digital

Digital Equipment Corporation
Annual Report 1988

A window provides a unique view of the outside world. In this Annual Report, four international business leaders share their views of the challenges facing large organizations. And, now, with the introduction of DECwindows, one desktop device can provide windows into every corner of the enterprise. Users of Digital desktop systems and terminals can share the rewards of working together. They can monitor, interact with, and control VMS, UNIX,™ and MS-DOS™ programs running anywhere on the network, opening a different "window" on the display for each application.

Corporate Profile

Digital Equipment Corporation is the world's leading manufacturer of network computer systems and associated peripheral equipment, and is the leader in systems integration with its networks, communications, services, and software products. Digital's VAX computer family integrates the enterprise, from the individual and work group to the whole organization. The Company's products are used worldwide in a variety of applications and programs, including scientific research, computation, communications, education, data analysis, industrial control, timesharing, commercial data processing, graphic arts, word processing, personal computing, health care, instrumentation, engineering and simulation.

Financial Highlights

Fiscal Year	**1988**	1987	% Change
Total operating revenues	**$ 11,475,446,000**	$ 9,389,444,000	+ 22
Net income	**$ 1,305,633,000**	$ 1,137,435,000	+ 15
Net income per share	**$ 9.90**	$ 8.53	+ 16
Total stockholders' equity	**$ 7,510,374,000**	$ 6,293,471,000	+ 19
Number of stockholders	**103,162**	99,379	
Stockholders' equity per share	**$ 59.47**	$ 49.87	+ 19
Return on equity	**18.9%**	18.9%	
Return on assets	**14.1%**	14.6%	

Annual Meeting of Stockholders

The Annual Meeting of Stockholders will be held at 11:00 A.M., Thursday, November 3, 1988, at the World Trade Center, Commonwealth Pier, 164 Northern Avenue, Boston, Massachusetts 02210. Stockholders of record on September 9, 1988, will be entitled to vote at this meeting.

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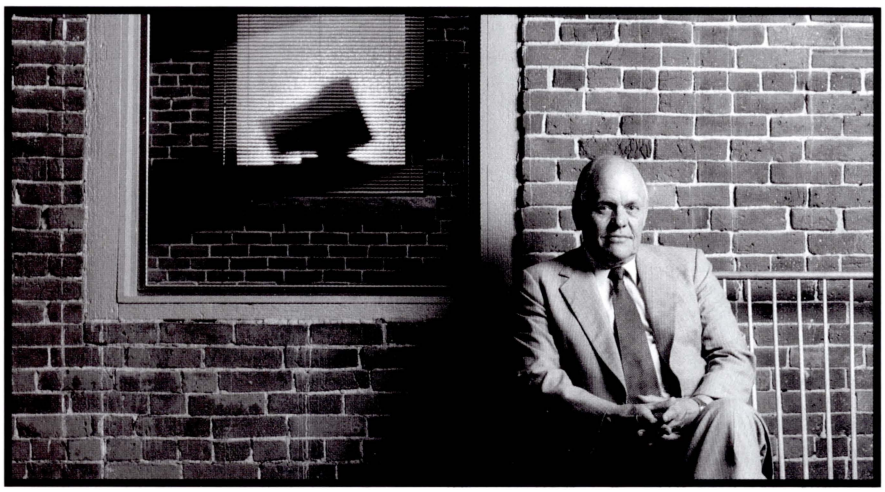


Kenneth H. Olsen, President

To Our Shareholders,
Employees, And Customers:

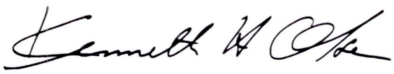
Each year we survey our customers to see how we are doing. I am pleased to tell you that customer satisfaction has reached record levels, leading to revenue increases and profitability for Digital that exceeded those of the computer industry as a whole.

In today's global competition, we see successful organizations, large or small, as more distributed and less hierarchical. Information needs to be placed in the hands of the individual, and be available simultaneously across the enterprise. A growing number of organizations worldwide are adopting Digital's enterprise-wide, network computing strategy. By providing solutions at the user level and interconnecting systems in a multivendor environment – from workstations through departmental systems to globally distributed transaction processing networks – we help our customers become more competitive than ever before.

Probably the most significant factor in our success over the years has been our disciplined approach to the VAX/VMS hardware and software environment. From the beginning, our design discipline for each hardware and software component has enabled us to modernize them continually without redesigning the system. VAX/VMS is the only hardware/software system that has such clear architectural definition for development and growth. Software written ten years ago will work on today's newest VAX computers; software written today will work on VAX computers many years from now. The resulting computing environment provides unmatched flexibility and protects the customer's investment.

Lately there has been considerable interest in an "open operating system." As one of the founders of the Open Software Foundation (OSF), Digital is participating enthusiastically in the development of the OSF User Interchange Standards. As computer users, as well as computer system providers, we understand the productivity advantage our customers receive by using standard interfaces, protocols, and languages to manage their information, whether in document, picture, or voice form. Digital, therefore, is committed to having its products, VMS and ULTRIX, meet all information interchange standards.

Our goal is to provide customers with the most productive computing environment possible so they can realize the rewards of an enterprise that works together.



Kenneth H. Olsen, President

September 1, 1988

Tommaso Zanzotto
President
Travel and Travel Management
Services, U.S.A.
American Express Travel Related
Services Company, Inc.

Sandra Kurtzig
Founder and Chairman
ASK Computer Systems Inc.

Stanley L. Cornelison
Managing Partner
Worldwide
Management Information
Consulting Practice
Arthur Andersen & Co.

Digital Understands
The Rewards Of Working Together.

In this Annual Report, four Digital customers share their thoughts on the business issues that face any large organization. Nine other customers tell how they address those issues.

One theme runs through these stories – the rewards of working together. Each tells how computers and computer networks help focus the human, financial, and technological resources of an organization on critical business objectives.

"Working together" requires an imaginative yet disciplined approach to information technology. Digital has developed a well-defined but flexible framework to integrate desktop, workgroup, departmental, and datacenter systems.

This framework addresses the critical business and information management needs of our customers:

- Management needs enterprise-wide networking to make the entire organization more responsive to customer demands and new business opportunities.
- MIS needs a single, consistent development environment to shrink its application backlog.
- Users – whether they have terminals, personal computers, or workstations – need a single, consistent way to access applications and information. They need to be able to exchange information and share ideas within the workgroup and across the organization.

Digital's unique ability to address these needs underlies the customer stories in this Annual Report.

Beverly Clayton
Executive Director
Pittsburgh Supercomputing
Center

"There are no longer Japanese companies or American companies or German companies. We all compete in a single global market. Japanese executives carry American Express Cards. Hondas are built in the U.S. British Airways flies tourists to Spain. Italian banks finance Canadian paper companies. People, products, technologies, money, and ideas know no national boundaries."

Tommaso Zanzotto, President, Travel and Travel Management Services, U.S.A., American Express Travel Related Services Company, Inc.

American Express Travel Related Services Company, Inc., has been a Digital customer since 1973. Today, American Express' tour operations unit uses a network of Digital systems in New York, London, Hong Kong, Mexico City, Honolulu, and other cities to help travel agents plan holidays and make hotel, travel, theatre, and concert reservations around the world.

"Our foreign exchange data processing strategy is based on Digital's ability to provide an open-ended way to organize computer resources. Digital's open environment, cluster technology, and network architecture give us the flexibility to match computing resources to applications as they grow, are upgraded, or even down-sized – as they are centralized here in Zürich or distributed to our offices around the world." **Dr. Hubert Huschke,** Executive Vice President and Chief Information Officer, Union Bank of Switzerland

Switzerland is a small country. Like many Swiss banks, Union Bank of Switzerland's success has come from its ability to compete in the larger but rapidly changing world market.

That's meant opening UBS offices in other countries to serve multinational customers. It's meant building an international network where applications are distributed or replicated on different systems in different countries. And it's meant finding a way to build modular systems that can handle significant shifts in the type and volume of transactions in different offices.

UBS adopted a Digital strategy, building a network of VAX, VAXstation, and VAXcluster systems that work together transacting business in all the major money markets. As new financial instruments are developed or trading patterns change, UBS is able to scale-up, down-size, distribute, or replicate applications without obsoleting either hardware or software. This gives UBS a competitive edge. Once they develop an application for one VAX system it can run on any VAX system.

Digital is the only computer manufacturer to provide the flexibility of a single software environment that extends from the desktop to the datacenter. This environment supports uniprocessor and multiprocessor systems, as well as clusters, where large and small, new and old VAX processors actively share a large database.

Union Bank Of Switzerland: Replicating And Distributing Applications Internationally.

Digital Equipment: Modular Systems Provide The Environment For Growth.

"Everyone talks about technology transfer, but it only works in an environment where it's easy to share ideas. Glaxo is creating such an environment on an international scale, building a worldwide network for developing and clinically testing new pharmaceutical products. And new products have helped make Glaxo Inc. the fastest-growing pharmaceutical company in the United States." **Ernest Mario, Ph.D.,** Chairman and Chief Executive Officer, Glaxo Inc.

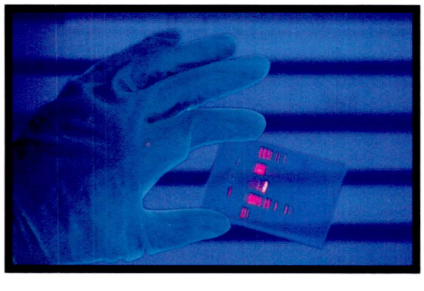
Gaining FDA approval for a new drug is an expensive and time-consuming business. It is not unusual for a major pharmaceutical company to spend ten years and 125 million dollars to develop and test a new product. Yet, even when FDA approval is finally won, there's no guarantee of its commercial success.

Glaxo Inc., the U.S. subsidiary of British-based Glaxo Holdings, p.l.c., and the fourth-largest prescription pharmaceutical company in the U.S., has found the prescription for success: design clinical studies that will properly position a product by showing that it fills a market need. To do this, research and marketing have to work together to see that clinical programs evaluate dose response, comparative efficacy, and treatment costs.

One of the rewards of working together: Glaxo's Zantac® (ranitidine hydrochloride) – an anti-ulcer medicine – has become the largest-selling prescription drug in the world.

A global computer network that integrates research, clinical testing, and marketing helps Glaxo build on this success by speeding the transfer of information between Glaxo Inc.'s headquarters and research center in North Carolina's Research Triangle Park and other Glaxo centers in England, Italy, Switzerland, and Canada.

