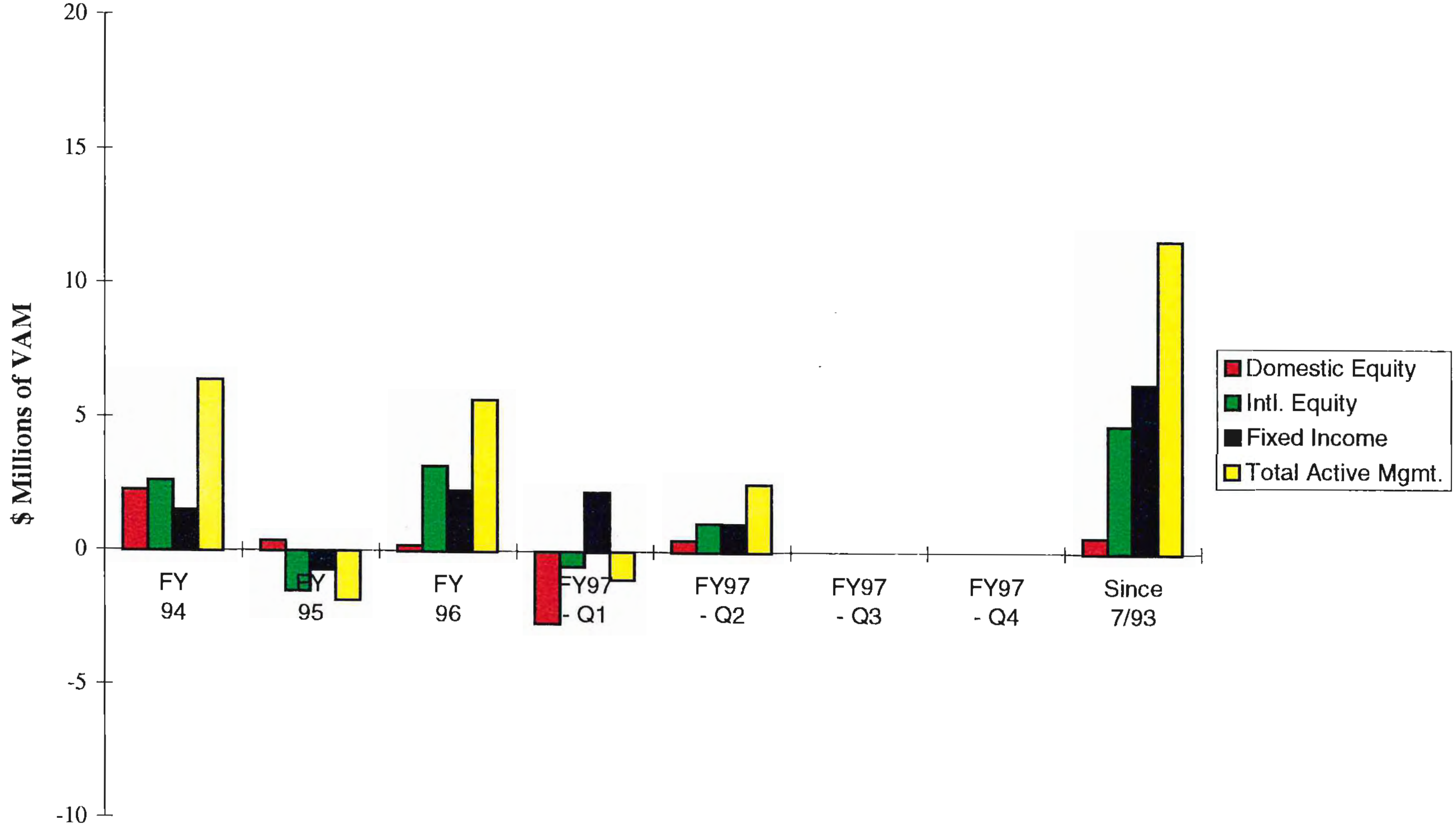
early out people with less than $3,500

U.S. PENSION FUND

Current Investment Policy

Treasury
March, 1997

Value of Active Management By Asset Class



A1-15

Treasury
March, 1997

SAVINGS AND INVESTMENT PLAN

Asset and Participant Distribution
As of December 31, 1996

($ Millions)

	Assets	% Total	Participants	% Total
Stable Value Fund	$276	24.9 %	13,476	46.0 %
Bond Fund	27	2.5	3,921	13.4
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Portfolio 3	87	7.9	4,824	16.5
TOTAL	$1,110	100.0 %	29,195	100.0 %

*** Assets do not include participant loans receivable: As of December 31, 1996, there were $21M in outstanding participant loans.**

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SAVE Plan

Comparative Fund Performance Summary as of December 31, 1996

This summary presents updated performance information for the investment funds currently offered through the DIGITAL SAVE Plan. The results reflect current and historical performance of the plan's underlying fund managers, including performance before the funds were offered under SAVE. Each fund is compared against a benchmark index considered to be similar in strategy and investment mix *(shown in italics and described on the reverse side of this statement)*. Current quarter returns are not annualized and represent performance only for the specified period. Please note that actual SAVE Plan returns may vary slightly from the underlying fund returns in some cases.

			Compound Annualized Total Returns For Periods Ending December 31, 1996			
	Current Quarter	Calendar YTD	1 Year	3 Year	5 Year	10 Year
Stable Value Fund*						
Actual: Digital's Stable Value Fund	1.52%	6.14%	6.14%	6.22%	6.75%	7.79%
Benchmark: T. Rowe Price Rolling 3-Year GIC Index	*1.56%*	*6.17%*	*6.17%*	*5.89%*	*6.35%*	*7.42%*
Bond Fund						
Actual: PIMCO Total Return Fund	3.73%	4.68%	4.68%	6.54%	8.35%	——
Benchmark: Lehman Brothers Aggregate Bond Index	*3.00%*	*3.63%*	*3.63%*	*6.02%*	*7.04%*	*8.47%*
Equity Index Fund*						
Actual: Barclays Global Investors Equity Index Fund	8.33%	22.90%	22.90%	19.63%	——	——
Benchmark: S&P 500 Stock Index	*8.42%*	*23.13%*	*23.13%*	*19.71%*	*15.24%*	*15.26%*
Stock Fund A*						
Actual: Neuberger & Berman Guardian Trust	8.96%	17.74%	17.74%	16.42%	16.34%	15.44%
Benchmark: S&P 500 Stock Index	*8.42%*	*23.13%*	*23.13%*	*19.71%*	*15.24%*	*15.26%*
International Fund						
Actual: Templeton Foreign Fund	7.46%	17.97%	17.97%	9.60%	12.49%	15.17%
Benchmark: Morgan Stanley EAFE Index	*1.59%*	*6.05%*	*6.05%*	*8.32%*	*8.15%*	*8.42%*
Stock Fund B						
Actual: Putnam Voyager A Fund	-1.98%	12.81%	12.81%	16.67%	15.58%	17.55%
Benchmark: 34%/33%/33% Mix (Russell 2000/S&P 400/S&P 500)	*6.53%*	*19.59%*	*19.59%*	*15.95%*	*15.01%*	*14.61%*
Pre-Mixed Portfolios						
Actual: Portfolio 1	2.97%	8.63%	8.63%	——	——	——
Actual: Portfolio 2	3.68%	11.35%	11.35%	——	——	——
Actual: Portfolio 3	4.39%	13.80%	13.80%	——	——	——

*Please see the "Notes" section on the reverse side of this statement.

This summary represents past performance and should not be considered indicative of future performance. Annualized total returns measure net investment income and capital gain or loss from investments as an annualized average, assuming reinvestment of dividends. During the periods noted, securities prices fluctuated, and redemption value may be more or less than your original cost.

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INTERNAL AUDIT MANAGEMENT LETTER

October 21 - November 27
Field Work Dates

Deloris Pettis
Group Audit Manager

Audit: **Save Plan Administration**
Outsourcing Management
97-012

Issue Date: **February 14, 1997**

Audit Team: **Andrew Currie, Tony Juda, Gregory Wilder, Rick Olds**

Audit Manager: **Chuck McVea (223-7072)**

CONCLUSION

The system of internal control as reviewed for the SAVE Plan Administration Outsourcing Management Process is good.

MANAGEMENT SUMMARY

The purpose of this review was to ensure that both vendor (Hewitt Associates and The Northern Trust Company) and DIGITAL internal control structures were adequate and operating as intended in support of the US SAVE Plan. As a result of our audit work and the review of audit work done by independent auditors, we were able to conclude that the DIGITAL and Northern Trust internal control structures were good and operating as intended. Because the SAS 70 type II review planned for Hewitt Associates had been scheduled, but not executed, we did not have evidence that Hewitt Associates internal controls were operating as intended.

During this management review, two very good control activities were noted in support of the implementation and management of the SAVE Plan Outsourcing Process:

- **The Vendor Selection Process**

With the assistance of an external Request For Proposal (RFP) consultant, seven vendors were selected to bid on the outsourcing work for Health and Welfare as well as the Pension and 401(k) benefits. The process to evaluate the candidates was undertaken by a cross-functional work group. These processes ensured the selection of a capable vendor.

- **The Continuous Improvement Review Process**

At the inception of the relationship, DIGITAL and Hewitt developed shared expectations and goals for the plan, the administration process and participant services. Formal Continuous Improvement Reviews are held quarterly to measure and analyze results and to plan improvement actions consistent with expectations and goals.

AUDIT OBJECTIVES AND SCOPE

The objective of this management letter was to conclude on the adequacy of the system of internal control which ensures the following:

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INTERNAL AUDIT MANAGEMENT LETTER

- Achievement of operational goals and objectives
- Effective and efficient use of resources
- Reliability and integrity of information
- Safeguarding of assets
- Compliance with significant policies, procedures, laws and regulations

The scope of this management letter focused primarily upon the control environment which surrounds Hewitt Associates administration of the U.S. Digital SAVE Plan. Major areas of focus and inquiry included:

- C&L's Operational Review done in the Fall of 1995
- Arthur Anderson's SAS 70 Type I and Type II reviews for Hewitt and Northern Trust
- C&L's Audit of the SAVE Plan (Assets - Northern Trust)
- C&L's Audit of Digital as applicable to SAVE Plan transactions
- Hewitt Associate's deliverables to Digital Treasury Organization
- Northern Trust monthly reports to Digital
- Digital's Quarterly and Annual Continuous improvement reviews with Hewitt
- Hewitt Associate's Annual Fund Performance Reviews

We also reviewed and evaluated Digital's other oversight activities associated with management of the SAVE plan, including the process to gather and evaluate data as a basis for changes to the SAVE Plan.

BACKGROUND

The U.S. Retirement and Worldwide Benefits Organization is responsible for administering plans for Pension, 401K SAVE, and Health benefits. The SAVE and U.S. Pension Plans as of June 30, 1996 had assets and total participants as follows:

	SAVE	Pension
Participants	**29,482**	**62,270**
Assets ($M)	**1,015**	**1,890**

The U.S. Retirement plans have experienced significant change during the previous two years.

SAVE Plan

In March of 1995, changes to the SAVE plan included:

- Day to day administration and record keeping responsibilities were transferred from Digital's Investor Services Organization to the external vendor Hewitt Associates
- Northern Trust Company was appointed as Trustee for the Plan, replacing Digital trustee Ilene Jacobs, VP and Treasurer
- The Plan itself was revamped, changes included
    - Additional new investment choices
    - Daily valuation
    - An enhanced voice response system
    - Initiation of fees on loan processing
    - Other new administration features

In July of 1995, Digital initiated a matching contribution feature for the Plan.

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INTERNAL AUDIT MANAGEMENT LETTER

Pension Plan

In March 1996, two major changes were made to the U.S. Pension Plan:

- The responsibility for administering pension benefits was transferred from the Digital U.S. Retirement and WW Benefits to Hewitt Associates
- The Plan was revamped to a Cash Account Pension Plan (CAPP)

There have been several external consulting engagements in support of or related to the changes made to the Retirement Benefit Plans, including:

- Coopers and Lybrand (C&L) performed an operational review of the SAVE Plan in the Fall of 1995, the purpose of which was to identify potential areas for improvement in the overall SAVE Plan internal control structure
- C&L is currently performing an operational review of the internal control structure of Digital's CAPP

On an ongoing basis as part of the annual audit of Digital's financial statements, C&L reviews the WW Plan Disclosure Statement, including the U.S. Plan, to be included in the Annual Report. Financial audits of the Pension and SAVE Plans are performed annually.

Hewitt Associates

Hewitt Associates is a global consulting organization specializing in actuarial and related employee benefit and compensation services to Fortune 500 companies. Hewitt serves more than 2500 clients worldwide, has more than 60 offices in 24 countries, and employs more than 5000 associates. Headquarters is located in Lincolnshire, Illinois.

COMPARISON TO PRIOR AUDIT

This is the first review of Digital's Benefit Plan Administration outsourcing activity with Hewitt Associates and The Northern Trust Company.