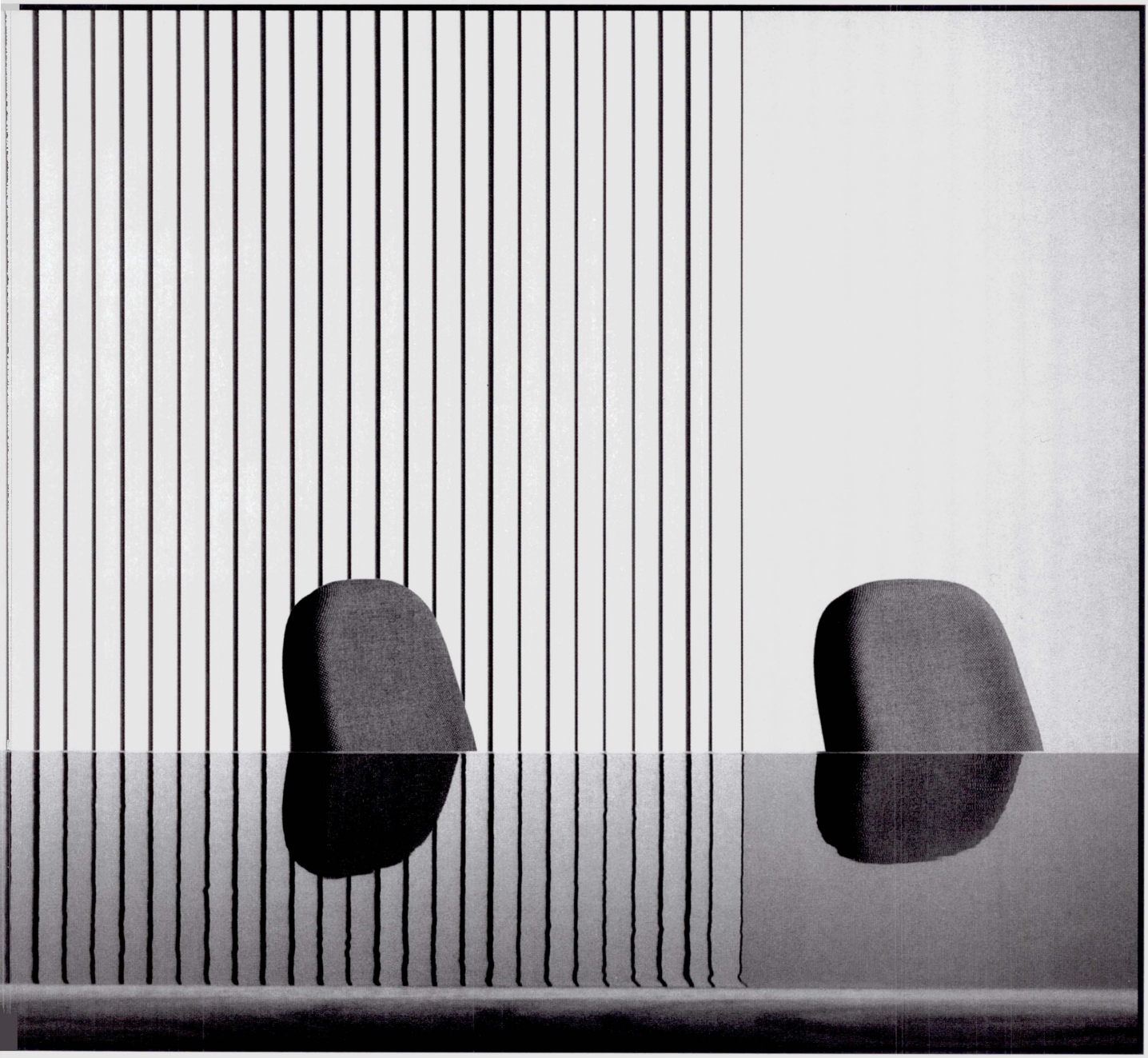
Glaxo Inc.: Expediting Technology Transfer And Product Development.



Digital Equipment: Providing A Worldwide Network For Sharing Ideas.

"Productivity means little unless you can build a better product or provide a better service. The key to competing in the global market is neither endless automation nor cheap labor. It's working smarter. It's controlling quality, not just controlling costs – so you can provide a better value than the competition."

Sandra Kurtzig, Founder and Chairman, ASK Computer Systems Inc.



ASK Computer Systems is a leading supplier of management information systems for manufacturing companies, and one of the more than 150 independent software and system developers active in Digital's Cooperative Marketing Programs. These vendors provide a wide range of specialized solutions that can be integrated into a DECnet/OSI network.

Automation is not enough. Many Digital customers are improving productivity through Computer Integrated Manufacturing (CIM) programs that combine automation with inventory management, quality control, and other manufacturing applications. CIM can provide the technological base needed to implement just-in-time delivery systems and zero-defect programs that further increase manufacturing productivity.

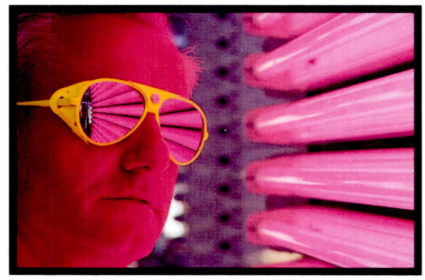
N.V. Philips, the Dutch electronics manufacturer based in Eindhoven, started to use Digital systems to control manufacturing costs and improve productivity long before CIM – Computer Integrated Manufacturing – became a widely accepted concept. As a result, Philips has been able to improve their position as Europe's leading manufacturer of consumer electronics.

From the start, Philips recognized that simply automating the factory floor does not address the whole problem. Production has to be coordinated with purchasing, inventory, and marketing. And quality management has to embrace all these functions, if warranty costs are to be reduced and a consumer franchise built.

Philips recognized the rewards of working together. They saw that computers – built by different manufacturers – working in product development, manufacturing, and marketing, had to be linked and that they had to work together. Digital systems work in an open networking environment. That's why they play an important role in Philips' networks.

The ability to deliver Computer Integrated Manufacturing solutions that work as part of enterprise-wide networks has made Digital the leader in the field.

N.V. Philips:
Integrating Manufacturing
With Marketing
And Product Development.



Digital Equipment:
Building Open Networks
To Make The Entire Enterprise
More Productive.

"Chemical process companies have always shown the highest dollar sales per employee of any segment of the manufacturing industry. This productivity is linked directly to the use of realtime computers to control petrochemical processes. But computers can also be used to improve professional and managerial productivity. At Hoechst, we've built a network so people can work together." **Dr. Johann Friederichs,** Director of Information & Communication, Hoechst AG

Hoechst is one of the world's largest chemical companies. The German-based company is also a pioneer in the use of electronic mail.

The Hoechst "Buroinformationsystem," a Digital ALL-IN-1 office information and communication system, helps over 500 key Hoechst managers, engineers, and scientists throughout Germany work together.

Although Digital is a primary supplier of office systems to Hoechst, non-Digital computers are used in some facilities. Users on many of these systems can exchange electronic mail messages with users of Digital systems.

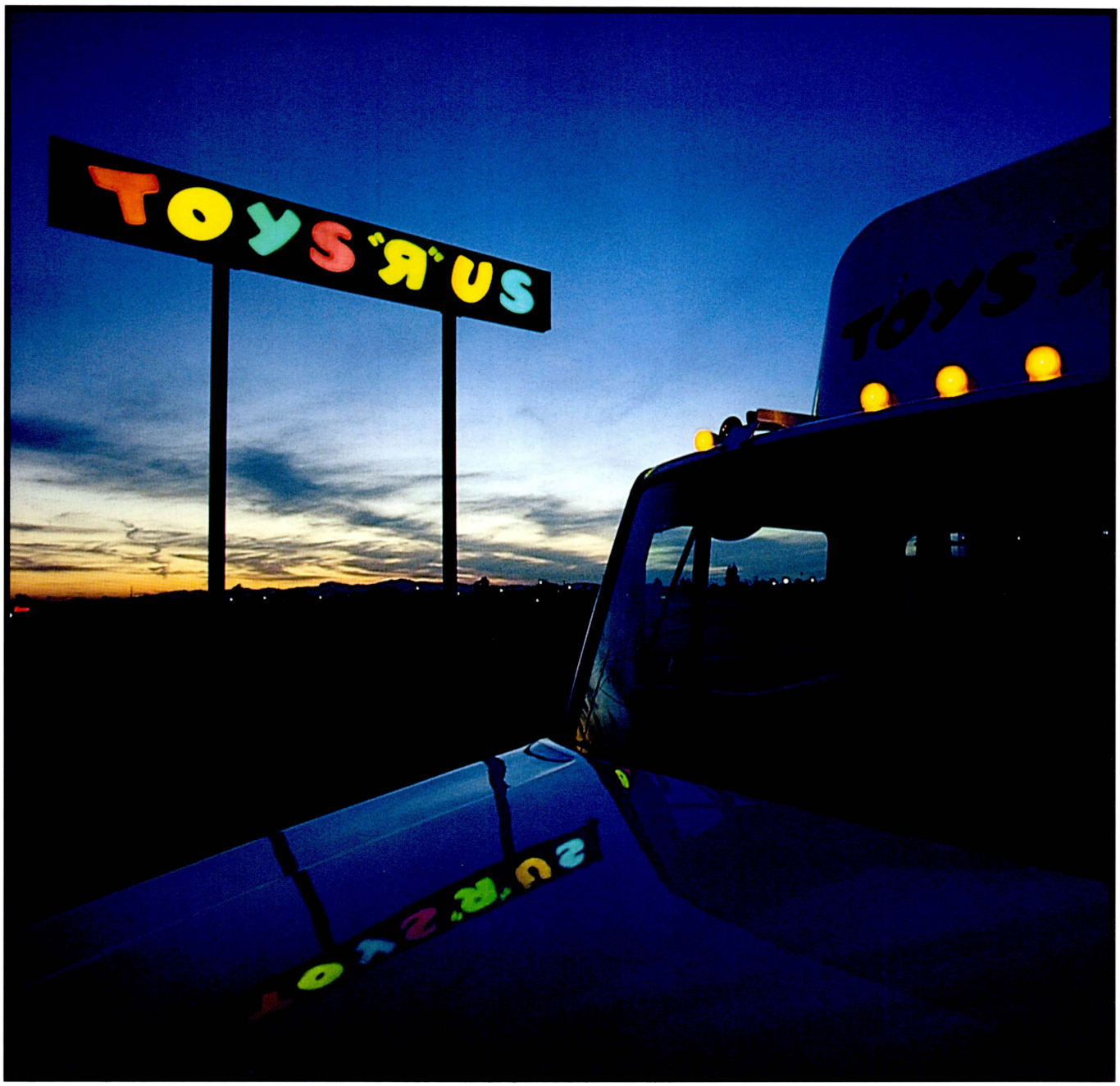
Digital was the first computer manufacturer to develop an internetwork interface to meet the X.400 international communication standard. Hoechst was the first Digital customer to use the X.400 MAILbus interface for the interchange of electronic mail among public and private networks. For example, users on an IBM mail system at one Hoechst facility can now send messages to users on Digital ALL-IN-1 systems at other facilities, and in some cases those messages will travel over the Bundespost Datex-P public packet switched network.

The development of the X.400 MAILbus interface reflects Digital's commitment to international standards. DECnet is the only major networking system built around OSI standards. DECnet/OSI provides customers like Hoechst with the assurance that they will be able to continue to work together as they add computers compliant with international standards to their network.

Hoechst:
Improving Professional And Managerial Productivity.

Digital Equipment:
Integrating Public And Private Electronic Mail Systems.

"We wanted to improve productivity, increase sales per employee. That required installing a sales, inventory, and credit system in each of the 313 Toys "R" Us stores. Installation had to be scheduled so that it wouldn't interfere with the holiday rush – almost half of our sales are made in the eight weeks between the start of November and Christmas. That gave Digital six months to build the network. They delivered." **Charles Lazarus,** Chief Executive Officer, Toys "R" Us



In retailing, productivity is measured in dollars per employee and dollars per square foot of selling space. To increase productivity you must have the right items in the right stores at the right time. And you have to make shopping easy. In the toy business that can be a problem. Christmas checkout lines can seem interminable.

Toys "R" Us found the way to speed checkout lines, improve employee productivity, and track sales and inventory on a store-to-store, day-to-day basis. Each of the 313 Toys "R" Us stores is equipped with two MicroVAX computers networked to electronic cash registers and optical scanners at the point-of-sale, and to other VAX systems in twenty distribution centers around the country.

Given the seasonal nature of the toy business, the entire online transaction processing network had to be built in just six months because installation couldn't start until everything was straightened out after Christmas. Then, equipment had to be installed, software tested, network links established, and employees trained before the next Christmas rush. Working together, Toys "R" Us and Digital met the deadline. The whole network was up and running before Thanksgiving.

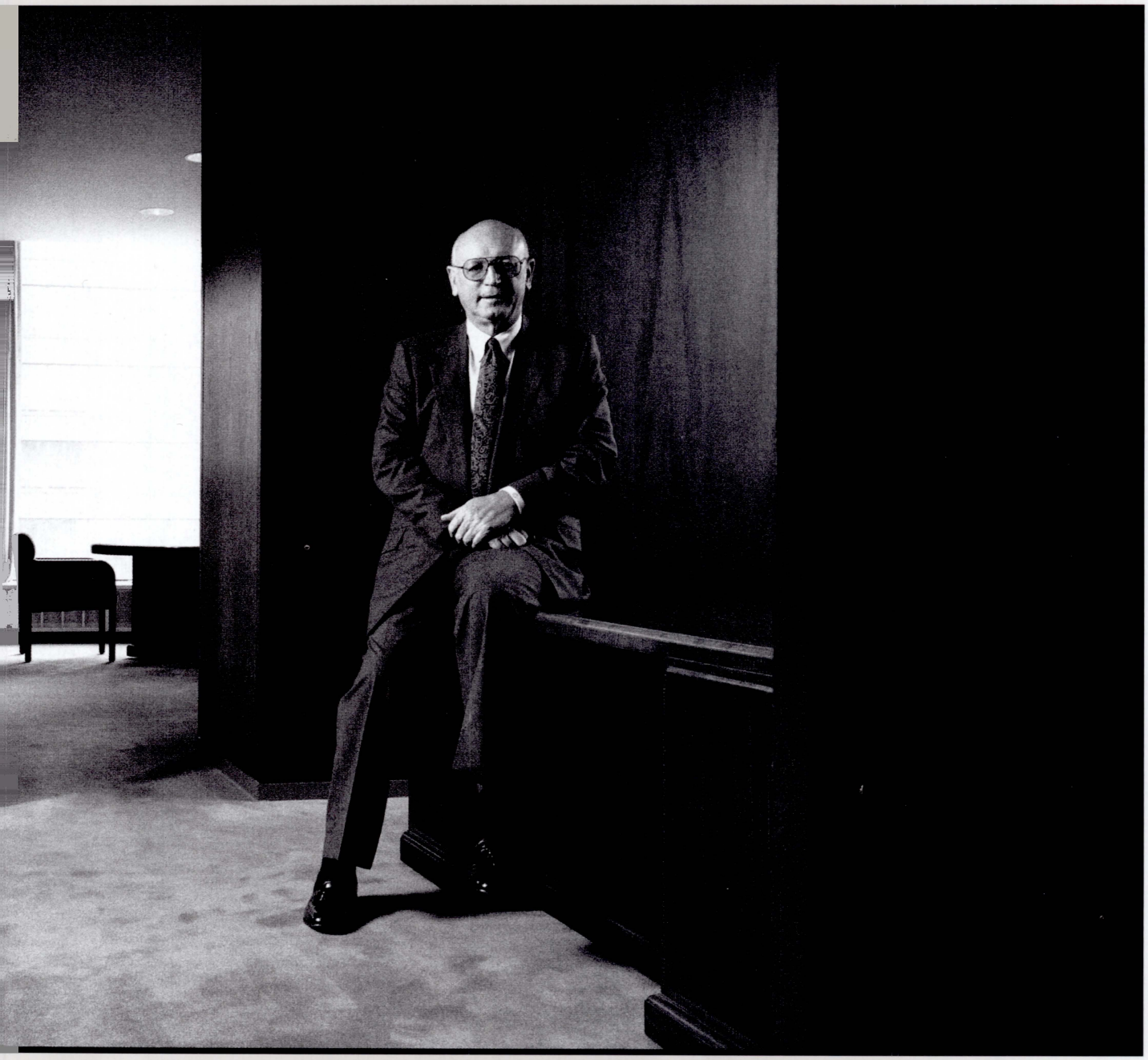
This year the network helped Toys "R" Us transact over $3 billion in sales. And it helped make this holiday season more profitable by improving productivity. Checkout lines moved faster. Price lookups were virtually eliminated. Stockouts were reduced. Even returns became easier to handle.

Toys "R" Us: Ringing Up More Dollars Per Employee.

Digital Equipment: Improving Productivity With On-Line Transaction Processing.

"One of the greatest challenges facing a CEO is the allocation of resources. You must choose your opportunities carefully, yet aggressively. The key, as you work toward your vision, is to take intelligent risks, to try new directions and new approaches. With that, you must communicate your vision clearly and effectively so everyone in the organization has the same priorities and goals."

Stanley L. Cornelison, Managing Partner, Worldwide Management Information Consulting Practice, Arthur Andersen & Co.



In a professional services organization, users of industry-standard PCs and workstations must share information and access larger systems. Using Digital software, Arthur Andersen & Co. is linking the PCs used by members of its "Digital Practice" into its expanding VAX network.

"Someone once described construction as the business of pouring money into a hole in the ground. That's not the case in the construction of the Sydney Harbour Tunnel. We're confident we can come in on budget because we have the computer-based project management system needed to track every aspect of this $400 million (Australian) job." **Franco Belgiorno-Nettis,** Founder and Chairman, Transfield Construction

Digging a tunnel is probably the most demanding job a contractor can undertake. When you're working in a thirty-foot-wide tunnel under 100 feet of rock in a major residential area, or in a submerged concrete tube on the bed of Sydney Harbour, there's no room for error. It is not the kind of project in which lost time can be made up by throwing more workers and machines at the job.

The fifty-year-old bridge that dominates the Sydney skyline can no longer handle the traffic demands of this city of three and a half million people. As a consequence, the construction schedule for the Sydney Harbour Tunnel is tight – 44 months, about half the time it took to complete the Holland Tunnel in New York. Transfield and its partner in the Harbour Tunnel project, Kumagai Gumi – Japan's leading construction company – are committed to an August 31, 1992, completion date and to building the tunnel without spoiling the "picture postcard" view of the Sydney Opera House.

One of the major contributions Transfield made to this joint venture was a sophisticated project management system. Running on a network of Digital computers, this system helps the construction team work together. Computers track every aspect of the job – budgets, schedules, and materials – so that the right resources are in the right place at the right time. The entire project management system is online. Everyone is working with the latest data so the entire job will come in on time and on budget.

Transfield Construction: Allocating Resources In A Joint Venture.

Digital Equipment: Helping To Keep The Project On Schedule.

"Effective police work involves considerable collecting, sharing, and sifting of information. For London we chose a network of 240 VAX computers to help the 27,000 officers and 16,000 civil staff of the Metropolitan Police work together. The system will provide local police stations – from Bow Street-Covent Garden in the centre to Heathrow on the outskirts – with immediate access to one of the largest distributed relational databases in Britain."

Roger Gregory, Director of Computing Services, London Metropolitan Police

The Metropolitan Police, with headquarters at New Scotland Yard, is responsible for an 800-square-mile area containing seven million people.

The Yard wanted to improve the handling of crime reports so that information would be readily available when and where it was needed. But there was no off-the-shelf software solution that met the specialized requirements of the Metropolitan Police. Digital provided the framework – the computers and the networking and systems software environment – around which SD-Scicon, the systems integrator chosen by the Metropolitan Police, could build a unique relational database system.

This kind of cooperative effort between Digital and a third-party organization is not unusual.

Digital understands the rewards of working together and has established formal working relationships with hundreds of software companies, telecommunications companies, and manufacturers of specialized hardware.

Many of these companies are household names like British Telecom/Mitel, Raytheon, Kodak, and Bankers Trust. Others are just as well known and respected in the industries they serve.

Scotland Yard: Looking For The Right Solution.

Digital Equipment And Third Parties: Combining Resources To Solve Unique Problems.

"There are no longer easy answers. Scientists now work with masses of data and complex equations that would take hundreds of man-years to sort out or solve if it weren't for computers. Information technology is – by telescoping time – accelerating change. The impact on the way we see ourselves and the world we live in may be the only thing that's incalculable." **Beverly Clayton,** Executive Director, Pittsburgh Supercomputing Center

Research scientists at universities and commercial laboratories around the country are networked to one of the world's fastest computers, the CRAY X-MP™ at the Pittsburgh Supercomputing Center, through a Digital VAX Supercomputer Gateway. The Center is a unique collaboration of Carnegie Mellon University, the University of Pittsburgh, and Westinghouse Electric Corporation.

"The 1990 Census will mark the hundredth anniversary of the invention of Herman Hollerith's punched-card machine. This unit record device, first used in the 1890 Census, was a forerunner of the computer. The Census has always required the best technology. The 1990 Census will be collected with a distributed network of VAX systems." **John G. Keane,** Director, Bureau of the Census

The Bureau of the Census does more than count the population of the Spokane Indian Reservation, New York City, and every other community in the United States. It provides the statistical database for economic forecasts, business marketing plans, Congressional redistricting, federal aid to state and local governments, and other governmental and private studies. The amount of information that has to be gathered is staggering. When completed, the 1990 Census will be one of the largest, if not the largest, databases in the world, a database that the Federal Government will use to generate more than 2,000 statistical reports a year.

Digital is providing a nationwide and Bureau-wide network of over 450 MicroVAX and VAX systems, which will be used to capture, analyze, and summarize the data collected by an army of 400,000 census takers.

Digital is helping to plan and build the network. We're helping train Census personnel. And we're installing equipment. The Census Bureau is counting on Digital.

Building networks is a growing part of Digital's business. In large networking projects like this, Digital often acts as a general contractor providing network planning, installation, and maintenance.

U.S. Census Bureau: Measuring Change With A VAX Network.

Digital Equipment: Building A Network Across America.

"By the year 2000, data will account for more than 40 percent of the traffic carried over telephone lines. That's one reason Northern Telecom is working together with Digital to develop a technological base for integrating voice and data at the application level, so sharing information anywhere, anytime, and in any form will be as easy as using the phone." **Roy Merrills,** President, Northern Telecom Inc.