FY97 MANAGEMENT TEAM	TIME IN JOB	TIME IN DIGITAL
Dick Brophy, Manager, U.S. Retirement Programs	3 Years	16 Years
Ray Schmalz, Manager, Benefits Finance and Investments	6 Years	23 Years

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INTERNAL AUDIT MANAGEMENT LETTER

INDEX

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INTERNAL AUDIT MANAGEMENT LETTER

1.0 BUSINESS PLANNING

1.1 Management Reporting

Background

At the request of Digital management, Coopers & Lybrand performed a high level operational review of the SAVE Plan administrator (Hewitt Associates) and the trustee (Northern Trust) during the later part of calendar year 1995. The purpose was to identify potential areas for improvement in the overall SAVE Plan internal control structure. Opportunities to improve controls in the following three areas were noted:

1. The extent of independent review being applied at Hewitt
2. Reconciliation and review procedures with respect to the Digital SAVE Plan
3. Monitoring of service provider performance

Issue

C&L recommended actions as formally reported to Digital management on January 2, 1996 have not been fully implemented;

1. An additional independent review at Hewitt has not been applied. However, Hewitt has engaged Arthur Anderson to perform services in accordance with procedures governing Reports on Policies and Procedures Placed in Operation and Tests of Operating Effectiveness found in SAS 70 for the period July 1 - December31, 1996.

2. Clearing account review procedures do not ensure that reconciling items are timely resolved, and that amounts reported by Hewitt are complete and accurate.

3. Additional monitoring reports to track the age of outstanding participant requests and adjustments that would improve Digital's oversight of SAVE Plan recordkeeping have not been requested from Hewitt.

Agreed Upon Action

Ray Schmalz will ensure by the end of Q3, FY97, that all 3 C&L recommendations, as noted in their operational report dated January 2, 1996 have been appropriately acted upon.

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INTERNAL AUDIT MANAGEMENT LETTER

1.2 Benchmarking

Issue

US Benefits has a benchmarking strategy, however it is not formally documented. Although the SAVE Plan has only been outsourced for 20 months, it is imperative that the strategy be documented and carried forward to ensure Digital awareness of what the market has determined as the Best in Class Practices.

While benchmarking was performed prior to the selection of Hewitt by ADQ, a consulting firm, it should be performed prior to contract renewal and then periodically during the contract. In the absence of benchmarking, the ability to determine Hewitt's effectiveness as compared to other vendors is hindered. In addition, Digital may be liable to the participants for not effectively managing and monitoring the funds/options.

Agreed Upon Action

Dick Brophy will formally document their benchmarking strategy and schedule by the end of Q3FY97. He will further ensure that the benchmarking exercise be completed prior to the contract renewal to comply with the contract timetable.

2.0 BENEFIT ADMINISTRATION

2.1 Billing Verification - Rebates

Background

Hewitt Associates bills Digital monthly in accordance with the Basic Order Agreement (BOA). Major services include record keeping; voice response system and benefits center activities. Included in the bill are charges for special requests / projects, consulting activity and other expenses (e.g. outside supplier expenditures). Invoices also include rebates, which are deductions from amounts billed. Rebates can be defined as credits passed on to Hewitt from various Fund managers for administrative work performed. As of September, FY97, 65% of total billing was offset by rebates.

Issue

Digital management reliance on Hewitt's billing computations regarding rebates, should be verified with input from another independent data source, to ensure that this element of the bill is accurate.

Incorrect computation of applied credits can have a negative impact on Digital's cash flow.

Agreed Upon Action

Ray Schmalz will immediately utilize TNT monthly reports to verify the accuracy of the fund balance used to compute the rebate

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INTERNAL AUDIT MANAGEMENT LETTER

2.2. Outsourcing - Practices & Procedures

Background

In January, 1995, The Northern Trust (TNT) was appointed Trustee for the Digital Equipment Corporation Savings and Investment trust. Effective April, 1995, Hewitt Associates was selected as the Record keeper for the plan. This team approach (Trustee - Administrator - Sponsor) must now be managed by the Benefits function. Procedures for directing and controlling Service Vendors should be identified, documented and continuously evaluated.

Issue

Practices and procedures currently employed to guide and direct ongoing management and administration of Outsourcing activities should be documented. Associated P&Ps are focused on pre-selection of the vendor with emphasis on acquisition requirements. Interviews with Benefits and Acquisition personnel highlight a need to document critical activities and highlight major control points for program management and service delivery.

Without this documentation, we miss opportunities to ensure consistency, capitalize on lessons learned and provide direction and guidance to replacement personnel.

Agreed Upon Action

Priscilla Craven, Human Resources Manager, and Dick Brophy will identify and document by month end January, 1997, basic practices and procedures for controlling and managing service vendors. Such procedures would provide direction, guidance and maybe even used as a checklist for ensuring that major control points are incorporated in the buyer / provider relationship.

3.0 COMPLIANCE

3.1 Business Controls

Background

Business Controls are put in place to help an organization reach its goals, achieve its mission, and to minimize surprises along the way. They enable management to deal with rapidly changing economic and competitive environments , shifting customer demands and priorities, and restructuring for future growth.

A Business Controls Plan, including a Business Controls compliance testing schedule, management reporting of tests results, and a corrective action process is a key control point that ensures the ongoing assessment of the quality of controls over time.

Issue

The SAVE Plan organization's Business Controls Plan is incomplete. It does not include compliance testing.

INTERNAL AUDIT MANAGEMENT LETTER

Agreed Upon Action

Dick Brophy will ensure by the end of Q3, FY97, the development and implementation of a Business Controls Plan that identifies and timely schedules key controls for testing, timely reports test results to management, and includes a corrective action process that ensures the root cause of non-compliance is eliminated.

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APPENDIX I - SAVINGS AND INVESTMENT PLAN
ASSETS AND PARTICIPATION DISTRIBUTION
AS OF JUNE 30, 1996

$Millions

	Assets	% Total	Participants	%Total
Stable Value Fund	264	26.0%	13,997	47.5%
Bond Fund	25	2.5%	3,907	13.3%
Equity Index Fund	75	7.4%	8,310	28.2%
Stock Fund A	207	20.4%	15,466	52.5%
International Fund	66	6.5%	7,461	25.3%
Stock Fund B	192	18.9%	15,113	51.3%
Portfolio 1	23	2.3%	1,836	6.2%
Portfolio 2	85	8.4%	4,650	15.8%
Portfolio 3	78	7.7%	4,530	15.4%
Total	$1,015	100.0%	29,482	100.0%

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INTERNAL AUDIT MANAGEMENT LETTER

DISTRIBUTION

FULL REPORT

Local Management

Dick Brophy
Ray Schmalz
Jack Cutler
John Stradinski
Priscilla Craven

Group Management

Kathleen Angel
Minerva Bronk
Paul Milbury

Corporate Business Controls

George Potter @MSO

Corporate Security

Ray Humphrey

Worldwide Trade

Mike Dennis (SPM)

MANAGEMENT SUMMARY

Corporate Standard

Internal Controls Committee

Bobby Choonavala
Dick Fishburn
Mitch Guziejka
Bruce Holbein
Ray Humphrey
Karen Kupferberg
Hans Larsen
Ron Maheu (SPM)
Gail Mann
Vin Mullarkey
Bob Palmer

Other

John Buckley
Sid Ferrales
Doug Hammond
Alexis Makris

C&L

Stephen Soske

DIGITAL EQUIPMENT CORPORATION
Savings & Investment Plan (SAVE)
Investment Policy

Final:
June 22, 1994

INVESTMENT OBJECTIVES AND PRINCIPLES

The major objectives of the Digital Equipment Corporation Savings & Investment Plan are to:

(1) provide participants with a broad range of investment alternatives across the historical risk-return spectrum which empowers them to implement a personal investment strategy;

(2) provide alternatives that meet the diversification requirements of ERISA Section 404(c) and comply with all applicable ERISA law;

(3) deliberately exclude investment in Digital Equipment Corporation stock because we provide other ways for employees to invest in Digital with their personal assets;

(4) use readily available mutual funds and institutional co-mingled funds. Digital will not manage funds internally.