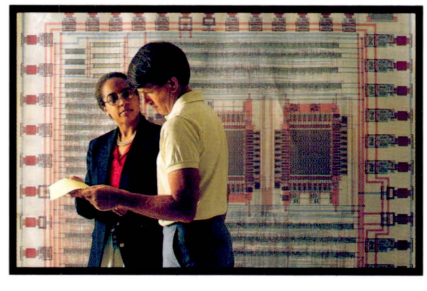
Northern Telecom is the world's leading supplier of fully digital telecommunications systems, including central office switches for telephone operating companies and private branch exchanges (PBXs) for private networks. Many of these switches are built by Nashville-based Northern Telecom Inc. These advanced systems direct both voice and data traffic. But to fully integrate computer and telephone networks, two more steps have to be taken. Voice and data must be integrated at the application level. And voice and data transmissions have to be multiplexed over high-speed communication lines.

Digital, Northern Telecom, and other leading telecommunications equipment manufacturers are working from a common blueprint. With CIT – Computer Integrated Telephony – a PBX and a VAX computer can exchange information and work together in a voice/data network. Northern Telecom and Digital were among the original sponsors of this technology.

At the same time, Digital, Northern Telecom, and other telecommunications equipment manufacturers are working with telephone operating companies around the world to implement ISDN – Integrated Services Digital Network – in which voice and data transmissions share the same high-speed circuits.

Standards are a prerequisite for these initiatives. By actively cooperating with international standards groups and other manufacturers of computers and telecommunications equipment, Digital is working toward the day when an organization will be able to integrate all its voice and data resources in a single enterprise-wide network.

Northern Telecom: Making The Connection Between Voice And Data.



Digital Equipment: Developing Standards To Facilitate Change.

The Digital Difference Is Open, Enterprise-Wide Networking.

Digital's success is based on building systems that work together in an open network – systems that work together so the people who use them can work together.

This year, to enhance and expand these open networking capabilities, Digital spent $1.3 billion on research and development. Particular emphasis was given four key areas:

DECwindows – The Desktop Interface.
Users should not have to contend with different operating systems running on different computers within the network. With DECwindows software, users can run VMS, UNIX, and MS-DOS applications simultaneously from a desktop terminal, personal computer, or workstation, opening a different "window" on the display for each application.

Integrating OLTP Into The Enterprise-Wide Network.
Most online transaction processing (OLTP) systems run on dedicated computers over dedicated networks. Digital has integrated OLTP into the mainstream. VAX systems can run OLTP applications simultaneously with other jobs. Data-center, departmental, and desktop computers all work as a single, open-ended system. And, as OLTP and DBMS requirements grow, there's economy of scale. Without changing software, extremely large and powerful production systems can be built by clustering VAX computers. VAXcluster technology combines incremental growth with high data and system availability.

Reducing System And Support Costs.
Personnel represents about one-third of the cost of system ownership: as much as half the cost of building and maintaining a network. Studies have shown that DECnet/OSI networks cost up to 50 percent less to operate than comparable networks from other major vendors. Similar savings can be found in system support costs.

There are a number of reasons for these savings: Digital systems are easy to program. Application software is readily available. Digital hardware and software are reliable. Digital was the first major computer vendor to offer a one-year warranty on all systems.

Working together with customers, other vendors, and independent software developers, Digital is providing the resources and information technology needed to integrate the enterprise. This requires a comprehensive approach to service and support – from strategic planning and design, through implementation and management, to migrating, replicating, and distributing applications to new systems. Included in this capability are consulting, online preventive maintenance, training, and the development of custom hardware and software products for unique customer requirements. These comprehensive service programs can help reduce system and support costs and the cost of network operations.

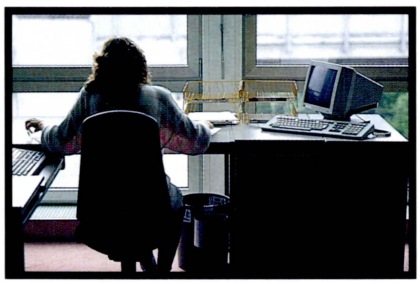
Supporting The Key Computing Environments.
Digital supports general-purpose and specialized operating environments including the VMS, MS-DOS, and UNIX operating systems.

The VMS operating system provides a rich general-purpose operating environment for simultaneous timesharing, office, realtime, batch, and online transaction processing. It supports local and wide area networks, VAXcluster systems, and symmetric multiprocessing. A program written for one system will run on any other system without change or recompilation.

MS-DOS is the most widely used operating system for personal computers. Digital not only builds systems that run MS-DOS and the leading personal computer application programs, but also adds value to IBM and Compaq PCs by providing the local and wide area networking, data management, and office information system software needed to integrate these desktop computers into corporate computing environments.

Digital also supports UNIX, an operating system used in education and in scientific and engineering applications. For the past nineteen years, Digital has been the world's leading supplier of UNIX hardware, software, and services.

But an open environment extends beyond operating systems. Digital is one of the founders and sponsors of the Open Software Foundation. The Foundation is establishing standards that will enable users to move network applications from systems built by one manufacturer to systems built by another.



The Success Of The Distributed Approach.
DECnet/OSI software provides a single, open network environment in which VMS, UNIX, and MS-DOS, and large mainframe and supercomputer systems can work together. Digital is committed to multivendor networking and the integration of DECnet with Open Systems Interconnect (OSI) and telecommunication standards.

Digital has developed products to link desktop terminals and IBM, Compaq, Olivetti, and other industry-standard personal computers into DECnet/OSI networks. Digital has developed "gateways" to link DECnet/OSI and IBM SNA networks and to provide VAX users with direct access to Cray supercomputers. In addition, Digital is working with Apple Computer, Inc., to establish standards for the integration of Macintosh™ computers and AppleTalk™ networks into enterprise-wide DECnet/OSI networks.

The success of this open approach to networking can be measured by the number of DECnet/OSI licenses Digital has issued – 144,000 at the end of fiscal 1988, making Digital the world's leading manufacturer of network computer systems.

The Rewards Of Working Together In Business And In The Community.

Each company featured in this Annual Report uses a Digital network to focus its resources on a mission-critical business problem. Like Digital, each is enjoying the rewards that come when everyone in the organization works together.

But these rewards are not limited to business. Digital and its 121,000 employees share the belief that they can make a difference and that computers can help make this a better world. That's why, in addition to external research grants, Digital donated more than $26 million in cash and equipment to nonprofit institutions throughout the world during the fiscal year.

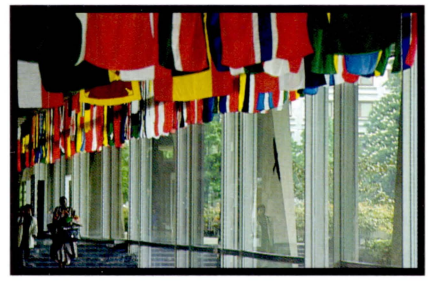
Grants and scholarships were made to hundreds of educational institutions around the world. DECtalk units – which convert computer output to the spoken word – were donated to hundreds of organizations as a means of providing technological access to members of the disabled community. Digital is also a major supporter of the National Urban League and other organizations that open opportunities for minorities, women, and the disabled.

Digital supports the arts. The Corporation awarded The Museum of Fine Arts in Boston the largest corporate grant in the museum's history for "Monet In The 90s," a major international exhibition scheduled to open in 1990. Digital is underwriting the production of "The Infinite Voyage." This science program, seen on both public and commercial television, promotes a better understanding of the world we live in.

Many Digital employees are actively involved in educational, health-care, civic, social, and cultural programs at the national, regional, and local levels. Many work with the Adam Walsh Child Resource Center and a network of Digital computers to fight child abuse in the United States. Digital also matches, dollar for dollar, employee contributions to nonprofit organizations across the country.

As individuals, as a company, and as world citizens, we are seeing the rewards of working together.

The box office at the Sydney Opera House has a computerized ticketing system based on a network of systems donated by Digital.



Digital donated a computer system to the World Health Organization in Geneva to provide worldwide electronic mail service.

Financial Contents

Operations *(in millions except per share data)*	**1988**	1987	1986	1985
Revenues				
Product sales	**$ 7,541.2**	$6,254.2	$5,103.0	$4,530.0
Service and other revenues	**3,934.2**	3,135.2	2,487.4	2,156.3
Total operating revenues	**11,475.4**	9,389.4	7,590.4	6,686.3
Costs and Expenses				
Cost of product sales, service and other revenues	**5,468.3**	4,513.9	4,282.1	4,087.5
Research and engineering expenses	**1,306.5**	1,010.4	814.2	717.2
Selling, general and administrative expenses	**3,065.6**	2,253.1	1,665.4	1,431.8
Operating income	**1,635.0**	1,612.0	828.7	449.8
Interest income	**143.6**	122.1	116.9	63.0
Interest expense	**37.8**	45.2	88.1	82.0
Income before income taxes	**1,740.8**	1,688.9	857.5	430.8
Provision for income taxes	**435.2**	551.5	240.1	(15.9)[3]
Net income	**$ 1,305.6**	$1,137.4	$ 617.4	$ 446.7
Net income per share[1,2]	**$ 9.90**	$ 8.53	$ 4.81	$ 3.71
Weighted average shares outstanding	**131.9**	133.3	130.8	124.1
Financial Position *(in millions except per share data)*				
Inventories	**$ 1,575.1**	$1,452.9	$1,199.8	$1,756.2
Accounts receivable, net of allowance	**2,592.2**	2,312.2	1,903.3	1,539.0
Working capital	**4,515.8**	4,376.6	4,222.7	3,694.2
Property, plant and equipment, at cost	**5,210.4**	3,859.3	3,262.7	2,827.6
Total assets	**10,111.6**	8,407.4	7,173.3	6,368.9
Long-term debt	**123.9**	269.3	333.2	836.9
Stockholders' equity	**7,510.4**	6,293.5	5,727.8	4,554.6
Stockholders' equity per share[2]	**$ 59.47**	$ 49.87	$ 44.54	$ 38.43
General Information and Ratios *(dollars in millions)*				
Current ratio	**2.9:1**	3.4:1	4.9:1	4.9:1
Quick ratio	**2.0:1**	2.4:1	3.5:1	2.8:1
Additions to property, plant and equipment	**$ 1,517.6**	$ 748.4	$ 564.2	$ 571.8
Depreciation	**$ 515.5**	$ 434.7	$ 384.0	$ 315.1
Debt to debt plus equity ratio	**1.6%**	4.1%	5.5%	15.5%
Operating income as a percentage of total operating revenues	**14.2%**	17.2%	10.9%	6.7%
Income before income taxes as a percentage of total operating revenues	**15.2%**	18.0%	11.3%	6.4%
Effective tax rate	**25.0%**	32.7%	28.0%	(3.7%)[3]
Net income as a percentage of total operating revenues	**11.4%**	12.1%	8.1%	6.7%
Net income as a percentage of average stockholders' equity	**18.9%**	18.9%	12.0%	10.5%
Net income as a percentage of average total assets	**14.1%**	14.6%	9.1%	7.5%
Number of days sales of accounts receivable outstanding	**75**	78	79	75
Inventory turns	**3.6**	3.4	2.9	2.3
Number of employees at year-end	**121,500**	110,500	94,700	89,000
Common shares outstanding *(in thousands)*	**126,290**	126,187	128,591	59,253
Stockholders at year-end	**103,162**	99,379	76,860	68,810
Common stock yearly high and low sales prices	**$ 199-99**	$ 174-82	$ 94-46	$ 63-39

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

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

1984	1983	1982	1981	1980	1979	1978
$3,804.1	$2,827.7	$2,738.5	$2,312.9	$1,736.4	$1,337.7	$1,078.1
1,780.3	1,444.2	1,142.3	885.2	631.6	466.4	358.5
5,584.4	4,271.9	3,880.8	3,198.1	2,368.0	1,804.1	1,436.6
3,379.6	2,606.0	2,187.6	1,778.7	1,319.9	1,012.3	802.3
630.7	472.4	349.8	251.2	186.4	138.3	115.7
1,179.5	830.6	758.6	632.2	478.9	370.1	281.0
394.6	362.9	584.8	536.0	382.8	283.4	237.6
41.5	61.2	102.8	60.6	53.8	35.8	12.3
35.1	13.1	14.8	29.2	27.0	24.3	22.4
401.0	411.0	672.8	567.4	409.6	294.9	227.5
72.2	127.4	255.6	224.1	159.7	116.5	85.3
$ 328.8	$ 283.6	$ 417.2	$ 343.3	$ 249.9	$ 178.4	$ 142.2
$ 2.87	$ 2.50	$ 3.76	$ 3.35	$ 2.73	$ 2.05	$ 1.70
114.7	113.4	110.9	105.1	94.3	89.9	86.5
$1,852.2	$1,353.8	$1,137.4	$1,102.2	$ 819.9	$ 513.5	$ 428.1
1,527.3	1,125.0	807.6	758.1	629.1	475.1	375.2
3,001.4	2,377.0	2,181.2	2,029.8	1,658.2	1,076.9	887.0
2,351.8	1,961.4	1,605.4	1,128.4	772.3	582.1	507.8
5,593.3	4,541.1	4,024.0	3,456.1	2,666.1	1,863.2	1,501.4
441.3	92.8	92.4	88.4	489.7	340.7	341.6
3,979.2	3,541.3	3,164.5	2,679.7	1,651.7	1,120.2	904.8
$ 34.42	$ 31.42	$ 28.65	$ 24.65	$ 18.12	$ 13.79	$ 11.35
3.8:1	3.9:1	4.1:1	4.2:1	4.5:1	3.8:1	4.7:1
1.9:1	2.0:1	2.3:1	2.3:1	2.6:1	2.3:1	2.8:1
$ 452.1	$ 419.2	$ 511.2	$ 398.5	$ 209.9	$ 93.9	$ 167.0
$ 252.6	$ 203.2	$ 152.6	$ 102.1	$ 69.8	$ 57.7	$ 50.2
10.0%	2.6%	2.8%	3.2%	22.9%	23.3%	27.4%
7.1%	8.5%	15.1%	16.8%	16.2%	15.7%	16.5%
7.2%	9.6%	17.3%	17.7%	17.3%	16.4%	15.8%
18.0%	31.0%	38.0%	39.5%	39.0%	39.5%	37.5%
5.9%	6.6%	10.7%	10.7%	10.6%	9.9%	9.9%
8.7%	8.5%	14.3%	15.9%	18.0%	17.6%	17.3%
6.5%	6.6%	11.2%	11.2%	11.0%	10.6%	11.1%
83	82	73	73	81	82	82
2.1	2.1	2.0	1.9	2.0	2.2	2.0
85,600	73,000	67,100	63,000	55,500	44,200	39,000
57,811	56,357	55,227	54,348	45,568	40,606	39,873
44,389	40,903	44,706	39,948	35,144	28,835	25,868
$ 50-33	$ 65-32	$ 55-34	$ 55-29	$ 41-27	$ 29-22	$ 28-19

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

Income and Expense Items as a Percentage of Total Operating Revenues				Percentage Changes		
1986	1987	**1988**	Income and Expense Items	**1987-88**	1986-87	1985-86
67.2%	66.6%	**65.7%**	Product sales	**21%**	23%	13%
32.8%	33.4%	**34.3%**	Service and other revenues	**25%**	26%	15%
100.0%	100.0%	**100.0%**	Total operating revenues	**22%**	24%	14%
52.4%	40.5%	**40.3%**	Cost of product sales	**20%**	(5%)	2%
64.6%	63.2%	**61.7%**	Service expense and cost of other revenues	**22%**	23%	9%
56.5%	48.0%	**47.7%**	Total cost of operating revenues	**21%**	5%	5%
10.7%	10.8%	**11.4%**	Research and engineering expenses	**29%**	24%	14%
21.9%	24.0%	**26.7%**	Selling, general and administrative expenses	**36%**	35%	16%
10.9%	17.2%	**14.2%**	Operating income	**1%**	95%	84%
1.5%	1.3%	**1.3%**	Interest income	**18%**	5%	86%
1.1%	0.5%	**0.3%**	Interest expense	**(16%)**	(49%)	7%
11.3%	18.0%	**15.2%**	Income before income taxes	**3%**	97%	99%
3.2%	5.9%	**3.8%**	Provision for income taxes	**(21%)**	130%	1614%
8.1%	12.1%	**11.4%**	Net income	**15%**	84%	38%

As an aid to understanding the Company's operating results, the above tables indicate the percentage relationships of income and expense items included in the Consolidated Statements of Income for the three years ended July 2, 1988 and the percentage changes in those items for such years. Components of total cost of operating revenues are shown as percentages of their related revenues.

Revenues

In fiscal year 1988 the Company's growth was again above that of the overall computer industry. Total operating revenues for the year increased by 22%, following increases of 24% in 1987 and 14% in 1986. Product revenues, which account for two-thirds of the total, increased by 21% in 1988, following increases of 23% in 1987 and 13% in 1986. The year-to-year increase in revenues reflects the growing number of large organizations around the world that are implementing the Company's enterprise-wide computing solutions. The Company's growth during the period has been enhanced by a continual flow of new products.

During 1988, demand for the Company's MicroVAX and workstation products was particularly strong. In the mid-range, the Company's new VAX 6200 systems met with immediate customer acceptance, with over 500 systems shipped in just the first three months of production. At the high end of the Company's product offerings, more than 3000 VAX 8000 systems were shipped. Expanded sales, service, and marketing organizations also contributed to increased revenues.

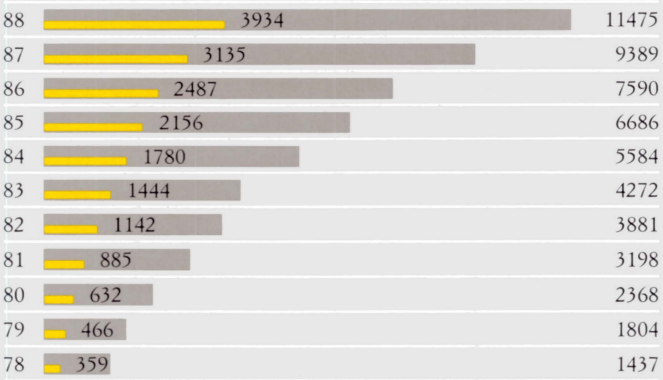
Although the revenue growth of the Company was strong for the year, concern with economic conditions and turmoil in the capital markets in the fall of 1987 caused some customers to reduce or delay computer purchases. This was evidenced by a slowing of demand for the Company's larger computer systems during the third quarter and softening demand in some industry sectors.

Continuing the trend of the last several years, growth in overseas demand outpaced that of the U.S. For the year, non-U.S. revenues accounted for approximately 50% of the Company's total revenues, the highest percentage in the Company's history. In the U.S., demand increased from customers in the discrete and process manufacturing sectors and remained firm in most of the services industries.

The Company expects that customers will increasingly look for computer systems that are distributed, flexible but disciplined, and tailored to the needs of an organization. The Company attributes much of its growth to its leadership position in offering integrated, networked computer systems and support.

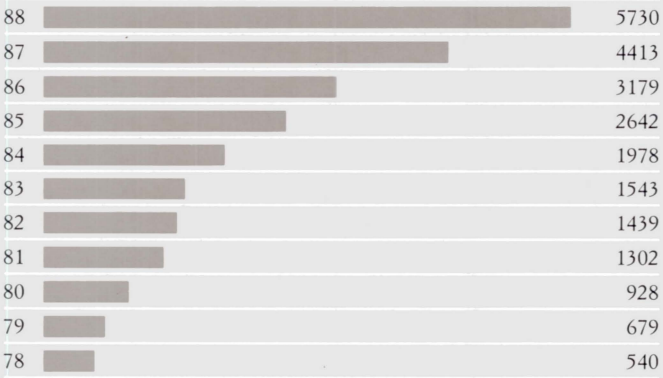
In 1988, service and other revenues, which primarily include maintenance service, software support and consulting services, customer training and the sale of replacement parts, grew by 25%, following increases of 26% in 1987 and 15% in 1986. High levels of customer satisfaction and a comprehensive portfolio of customer services accounted for much of this growth.

Total Operating Revenues **$ Millions**



Service and Other Revenues

Non-United States Revenues **$ Millions**



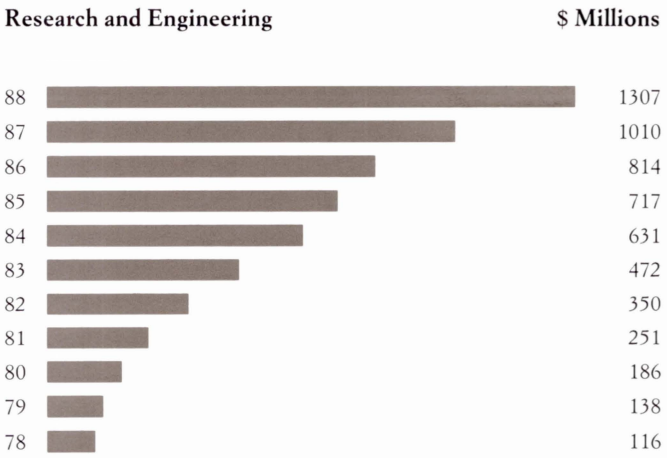
Expenses and Profit Margins

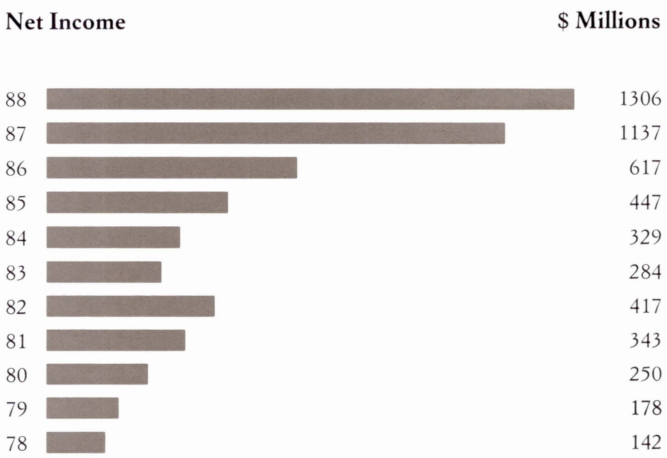
The Company's gross margin improved to 52.3% from 51.9% and 43.6% in the prior two years respectively. This is the third consecutive year that the Company's gross margins improved over the prior year for both products and services. The improvement in gross margins for 1988 is attributable primarily to increased sales.