INVESTMENT STRATEGY

- The Plan will provide participants with a range of investment alternatives which span the risk-reward spectrum (see graph below) in four major assets classes - cash, fixed income, domestic stocks and non-U.S. stocks.

- The Plan will meet the range of investment alternatives identified above through a range of passive and active externally-managed investment funds which range from conservative to aggressive risk.

  (1) Core funds will be provided for each of the major asset classes that are broadly diversified across the entire asset class.

  - Core funds will generally be actively managed funds with comparatively tighter tracking errors to their benchmarks, reflecting their broader diversification. We will not offer funds that have had historically high concentrations in industry sectors.

- A passive alternative will be provided for the most popular risky asset classes (currently only the S&P 500 Index) in order to provide fund choice(s) for those participants who do not want the risk associated with potential above-average returns that might be attained through active management.

- A passive fund alternative will be used if we are not confident any actively managed funds will add value above the benchmark.

(2) Three different pre-mixes of domestic and international stocks and bonds will be provided for those participants who would like to have a blend of stocks and bonds that meet their individual investment objectives. These mixes will be composed of the Plan's bond and stock funds.

(3) A non-U.S. stock fund will provide participants with an opportunity to further diversify their investment portfolio. The alternatives for this investment option are an actively-managed, broadly-diversified international stock fund or an international stock index fund targeting the capitalization-weighted EAFE (Europe, Australia, Far East).

(4) A participant-directed account may be available at a future date with highly rated, publicly available mutual fund choices. This will be provided for those participants who wish to further diversify their portfolio. The funds in the participant-directed account will provide additional actively-managed alternatives to the core funds in each of the major asset classes.

CRITERIA FOR SELECTING INVESTMENT OPTIONS

(1) Publicly available mutual funds or their institutional equivalents will be selected using a combination of the following sources:

- Morningstar (primary, if available)
- other publicly available data and/or
- criteria used for selecting Digital's Defined Benefit Plan's investment managers (see attached) and the Savings and Investment Plan Investment Committee's judgment.

(2) Digital will select "best of the best" funds for each plan investment choice.

For actively managed funds, this means a consistent four and/or five start rating for Morningstar in addition to meeting the strategic needs for the fund and demonstrating consistent value of active management when compared to either a specially designed style benchmark or one derived by the "Style Advisor".

For passively managed funds, this means a solid, reputable provider, tight tracking error relative to competitors and a low expense ratio.

(3) If a family of funds is chosen (e.g., Fidelity, etc.) whether or not the investment company is the Plan's recordkeeper, it will be done such that in aggregate the selected collection of funds will have the highest average Morningstar rating or its equivalent of all of the fund alternatives available within the family of funds that also meet the criteria (1) above as well as the investment objectives and investment strategy outlined above.

If the recordkeeper is also an investment company, the preference will be to select a group of funds which meet the stated objectives and criteria from their family of funds. However, the Savings and Investment Committee will always retain the authority to terminate any fund of fund manager at any time.

(4) We will use the purchasing power afforded by the size of the plan assets to the extent possible to either reduce the cost of the funds the Plan's participants invest in or to provide better administrative services to them.

CRITERIA FOR EVALUATING AND MONITORING INVESTMENT OPTIONS

(1) Digital's Treasury Group will monitor all funds and their investment managers using the criteria described above for selecting funds.

(2) If a fund's performance deteriorates, there is a change in portfolio managers or another change that is of concern as a result of monitoring the fund, the fund manager and the external environment, Treasury will initiate a formal review with the Benefits Department that could lead to terminating the fund or the fund manager.

INVESTMENT GUIDELINES AND RESTRICTIONS

(1) Fees:

Fees should be competitive and reflect the historical value added by the fund manager.

(2) Performance Fees:

Digital supports performance-based fees for the managers of these Plan assets if they are available. Performance fees, however, are not a requirement for consideration.

(3) Securities Lending:

Securities lending will be permitted by the investment manager if available only when, in the Committee's opinion, this practice results in no incremental risk to the Plan's participants.

Collateral must be at least 102% of the value of the underlying assets and the resulting cash invested in assets with no more risk than the assets on loan.

(4) Proxy Voting:

Investment managers for each of the Plan's equity funds will retain the voting right to vote the proxies consistent with their fiduciary duty under ERISA.

(5) Foreign Bonds:

Investment-grade foreign bonds will be allowed in the Plan's fixed income fund choices if they meet the same investment criteria currently in use by the defined benefit pension plan fixed income investments.

(6) Alliance Rebates:

The Committee recognizes that Digital may employ an administrator/record-keeper who has strategic alliances with fund managers which provide rebates to reduce the cost of administration and recordkeeping. At all times, these rebates will be incidental to the choice of fund.

POLICY DURATION

This policy is intended to be effective for an indefinite period of time.

The Savings and Investment Plan's Investment Committee, however, reserves the right to make changes to this policy from time to time, especially if the following occurs:

1. There are structural changes to the SAVE Plan.

2. New government investment regulations are legislated.

3. Fundamental, long-term social, political and economic restructuring takes place.

4. The Committee develops a new understanding of investments, or new forms of investment become available.

COOPERS & LYBRAND

Cash Account Pension Plan

Management Letter

Treasury
March, 1997

Coopers & Lybrand

Coopers & Lybrand L.L.P.

a professional services firm

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Boston, MA 02109

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Boston, MA 02110

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telephone (617) 478-5000
facsimile (617) 478-3900

February 13, 1997

To the Pension Investment Committee
111 Powdermill Road
Maynard, Massachusetts 01754-1499

Re: Digital Equipment Corporation Cash Account Plan

Dear Committee Members:

In planning and performing our audits of the financial statement of Digital Equipment Corporation Cash Account Plan for the year ended June 30, 1996, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. Our consideration of the internal control structure would not necessarily disclose all matters that might be material weaknesses as defined below. However, we noted no such matters.

Companies establish and maintain policies and procedures designed to prevent or detect within a timely period errors or irregularities in their financial statements. These policies and procedures, taken together, constitute the internal control structure, which has three elements: the control environment, the accounting system and control procedures. The control environment encompasses the attitudes, awareness, and actions of management and the board of directors, and includes factors such as the organization structure and broad supervisory, personnel, and control policies and practices. The accounting system consists of procedures to gather data, process transactions, and record them in the accounting records and to maintain accountability for the related assets and liabilities. Control procedures are established to provide reasonable assurance that assets are safeguarded and that transactions and events are properly recorded.