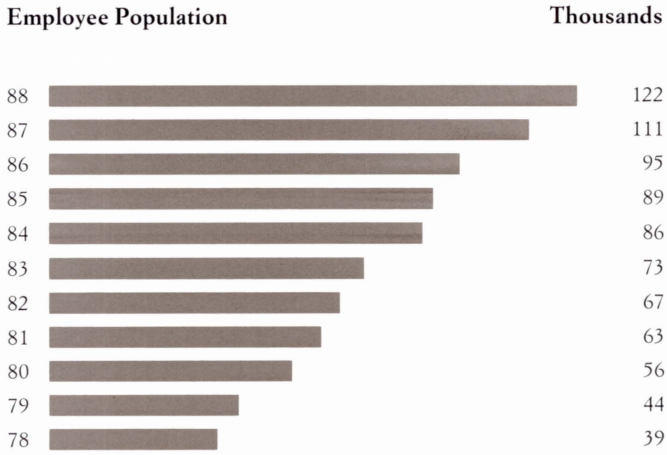
The Company has continued to invest aggressively in research and engineering, because it believes such investment is vital to its future growth and competitive position within the industry. Research and engineering expenses grew 29% in 1988 and comprised 11.4% of total operating revenues, compared with 10.8% in 1987 and 10.7% in 1986. The Company has traditionally put its emphasis on applied research and engineering which includes developing or enhancing computer systems, peripheral equipment, software and expanding product applications. The Company has approximately 7,800 professional employees involved in a number of research, engineering and programming activities around the world.

The Company's ongoing investment in research and engineering resulted in a number of new product introductions in 1988, sustaining the Company's revenue momentum. DECWORLD '87 provided the stage for the introduction of 26 new products, including a new generation of MicroVAX systems. The Company's commitment to multivendor networking and international standards was demonstrated by four networking announcements. Foremost of these was DECnet Phase V, the full implementation of which will virtually eliminate size restrictions for networks and allow for unlimited expansion. Also introduced were the RA82 and RA70 disk drives. In video terminals, the Company introduced the VT320, which incorporates a number of new features and is priced 30% lower than its predecessor.

Shortly after the close of the second quarter, the Company unveiled a sweeping strategy for the integration of competitive systems into DECnet/OSI networks. Digital's Network Application Support facilities will provide users of Apple Macintosh™ computers, industry-standard MS-DOS and OS/2 personal computers, UNIX-based systems, and Cray supercomputers, as well as users of desktop VAX/VMS systems and Digital VT terminals, with common application access, business communication, and information/resource-sharing services.







Expenses and Profit Margins

In a series of spring announcements, the Company introduced the high-end VAX 8000 series, mid-range VAX 6200 series and a new version of VAX system software, VMS 5.0. These products provide high system availability, simple upgrades and more processing power by adding symmetric multiprocessing and parallel processing capabilities to the VAX environment.

In the Company's fourth quarter, six new models were added to the VAXstation 2000 line. Available with either VMS or ULTRIX operating systems, the new workstations feature improved color, graphics and memory capabilities.

Just after the close of the year, the Company extended its enterprise-wide computing capabilities with the introduction of DECtp, a systems environment that makes transaction processing and information management systems easier and less expensive to develop, maintain and integrate with other applications across the enterprise. These products provide the functionality, performance, availability, security, and service required for network transaction processing, while providing an open environment.

Several new and enhanced products make up part of the DECtp environment: the DECintact transaction monitor, which can execute more than 100 transactions per second on a single system; the SA600 Storage Array, with a capacity of 9.7 billion bytes and the fast access time and high reliability that are critical in transaction processing; a fivefold performance increase to VAX Rdb/VMS, a relational database management system that ensures transaction processing users of fast database updates and retrievals; and a number of data management products critical to meeting customers' transaction processing requirements.

The 36% year-to-year increase in selling, general and administrative expenses reflects the Company's investment for high growth and market share gain. Substantial investments were made in sales and sales support, marketing and advertising. These expenses increased to 26.7% of total operating revenues in 1988 compared with 24% in 1987 and 21.9% in 1986.

Operating income in 1988 was slightly higher than in the prior year, after increases of 95% and 84% in the two previous years. Less than anticipated revenue growth, particularly in the U.S., and a high level of operating expenses led to flat year-to-year results.

Interest income in 1988 increased from 1987 levels reflecting higher interest earned on the investment portfolio. Interest expense declined because of the redemption of long-term debt in 1987.

The Company's effective tax rate for 1988 was 25%, down from 32.7% in 1987. The decrease reflects a reduction in the U.S. statutory income tax rate enacted in the Tax Reform Act of 1986.

During December 1987, the Financial Accounting Standards Board issued a new accounting standard for income taxes, SFAS No. 96, which will require the Company to write off a portion of deferred income tax assets from the balance sheet. The Company must adopt SFAS No. 96 no later than the year ending June 30, 1990. When adopted the Company plans to restate prior years' results with most of the adjustment being charged to retained earnings. 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.

During the year, the number of employees increased by 11,000, bringing the total number of employees at year-end to 121,500. The largest increases were in support of growth in the services businesses, for higher manufacturing volumes and new process technologies, for additional sales and sales support resources and for increased new product development activity.

The ratio of net income to average stockholders' equity (return on equity) was 18.9% in both 1988 and 1987 and 12% in 1986.

Availability of Funds to Support Current and Future Operations

The requirements for funds to support the Company's operations have historically been met with internally generated funds supplemented with external financing. During 1988, internally generated funds were sufficient to support operations.

During the three-year period of 1986-1988, funds generated from operations exceeded funds used to support operations by $1,834 million. In 1988, net funds generated from operations were $162 million, compared with $881 million in 1987 and $791 million in 1986. The decline in net funds generated from operations in 1988 reflected higher capital spending.

In January 1988, the Board of Directors authorized the repurchase of three million shares of the Company's common stock on the open market. The purpose of the repurchase program was to provide shares to meet the requirements of the employee stock plans. During 1988, the Company purchased the three million shares at a total cost of $363 million. The shares are being held as treasury stock, pending their issuance under the employee stock plans.

Cash and temporary cash investments rose to $2,164 million at the end of 1988 from $2,118 million at the end of 1987. Unused lines of credit at the end of 1988 were $581 million.

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

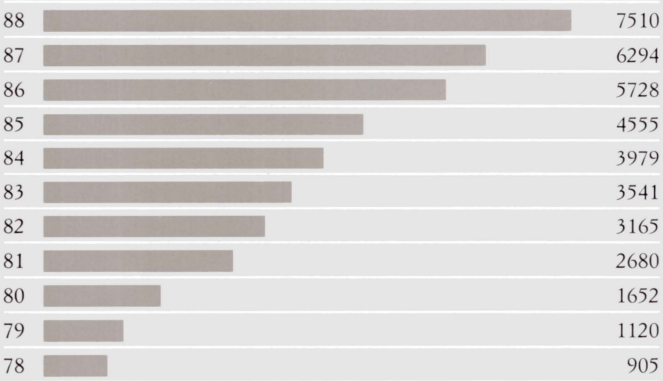
Common Stock Information

The Company's common stock is listed and traded on the New York Stock Exchange, Pacific Stock Exchange and several European stock exchanges. There were 103,162 stockholders of record as of July 2, 1988. The high and low quarterly sales prices for the past two fiscal years are presented below.

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

		1987
Fiscal Quarter	High	Low
First	$105 1/8	$ 81 3/4
Second	109	88 1/2
Third	172 7/8	104 1/2
Fourth	174 1/2	148 3/4

Total Stockholders' Equity **$ Millions**



Spending for Operations

Throughout 1988, the Company maintained its strong financial position while continuing to invest for the future.

Investments in property, plant and equipment in 1988 totalled $1,518 million compared with $748 million in 1987. Of this total, $790 million was spent for equipment as the Company strived to ensure continued advances in capacity, efficiency and quality throughout its manufacturing, engineering, field service and administrative operations. Spending for land and buildings totaled $543 million. Much of this spending reflects the replacement of leased space with Company-owned facilities. Approximately 44% of the spending occurred overseas.

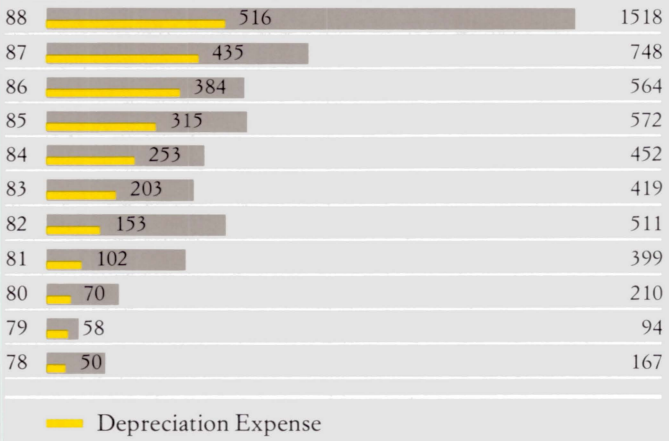
During the year inventories grew 8% from the prior year. Virtually all of the increase was in work-in-process inventories as the Company prepared for the production of a number of new products. Average year inventory turned 3.6 times, improved from the 3.4 times in 1987 and 2.9 times in 1986. Accounts receivable grew 12% in 1988, approximately half the rate of increase in operating revenues. Days sales in accounts receivable outstanding decreased to 75 days from 78 days in the prior year.

The ratio of net income to average total assets (return on assets) was 14.1% in 1988, 14.6% in 1987 and 9.1% in 1986. The decrease in 1988 was due principally to asset growth, reflecting increased spending for property, plant and equipment.

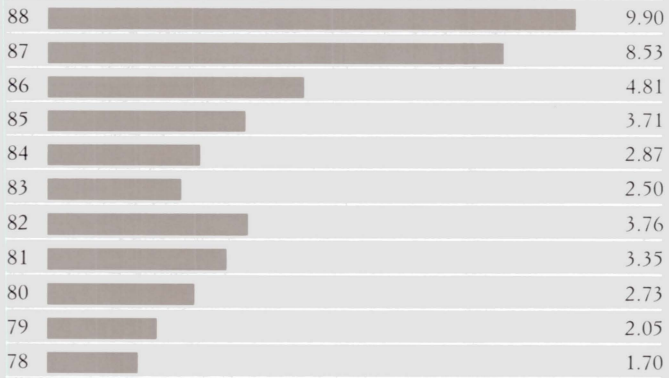
In 1988 the Company added approximately 4.9 million square feet of building space worldwide, bringing the total amount of space to 38.5 million square feet in over 1,100 facilities. This compares with 33.6 million square feet in 1987 and 32.3 million square feet in 1986.

The Company will continue to invest for the future and expects that its capital spending level in 1989 will exceed that of 1988. The actual level of spending, however, will be dependent on a variety of factors, including worldwide economic conditions and the growth in demand for the Company's products and services.