An internal control structure should be designed and operated in a manner that reduces to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. A condition in which the design or operation of an internal control structure element does not reduce the risk to a sufficient low level constitutes a material weakness, under standards established by the American Institute of Certified Public Accountants.

This letter is intended solely for the information and use of the Pension Investment Committee, management, and if desired, the Audit Committee of Digital Equipment Corporation.

Very truly yours,

Coopers & Lybrand L.L.P.

Preparation of this Actuarial Valuation

As of July 1, 1996

Digital Equipment Corporation
Cash Account Pension Plan

This material has been prepared primarily to present to management the current status of funding of plan benefits and funding requirements for the plan year beginning on July 1, 1996. In addition, this material may serve as a source document for information to meet accounting or government filing requirements.

In conducting the valuation, we have used personnel and asset information provided by Digital Equipment Corporation, and the actuarial assumptions and methods described in the Actuarial Assumptions Section of this report.

The valuation has been conducted in accordance with generally accepted actuarial principles and practices. In our opinion, the assumptions represent reasonable expectations of anticipated plan experience.

Hewitt Associates LLC

Jeff D. Clymer
Fellow of the Society of Actuaries

Jason S. Gladden
Fellow of the Society of Actuaries

November 1996

Summary

The following presents a comparison of assets, liabilities, and contributions from the July 1, 1996 valuation with the results of the July 1, 1995 valuation.

Funding Requirements

	7/1/95	7/1/96 Before Changes	7/1/96 After Changes
Assets and Liabilities			
Accrued Liability	$ 805,717,003	$ 879,441,310	$ 1,447,135,821
Actuarial Value of Assets	1,649,893,699	1,889,925,676	1,889,925,676
Unfunded Accrued Liability (Surplus)	$ (844,176,696)	$ (1,010,484,366)	$ (442,789,855)
Normal Cost	$ 32,960,291	$ 37,045,861	$ 53,354,986
Normal Cost Percentage	2.1%	2.2%	3.2%*
Valuation Compensation	$1,604,000,000	$1,690,000,000	$ 1,690,000,000
Contributions			
Minimum Required Contribution	$ 0	$ 0	$ 0
Maximum Deductible Contribution	$ 0	$ 0	$ 0

* The normal cost percentage excluding the effect of the 5-year continuation of the career average formula (the ultimate normal cost percentage) is 2.6%.

The following presents the results determined in accordance with FAS 87 as of July 1, 1996. The July 1, 1995 results are shown for comparison.

Accounting Requirements

	7/1/95	7/1/96
Cash Account Pension Plan		
Accumulated Benefit Obligation	$(1,031,350,659)	$(1,612,062,716)
Projected Benefit Obligation	$(1,456,654,716)	$(1,620,191,443)
Fair Value of Assets	$ 1,649,893,699	$ 1,889,925,676
Market Related Value of Assets	$ 1,515,608,595	$ 1,687,676,233
Service Cost	$ 67,372,176	$ 63,442,978
Pension Expense	$ 39,169,000	$ 28,018,017
(% of Payroll)	2.4%	1.7%
Assumptions		
Discount Rate	7.50%	8.00%
Expected Long-Term Rate of Return	9.00%	9.00%

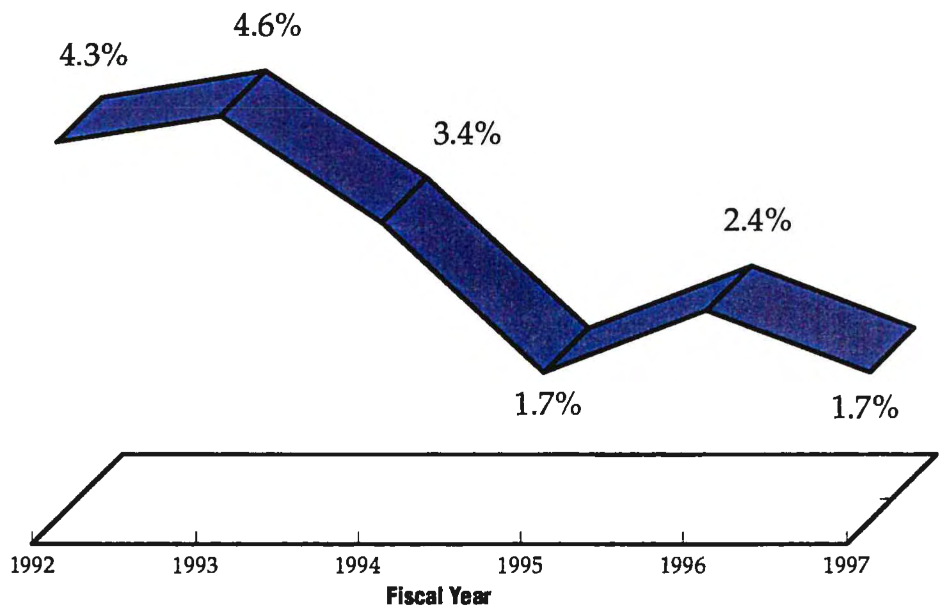
The following presents the liabilities and assets determined in accordance with FAS 35 for disclosure in the plan financial statements. The July 1, 1995 results are shown for comparison.

Accounting Requirements

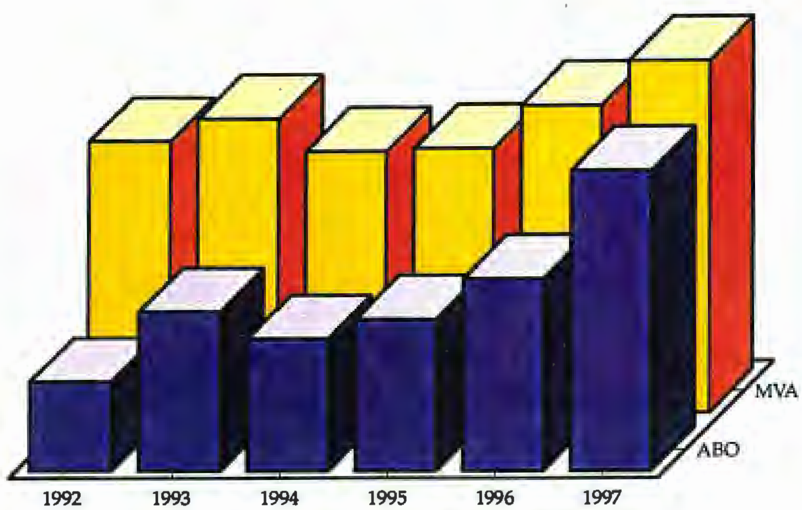
	7/1/95	7/1/96
Accrued Benefit Liabilities		
Present Value of Vested Benefits	$ 765,553,115	$1,439,594,341
Present Value of All Accrued Benefits	$ 805,717,003	$1,447,135,821
Market Value of Assets	$1,649,893,699	$1,889,925,676
Excess of Assets Over Present Value of All Accrued Benefits	$ 844,176,696	$ 442,789,855
Discount Rate	9.0%	9.0%