Additions to Property, Plant & Equipment
Depreciation Expense **$ Millions**



Net Income Per Common Share **$**



Report of Management

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

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

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

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

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

Kenneth H. Olsen
President

James M. Osterhoff
Vice President, Finance

Report of Independent Certified Public Accountants

To The Stockholders and Directors,
Digital Equipment Corporation

We have audited the accompanying consolidated balance sheets of Digital Equipment Corporation as of July 2, 1988 and June 27, 1987 and the related consolidated statements of income, stockholders' equity, and changes in financial position for each of the three fiscal years in the period ended July 2, 1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Digital Equipment Corporation as of July 2, 1988 and June 27, 1987 and the consolidated results of its operations and consolidated changes in its financial position for each of the three fiscal years in the period ended July 2, 1988 in conformity with generally accepted accounting principles.

Coopers & Lybrand

Boston, Massachusetts
July 27, 1988

Consolidated Statements of Income

(in thousands except per share data)			Year Ended
	July 2, 1988	June 27, 1987	June 28, 1986
Revenues *(Notes A and C)*			
Product sales	**$ 7,541,241**	$6,254,187	$5,102,961
Service and other revenues	**3,934,205**	3,135,257	2,487,396
Total operating revenues	**11,475,446**	9,389,444	7,590,357
Costs and Expenses *(Notes A and D)*			
Cost of product sales	**3,042,172**	2,532,259	2,675,438
Service expense and cost of other revenues	**2,426,176**	1,981,635	1,606,661
Research and engineering expenses	**1,306,543**	1,010,438	814,138
Selling, general and administrative expenses	**3,065,555**	2,253,105	1,665,411
Operating income	**1,635,000**	1,612,007	828,709
Interest income	**143,665**	122,149	116,899
Interest expense	**37,820**	45,203	88,079
Income before income taxes	**1,740,845**	1,688,953	857,529
Provision for income taxes *(Notes A and E)*	**435,212**	551,518	240,109
Net Income	**$ 1,305,633**	$1,137,435	$ 617,420
Net income per share *(Note B)*	**$ 9.90**	$ 8.53	$ 4.81
Weighted average shares outstanding *(Note B)*	**131,923**	133,305	130,792

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

Consolidated Balance Sheets

(in thousands)	**July 2, 1988**	June 27, 1987
Assets		
Current Assets		
Cash and temporary cash investments *(Note F)*	**$ 2,163,580**	$2,118,295
Accounts receivable, net of allowance of $78,148 and $69,280	**2,592,160**	2,312,188
Inventories *(Note A)*		
Raw materials	**392,734**	405,111
Work-in-process	**651,456**	526,483
Finished goods	**530,869**	521,325
Total inventories	**1,575,059**	1,452,919
Prepaid expenses	**274,160**	119,193
Net deferred Federal and foreign income tax charges	**324,962**	198,465
Total Current Assets	**6,929,921**	6,201,060
Property, Plant and Equipment, at cost *(Note A)*		
Land	**299,157**	148,480
Buildings	**1,283,048**	889,755
Leasehold improvements	**458,449**	294,630
Machinery and equipment	**3,169,792**	2,526,457
Total property, plant and equipment, at cost	**5,210,446**	3,859,322
Less accumulated depreciation	**2,115,421**	1,732,028
Net property, plant and equipment	**3,095,025**	2,127,294
Other assets, net *(Note G)*	**86,610**	79,032
Total Assets	**$10,111,556**	$8,407,386
Liabilities and Stockholders' Equity		
Current Liabilities		
Bank loans and current portion of long-term debt *(Note H)*	**$ 154,670**	$ 4,873
Accounts payable	**523,173**	430,575
Federal, foreign and state income taxes	**504,195**	328,134
Salaries, wages and related items	**257,663**	229,623
Deferred revenues and customer advances *(Note A)*	**727,984**	475,925
Other current liabilities	**246,419**	355,375
Total Current Liabilities	**2,414,104**	1,824,505
Net deferred Federal and foreign income tax credits	**63,154**	20,118
Long-term debt *(Note H)*	**123,924**	269,292
Total Liabilities	**2,601,182**	2,113,915
Stockholders' Equity *(Notes I and J)*		
Common stock, $1.00 par value; authorized 450,000,000 shares; issued 130,008,231 shares	**130,008**	130,008
Additional paid-in capital	**2,424,391**	2,352,939
Retained earnings	**5,463,050**	4,410,242
Treasury stock at cost; 3,718,375 shares and 3,821,669 shares	**(507,075)**	(599,718)
Total Stockholders' Equity	**7,510,374**	6,293,471
Total Liabilities and Stockholders' Equity	**$10,111,556**	$8,407,386

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

Consolidated Statements of Changes in Financial Position

(in thousands)			Year Ended
	July 2, 1988	June 27, 1987	June 28, 1986
Funds from Operations			
Net income	**$1,305,633**	$1,137,435	$ 617,420
Add – expenses not requiring funds in current period:			
Depreciation and amortization *(Notes A and G)*	**527,141**	436,118	384,044
Disposal of property, plant and equipment	**34,341**	53,456	44,112
Restricted stock plans – charge to operations *(Note I)*	**32,008**	20,653	21,155
Change in deferred taxes, net *(Note E)*	**(83,461)**	(158)	(13,936)
Total funds from operations	**1,815,662**	1,647,504	1,052,795
Funds Used to Support Operations			
Increase (decrease) in working capital:			
Accounts receivable	**279,972**	408,901	364,332
Inventories	**122,140**	253,163	(556,411)
Prepaid expenses	**154,967**	33,919	20,705
Accounts payable	**(92,598)**	(171,010)	(74,363)
Federal, foreign and state income taxes	**(176,061)**	(190,576)	130,342
Deferred revenues and customer advances	**(252,059)**	(222,135)	(93,685)
Other current liabilities	**80,916**	(174,573)	(93,685)
	117,277	(62,311)	(302,765)
Additions to property, plant and equipment	**1,517,579**	748,359	564,205
Increase in other assets	**19,212**	80,463	–
Total funds used to support operations	**1,654,068**	766,511	261,440
Net increase in funds from operations	**161,594**	880,993	791,355
Funds Provided (Used) by Financing Sources			
Bank loans and current portion of long-term debt *(Note H)*	**149,797**	(17,324)	8,535
11¾% Notes due 1989	**(150,000)**	–	–
9⅜% Debentures due 2000	**–**	(63,000)	(3,646)
13% Debentures due 2014	**–**	–	(100,000)
8% Conv Sub Debentures due 2009, net	**–**	–	(4,279)
Long-term debt, other *(Note H)*	**4,632**	(863)	(144)
Common stock issued under stock option and purchase plans *(Note I)*	**242,761**	189,346	138,932
Purchase of treasury stock *(Note J)*	**(363,499)**	(781,790)	–
Total funds from financing sources	**(116,309)**	(673,631)	39,398
Net increase in cash and temporary cash investments	**45,285**	207,362	830,753
Cash and temporary cash investments at beginning of year	**2,118,295**	1,910,933	1,080,180
Cash and temporary cash investments at end of year	**$2,163,580**	$2,118,295	$1,910,933

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

Consolidated Statements of Stockholders' Equity

(in thousands)	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total Stock-holders' Equity
June 29, 1985	$ 59,253	$1,737,834	$2,757,512		$4,554,599
Shares issued under stock option and purchase plans *(Note I)*	2,125	116,285			118,410
Restricted stock plans, charge to operations		21,155			21,155
Stock option and purchase plans – excess Federal income tax benefits *(Note I)*		20,522			20,522
Two-for-One stock split in form of 100% stock dividend	60,200	(60,200)			–
8% Convertible Subordinated Debentures converted into Common stock	7,013	388,708			395,721
Net income – 1986			617,420		617,420
June 28, 1986	$128,591	$2,224,304	$3,374,932		$5,727,827
Purchase of 5,000,000 shares of treasury stock *(Note J)*				$(781,790)	(781,790)
Shares issued under stock option and purchase plans *(Note I)*	1,417	65,466	(102,125)	182,072	146,830
Restricted stock plans, charge to operations		20,653			20,653
Stock option and purchase plans – excess Federal income tax benefits *(Note I)*		42,516			42,516
Net income – 1987			1,137,435		1,137,435
June 27, 1987	$130,008	$2,352,939	$4,410,242	$(599,718)	$6,293,471
Purchase of 3,000,000 shares of treasury stock *(Note J)*				**(363,499)**	**(363,499)**
Shares issued under stock option and purchase plans *(Note I)*			**(252,825)**	**456,142**	**203,317**
Restricted stock plans, charge to operations		**32,008**			**32,008**
Stock option and purchase plans – excess Federal income tax benefits *(Note I)*		**39,444**			**39,444**
Net income – 1988			**1,305,633**		**1,305,633**
July 2, 1988	**$130,008**	**$2,424,391**	**$5,463,050**	**$(507,075)**	**$7,510,374**

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

Note A – Significant Accounting Policies

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

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

The Company enters into forward exchange contracts to reduce the impact of foreign currency fluctuations on operations and the asset and liability positions of foreign subsidiaries. The gains or losses on these contracts are included in income when the operating revenues and expenses are recognized and, for assets and liabilities, in the period in which the exchange rates change.

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

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

Taxes □ In general, the Company's practice is to reinvest the earnings of its foreign subsidiaries in those operations and repatriation of retained earnings is done only when it is advantageous to do so. Applicable taxes are provided only on amounts planned to be remitted. Investment tax credits were treated as reductions of income taxes in the year in which credits arose.

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

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

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

Note B – Net Income Per Share and Dividends

Net income per share is based on the weighted average number of common shares and common share equivalents outstanding during the year. In the years ended July 2, 1988 and June 27, 1987, common share equivalents were attributable to stock options. In the year ended June 28, 1986, common share equivalents were attributable to convertible debt and stock options.

Cash dividends have never been paid by the Company.

Note C – International Operations

(in thousands)			Year Ended
	July 2, 1988	June 27, 1987	June 28, 1986
Revenues			
United States customers	**$ 5,810,598**	$ 5,016,606	$ 4,472,195
Intercompany	**2,017,928**	1,921,043	1,354,339
	7,828,526	6,937,649	5,826,534
Europe customers	**4,221,631**	3,252,482	2,259,743
Intercompany	**137,669**	114,582	82,649
	4,359,300	3,367,064	2,342,392
Canada, Far East, Americas customers	**1,443,217**	1,120,356	858,419
Intercompany	**912,786**	659,204	577,934
	2,356,003	1,779,560	1,436,353
Eliminations	**(3,068,383)**	(2,694,829)	(2,014,922)
Net revenue	**$11,475,446**	$ 9,389,444	$ 7,590,357
Income			
United States	**$ 512,754**	$ 758,795	$ 342,657
Europe	**770,135**	634,543	405,636
Canada, Far East, Americas	**390,787**	278,359	207,187
Eliminations	**(38,676)**	(59,690)	(126,771)
Operating income	**1,635,000**	1,612,007	828,709
Interest income	**143,665**	122,149	116,899
Interest expense	**37,820**	45,203	88,079
Income before income taxes	**$ 1,740,845**	$ 1,688,953	$ 857,529
Assets			
United States	**$ 5,245,439**	$ 4,627,838	$ 3,911,491
Europe	**3,093,818**	2,246,333	1,817,584
Canada, Far East, Americas	**1,293,906**	843,067	815,067
Corporate assets *(temporary cash investments)*	**2,057,528**	1,979,470	2,035,557
Eliminations	**(1,579,135)**	(1,289,322)	(1,406,373)
Total assets	**$10,111,556**	$ 8,407,386	$ 7,173,326

Industry □ The Company's business consists of the design, manufacture, sale and service of networked computer systems, associated peripheral equipment, and related network, communications, and software products.