FAS 87 Pension Expense

As a Percentage of Valuation Payroll



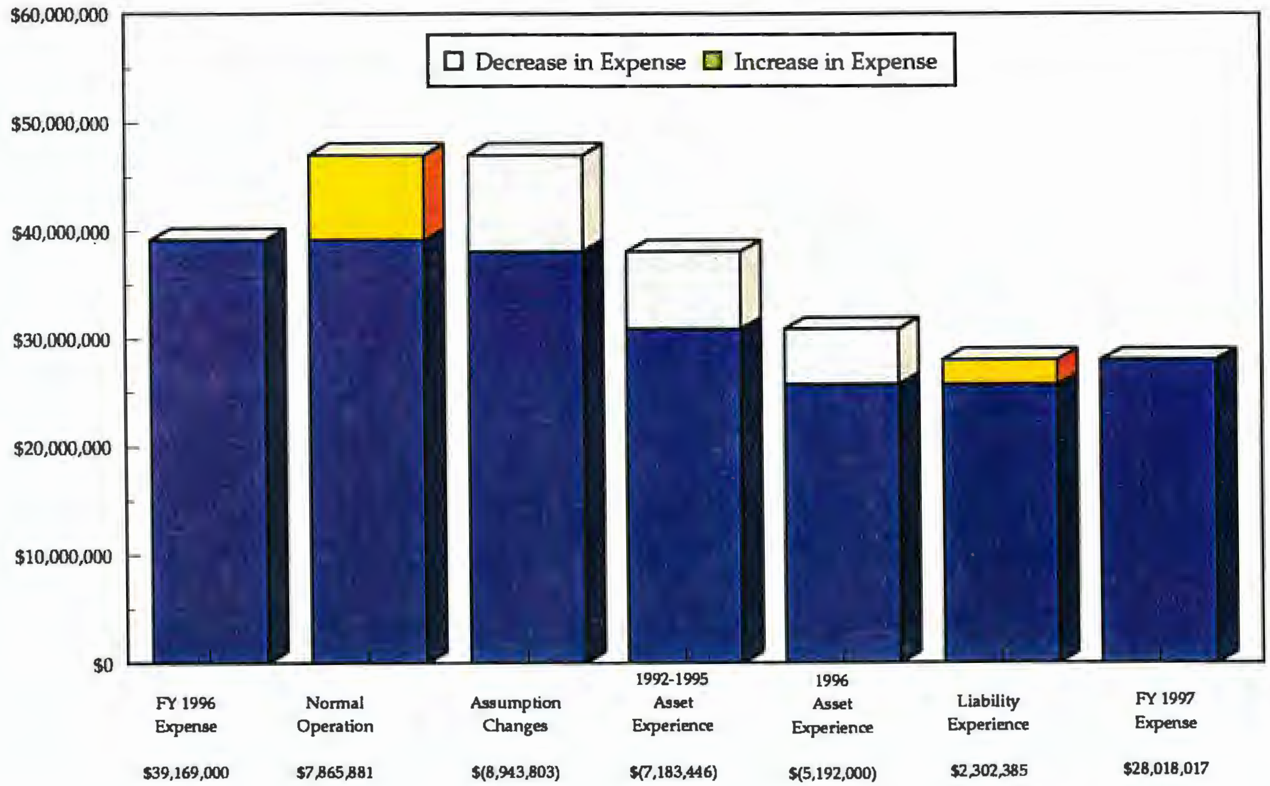
FAS 87 Funded Status



MVA	$1,454	$1,576	$1,402	$1,419	$1,649	$1,890
ABO	(480)	(855)	(710)	(815)	(1,031)	(1,612)
Status	$974	$721	$692	$604	$618	$278

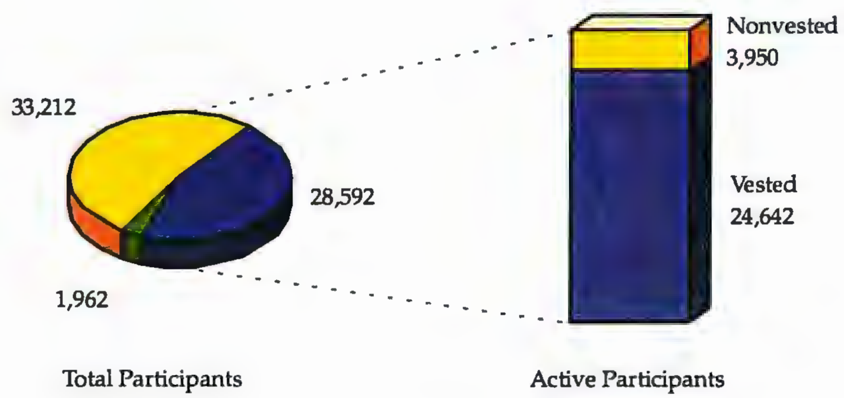
MVA - Market Value of Assets
ABO - Accumulated Benefit Obligation

Change in FAS 87 Pension Expense

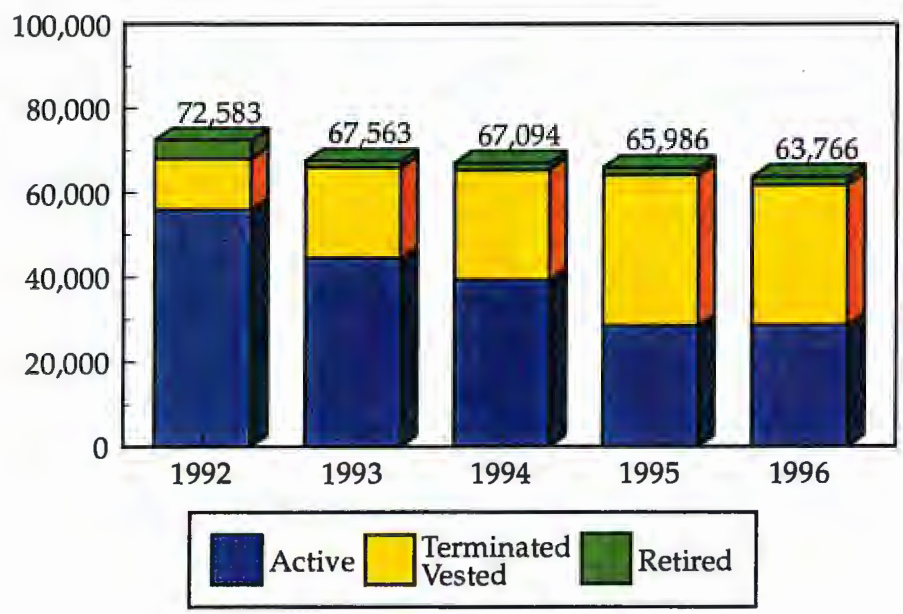


* Assumption change is the discount rate increasing from 7.5% to 8.0%

July 1, 1996 Personnel Information



History of Plan Participation (Number of Participants)



Coopers & Lybrand L.L.P.

a professional services firm

DIGITAL EQUIPMENT CORPORATION CASH ACCOUNT PENSION PLAN

FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES TO ACCOMPANY 1995 FORM 5500 ANNUAL REPORT OF EMPLOYEE BENEFIT PLAN UNDER ERISA OF 1974

FOR THE YEAR ENDED JUNE 30, 1996

DIGITAL EQUIPMENT CORPORATION
CASH ACCOUNT PENSION PLAN

INDEX OF FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES

for the year ended June 30, 1996

DIGITAL EQUIPMENT CORPORATION
CASH ACCOUNT PENSION PLAN

NOTES TO FINANCIAL STATEMENTS

STATEMENTS OF NET ASSETS AVAILABLE FOR PLAN BENEFITS

June 30, 1996 and 1995

ASSETS	1996	1995
Investments - plan interest in Master Trust, at fair value		$1,649,927,474
Investments, at fair value	$1,903,937,769	-
Receivables:		
Accrued interest and dividends	6,495,548	-
Securities sold	7,826,982	-
Cash	25,496,392	-
Total assets	$1,943,756,691	$1,649,927,474
LIABILITIES AND TRUST BALANCE		
Payables for securities purchased	53,750,765	-
Deferred income on written options	80,250	-
Total liabilities	53,831,015	-
Net assets available for plan benefits	1,889,925,676	1,649,927,474
Total liabilities and net assets available for plan benefits	$1,943,756,691	$1,649,927,474

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

DIGITAL EQUIPMENT CORPORATION
CASH ACCOUNT PENSION PLAN

STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR PLAN BENEFITS

for the years ended June 30, 1996 and 1995

	1996	1995
Additions:		
Interest in Master Trust investment income		$ 273,409,139
Investment income:		
Net appreciation in the fair value of investments	$ 235,434,359	-
Interest	26,672,467	-
Dividends	26,275,344	-
Real estate and other income	7,762,092	-
Total additions	296,144,262	273,409,139
Deductions:		
Benefits paid	49,242,643	41,301,430
Pension Benefit Guaranty Corporation premium payments	1,257,011	1,277,294
Plan administrative expenses	5,646,406	58,585
Total deductions	56,146,060	42,637,309
Net additions	239,998,202	230,771,830
Net assets available for plan benefits at the beginning of the plan year	1,649,927,474	1,419,155,644
Net assets available for plan benefits at the end of the plan year	$1,889,925,676	$1,649,927,474

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

DIGITAL EQUIPMENT CORPORATION
CASH ACCOUNT PENSION PLAN

NOTES TO FINANCIAL STATEMENTS

A. Basis of Presentation:

The Digital Equipment Corporation Cash Account Pension Plan (the "Plan") was formerly known as the Digital Equipment Corporation Pension Plan. The Plan is the sole surviving entity of the Digital Equipment Corporation Pension Trust (the "Trust"), which formerly served as an investment vehicle for the Digital Equipment Corporation Pension Plan and the Digital Equipment Corporation de Puerto Rico Pension Plan.

On August 8, 1994, the Board of Directors of Digital Equipment Corporation de Puerto Rico voted to terminate the Plan effective October 31, 1994 and filed notice to terminate with the Pension Benefit Guaranty Corporation (PBGC) on December 1, 1994. On November 30, 1994, the DEC de Puerto Rico Plan liquidated its portion of the Trust net assets, leaving the U.S. Plan as the sole investor in the Trust. The Trust dissolved on July 1, 1995, and the assets of the Trust were transferred into the Plan.

During December 1995, the Board of Directors of Digital Equipment Corporation (the "Company") approved amendments to the Plan, including its name change from the Digital Equipment Corporation Pension Plan to the Digital Equipment Corporation Cash Account Pension Plan, and a new formula for determining plan benefits. These amendments became effective on March 1, 1996.

B. Summary Plan Description:

The following brief description of the Plan is provided for general information purposes only. Participants should refer to the plan agreement for more complete information.

The Plan is a noncontributory defined benefit pension plan in which participants become fully vested after five years of service.

Effective March 1, 1996, the contribution of the Company is designed to fund the aggregate service costs of the Plan on a current basis. The return (interest, dividends and net appreciation in the fair value of investments) on investments of the Plan serves to reduce further contributions that would otherwise be required to provide for the defined level of benefits under the Plan. Under the new formula, the defined pension benefit is based on an account balance for each continuing participant comprised of a percentage of pay for each year of service and interest credited on the cumulative balance.

The Company enacted an immediate transition of all active employees to the amended plan using a graduated formula based on years of service. For employees who were retirement eligible within five years from the effective date of the new plan, service and earnings credit will continue to accrue to the Plan under the old formula and their accrued benefit will be the higher of the new or old

Continued

formulas until the year 2001. As a result of the implementation of the new formula, the actuarial present value of accumulated plan benefits increased by an estimated $471,000,000.

Effective July 1, 1995, the Plan was amended to waive preretirement spouse death benefit charges and add a lump-sum payment option for terminated, vested participants. As a result, the actuarial present value of accumulated plan benefits increased by $71,645,000.

For participants currently receiving payments and vested deferred participants, benefits will continue to accrue under the provisions of the prior plan agreement.

While the Company has not expressed any intent to discontinue its contributions, it is free to do so at any time subject to penalties set forth by the Employee Retirement Income Security Act of 1974 ("ERISA"). In the event discontinuance results in the termination of the Plan:

1. The Plan provides that the net assets shall be allocated among the participants and beneficiaries of the Plan in the order provided for in ERISA; and
2. To the extent unfunded vested benefits exist, ERISA provides that such benefits are payable by the Pension Benefit Guaranty Corporation ("PBGC") to participants up to specified limitations as described in ERISA.

C. Summary of Significant Accounting Policies:

The principal accounting policies of the Plan are as follows:

Basis of Accounting

The accompanying financial statements were prepared on the accrual basis of accounting.

Investment Valuation and Income Recognition

Securities (corporate bonds, and common and preferred stocks) traded on a national securities exchange are valued at the last reported sales price on the last business day of the fiscal year; securities traded in the over-the-counter market and listed securities for which no sale was reported on that date are valued at the mean between the last reported bid and asked prices. Investments in short-term government securities are valued at cost plus accrued interest which approximates fair value. Long-term government securities and corporate bonds for which market quotations are not considered to be readily available are recorded at fair value using valuations furnished by a pricing service. Securities that represent interests in common and collective trusts and joint venture interests for which there are no market quotations available are valued by the managers of those entities and are approved by the Digital Equipment Corporation Pension Investment Committee (the "Investment Committee").

Continued

NOTES TO FINANCIAL STATEMENTS, CONTINUED

Investments in real estate consist of fee ownership, leveraged fee ownership, joint ventures, real estate partnerships, convertible subordinated debentures and leasehold interests which allow for the sharing of appreciation in the value of the underlying properties. These investments are carried at their estimated fair value of $31,152,446 at June 30, 1996, as determined by the Plan's investment advisor, in the absence of readily ascertainable market values, based on the best information available as of the end of the period. Such values are approved by the Investment Committee. In determining the estimated fair market value, the investment advisor will use certain information including valuations performed by independent appraisers. However, because of the inherent uncertainty of valuation, estimated values may differ significantly from the values that would have been used had a readily available market for the investments existed, and the differences could be material.

Real estate and other income is presented net of interest and other miscellaneous expenses of $2,063,804 for the year ended June 30, 1996.

Investments in limited partnerships are recorded at cost and adjusted for the allocable portion of net investment income and realized and unrealized gains and losses on investments.

Other

Purchases and sales of securities are recorded on the trade date. Gains or losses realized on the sale of individual securities are based on the average cost of the securities sold.

Dividend income is recorded on the ex-dividend date. Interest income is recorded as earned.

The Plan presents in the statement of changes in net assets the net appreciation (depreciation) in the fair value of its investments which consists of the realized gains or losses and the unrealized appreciation (depreciation) in those investments.

Actuarial Present Value of Accumulated Plan Benefits

Accumulated plan benefits are those future periodic payments, including lump-sum distributions, that are attributable under the Plan's provisions to the service employees have rendered. Accumulated plan benefits include benefits expected to be paid to (a) retired or terminated employees or their beneficiaries, (b) beneficiaries of employees who have died, and (c) present employees or their beneficiaries. Benefits under the Plan are based on growth in employee's account balances, calculated using a formula which includes a percentage of the employees' pay, plus a guaranteed return on existing account balances. The accumulated plan benefits for active employees are based on their account balances and compensation ending on the date as of which the benefit information is presented (the valuation date). Benefits payable under all circumstances - retirement, death, disability, and termination of employment are included, to the extent they are deemed attributable to employee service rendered to the valuation date.

Continued

NOTES TO FINANCIAL STATEMENTS, CONTINUED

The significant assumptions underlying the actuarial computations in determining the present value of accumulated plan benefits are as follows:

Assumed rate of return on investments	- 9.0% per year
Mortality basis	- The 1971 Group Annuity Mortality Table projected to 1991, set back 6 years for females
Employee turnover	- A scale consistent with the Company's experience, with 20 - 12.5% turnover assumed in the first three years of service and thereafter, ranging from 12% for employees aged 22 and younger to 0% for employees aged 55 and older.
Retirement age	- A scale consistent with the Company's experience, ranging from 2% at age 55 to 100% at age 70 for active employees, and a scale ranging from 5% at age 55 to 100% at age 65 for terminated vested employees.

The foregoing actuarial assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated plan benefits.

Futures

The Plan utilizes futures contracts, mainly Standard & Poor's Index futures and U.S. Treasury Note futures contracts, in order to take advantage of imperfections in the stock and bond markets or to adjust its exposure among asset classes. A futures contract is a commitment to buy or sell units of a particular index or a certain amount of a U.S. Government security at a set price on a future date. Futures contracts are generally settled by executing a closing transaction to offset the contract rather than by actually purchasing or selling the underlying asset. Futures positions are collateralized by certain investments, usually U.S. Treasury bills.

Upon entering into such a contract the Plan is required to pledge to the broker an amount of cash or securities equal to the minimum "initial margin" requirements of the futures. Pursuant to the contract, the Plan agrees to receive from or pay to the broker an amount of cash equal to the

Continued

daily fluctuation in value of the contract. Such receipts or payment are recorded on a daily basis and are included in net appreciation (depreciation) in the fair value of investments.

The potential risk to the Plan in entering into futures contracts is that losses may arise from changes in the value of the underlying instruments.

At June 30, 1996, the Plan has the following open futures contracts:

Security	Expiration Date	Face Value	Fair Value	Unrealized Appreciation (Depreciation)
US Treasury Bond Futures	June - September 1996	$ 12,517,125	$ 12,705,480	$ 188,355
US Treasury Note Futures	September 1996	28,051,499	28,165,000	113,501
S&P 500 Futures	September 1996	1,687,875	1,692,000	4,125
Eurodollar Futures	June 1997	9,340,000	9,370,000	30,000
		$ 51,596,499	$ 51,932,480	$ 335,981

Options

The Plan utilizes options contracts, mainly options on Eurodollar futures contracts, in order to take advantage of imperfections in the bond markets or to adjust its exposure to interest rate changes. An option contract is an agreement that allows the holder to either buy or sell the underlying security at a fixed strike price. In exchange for a premium, the writer of the option contract assumes the obligation to sell or buy the underlying instrument if the holder of the option chooses to exercise it.

By writing options, the Plan profits by the amount of the premiums if the option is not exercised. The potential risk to the Plan in writing options is that losses may arise from changes in the value of the underlying instruments.

At June 30, 1996 the Plan was liable for written options to purchase Eurodollar futures contracts with various maturities through June 1997, having an aggregate face value of $9,805,000. The premium collected on these options was $95,956, and at June 30, 1996 the market value of these options was $80,250.

Contributions

Contributions from the Company are made based upon amounts required to be funded under provisions of the ERISA. Contributions from the Company are paid directly to the Plan. No contributions were made in 1996 or 1995 due to the full funding limitations of ERISA.

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Use of Estimates

The preparation of the Plan's financial statements in conformity with generally accepted accounting principles requires the plan administrator to make significant estimates and assumptions that affect the reported amounts of net assets available for benefits at the date of the financial statements and the actuarial present value of accumulated plan benefits as of the benefit information date, the changes in net assets available for benefits during the reporting period and, when applicable, the disclosures of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Risks and Uncertainties

Contributions to the Plan and the actuarial present value of accumulated plan benefits are reported based on certain assumptions pertaining to interest rates, inflation rates and employee compensation and demographics. Due to the changing nature of these assumptions, it is at least reasonably possible that changes in these assumptions will occur in the near term and, due to the uncertainties inherent in setting assumptions, that the effect of such changes could be material to the financial statements.

Benefit Payments

Benefit payments to participants are recorded upon distribution.

Administration of the Plan

All administrative expenses are borne by the Plan. During 1995, $78,525 of plan administrative expenses and $4,835,421 of Trust expenses were borne by the Trust. Total Plan and Trust expenses in 1995 were $4,972,531.

D. Accumulated Plan Benefits:

As of July 1, 1995, the present value of accumulated plan benefits under the Plan, as calculated by consulting actuaries, by applying actuarial assumptions to adjust the accumulated plan benefits to

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