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

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

Sales to unaffiliated customers outside the United States, including U.S. export sales, were $5,729,879,000 for the year ended July 2, 1988, $4,412,527,000 for the year ended June 27, 1987, and $3,179,143,000 for the year ended June 28, 1986, which represented 50%, 47%, and 42%, respectively, of total operating revenues. The retained earnings of substantially all of the Company's international subsidiaries have been reinvested to support operations. These accumulated retained earnings, before elimination of intercompany transactions, aggregated $2,793,239,000 at July 2, 1988, and $2,070,337,000 at June 27, 1987, and $1,473,081,000 at June 28, 1986.

Note D – Pension Plans and Other Retirement Benefits

The Company and its subsidiaries have defined benefit pension plans covering substantially all employees. Pension cost is based on estimated benefit payment formulas. The benefits are based on years of service and compensation during the employee's career. Pension expense amounted to $138,308,000 for the year ended July 2, 1988, $110,365,000 for the year ended June 27, 1987 and $111,778,000 for the year ended June 28, 1986. In fiscal 1987, the Company and its principal subsidiaries implemented Statement of Financial Accounting Standards No. 87 – Employers' Accounting for Pensions.

It is the Company's policy to make contributions to the plans to the extent that such contributions are tax deductible. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. The assets of the plans include corporate equity and debt securities, government securities and real estate.

The following table provides information on the status of the U.S. pension plan and certain non-U.S. plans which, in aggregate, represent approximately 91% of the total pension expense of the Company and its subsidiaries for the years ended July 2, 1988 and June 27, 1987. For the U.S. pension plan, the measurement dates were March 31, 1988 and March 31, 1987, the assumed discount rates in computing the projected benefit obligation were 9.0% and 8.5%, the assumed rates of compensation increase were 7.0% and 6.5%, and the assumed annual rate of return on plan assets was 9.5% and 9.5% for the years ended July 2, 1988 and June 27, 1987, respectively. For the non-U.S. pension plans, the measurement dates ranged from March 31, 1988 to July 2, 1988 and March 31, 1987 to June 27, 1987, the assumed discount rates in computing the projected benefit obligation ranged from 5% to 11.5% and 5% to 9%, the assumed rates of compensation increase ranged from 5.3% to 10.5% and 5.8% to 7.5%, and the assumed annual rates of return on plan assets ranged from 5% to 10% and 5.5% to 10% for the years ended July 2, 1988 and June 27, 1987, respectively.

In addition to providing pension benefits, the Company provides certain medical, dental and life insurance benefits for retired employees. Substantially all of the Company's domestic employees may become eligible for those benefits if they reach normal retirement age while working for the Company. The cost of retiree health care and life insurance benefits is recognized as an expense as claims are paid. These costs totaled $1,025,000 for the year ended July 2, 1988, $864,000 for the year ended June 27, 1987 and $423,000 for the year ended June 28, 1986. The majority of the Company's foreign subsidiaries do not offer such benefits to retirees. Of those that do, the amounts are immaterial.

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

(in thousands)	**1988**	1987
Actuarial present value of benefit obligations:		
Vested benefit obligation	**$ (382,457)**	$ (310,590)
Accumulated benefit obligation	**$ (448,903)**	$ (368,572)
Projected benefit obligation	**$(1,375,916)**	$(1,054,853)
Plan assets at fair value	**1,592,023**	1,354,197
Plan assets in excess of projected benefit obligation	**216,107**	299,344
Contributions made after measurement date but before end of fiscal year	**2,874**	11,283
Unrecognized net (gain) loss	**35,628**	(98,373)
Unrecognized prior service cost	**27,719**	–
Unrecognized transition asset, net	**(158,678)**	(160,820)
Pension cost recognized on the balance sheet	**$ 123,650**	$ 51,434

Net periodic pension cost for fiscal 1988 and fiscal 1987 included the following components:

	1988	1987
Service cost-benefits earned during the period	**$ 160,225**	$ 126,977
Interest cost on projected benefit obligation	**90,283**	67,695
Actual return on plan assets	**590**	(187,541)
Net amortization and deferral	**(124,714)**	93,272
Net periodic pension cost	**$ 126,384**	$ 100,403
Total net periodic pension cost for all pension plans	**$ 138,308**	$ 110,365

Note E – Income Taxes

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

(in thousands)			*Year Ended*
	July 2, 1988	June 27, 1987	June 28, 1986
Domestic	**$ 773,679**	$ 832,638	$382,708
Foreign	**967,166**	856,315	474,821
Total	**$1,740,845**	$1,688,953	$857,529

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

	1988	1987	1986
U.S. Federal statutory tax rate	**34.0%**	46.0%	46.0%
Tax benefit of manufacturing operations in: (a)			
Puerto Rico	**(2.6)**	(3.4)	(3.9)
Ireland	**(2.4)**	(4.1)	(7.4)
Singapore	**(0.7)**	(1.5)	(1.4)
Taiwan	**(0.4)**	(0.5)	(0.4)
Research and engineering credit	**(1.6)**	(1.1)	(0.9)
State income taxes	**1.9**	1.5	1.1
Investment tax credits	**.1**	.1	(2.8)
Other	**(3.3)**	(4.3)	(2.3)
Effective tax rate	**25.0%**	32.7%	28.0%

(a) The Company's manufacturing subsidiary operating in Puerto Rico is subject to tax at a rate of approximately 9% on its manufacturing earnings through fiscal 1995. The income from products manufactured for export by the Company's Irish manufacturing subsidiary is exempt from Irish taxes through April 1990. The income from certain products manufactured by the Company's Singaporean manufacturing subsidiary is wholly exempt from Singaporean taxes through March 1991 and partially exempt through December 1996. The income from certain products manufactured by the Company's manufacturing subsidiary operating in Taiwan is wholly exempt from Taiwanese taxes through May 1991.

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

(in thousands)			Year Ended
	July 2, 1988	June 27, 1987	June 28, 1986
U.S. Federal:			
Current	**$175,079**	$264,966	$ 93,028
Deferred	**(80,118)**	32,118	15,310
Total	**$ 94,961**	$297,084	$108,338
Foreign:			
Current	**$259,246**	$200,416	$123,727
Deferred	**31,483**	5,346	(10,147)
Total	**$290,729**	$205,762	$113,580
State income taxes	**$ 49,522**	$ 48,672	$ 18,191
Total income taxes	**$435,212**	$551,518	$240,109

Deferred tax expense results from timing differences in the recognition of revenues and expenses for tax and financial reporting purposes. The sources of these timing differences in the years ended July 2, 1988, June 27, 1987 and June 28, 1986, and the tax effect of each were as follows:

(in thousands)			Year Ended
	July 2, 1988	June 27, 1987	June 28, 1986
Inventory related transactions	**$ 23,417**	$ 6,943	$ 5,686
Installment sales, principally intercompany, and financing leases	**(79,317)**	38,054	6,572
Deferred warranty revenue	**(99,510)**	(14,303)	–
Depreciation	**12,648**	4,957	4,075
Capitalized software development costs	**33,575**	11,265	–
Other	**60,552**	(9,452)	(11,170)
Total	**$(48,635)**	$37,464	$ 5,163

In connection with its normal examinations of the Company's 1982 and 1983 tax returns, the Internal Revenue Service has proposed adjustments. The Company believes its judgments in these matters have been appropriate and intends to contest certain of the adjustments proposed by the IRS. In addition, the Company believes any adjustments which might result would not have a material effect on the financial statements.

During December 1987, the Financial Accounting Standards Board issued a new accounting standard for income taxes, SFAS No. 96, which will require the Company to write off a portion of deferred income tax assets. The Company must adopt SFAS No. 96 no later than the fiscal year ending June 30, 1990. At the time of adoption the Company plans to restate prior years' results with most of the adjustment being charged to retained earnings. 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.

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

Note F – Cash and Temporary Cash Investments

Temporary cash investments are valued at cost, which approximates market. None of the cash reflected on the balance sheets at July 2, 1988 and June 27, 1987 was required as compensating balances.

Note G – Capitalized Computer Software Development Costs

Unamortized computer software development costs which are included in Other assets, net on the balance sheet were $65,638,000 and $33,684,000 for the years ended July 2, 1988 and June 27, 1987, respectively. These costs are amortized over three years from the date the products are available for general release. Costs amortized were $11,634,000 and $1,431,000 for the years ended July 2, 1988 and June 27, 1987, respectively.

Note H – Debt

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

(in thousands)	**July 2, 1988**	June 27, 1987
Lease obligations payable 1990-2002 (7.5%-10.95%)(a)	**$ 11,890**	$ 5,992
Collateralized obligations maturing serially to 1993 (5.4%)(b)	**3,295**	4,015
Notes due 1994 (12⅝%)(c)	**100,000**	100,000
Overseas Finance Notes due 1989 (11¾%)(d)	**–**	150,000
Other	**8,739**	9,285
	$123,924	$269,292

Principal payments required during the next five fiscal years are as follows: 1989 – $152,720,000; 1990 – $3,001,000; 1991 – $2,595,000; 1992 – $2,888,000; 1993 – $2,946,000.

(a) Weighted average interest rate at July 2, 1988 and June 27, 1987 of 9.5% and 7.9%, respectively.

(b) Interest rate shown is the weighted average rate at July 2, 1988 and June 27, 1987.

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

(d) Notes were issued in March 1984 by Digital Equipment Overseas Finance N.V. The notes are unconditionally guaranteed by Digital Equipment Corporation. The notes mature in March 1989 and have been reclassified to current portion of long-term debt.

The Company has lines of credit available for short-term financing totaling $582,518,000. Unused lines of credit totaled $580,568,000 at July 2, 1988 and $451,075,000 at June 27, 1987.

Note I – Stock Plans

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

On November 8, 1985, the Company's stockholders approved the 1985 Restricted Stock Option Plan (the "1985 Plan") providing for the issuance of 18,000,000 shares of common stock under the Plan through December 31, 1990.

Information concerning activity during the three years ended July 2, 1988 was as follows:

		Options Outstanding	
	Shares Reserved For Future Grants	Shares	Average Price Per Share
June 29, 1985	2,950,460	12,214,852	$29.16
Options Granted	(580,900)	580,900	38.54
Options Exercised	–	(1,086,786)	22.57
Options Cancelled	243,186	(243,186)	30.14
Options Terminated	(2,675,046)	–	–
Options Authorized	18,000,000	–	–
June 28, 1986	17,937,700	11,465,780	$30.24
Options Granted	(2,805,620)	2,805,620	56.00
Options Exercised	–	(1,036,517)	25.30
Options Cancelled	231,682	(231,682)	34.20
Options Terminated	(198,132)	–	–
June 27, 1987	15,165,630	13,003,201	$36.12
Options Granted	**(3,244,400)**	**3,244,400**	**152.95**
Options Exercised	–	**(1,302,482)**	**28.67**
Options Cancelled	**182,896**	**(182,896)**	**52.68**
Options Terminated	**(118,075)**	**–**	**–**
July 2, 1988	**11,986,051**	**14,762,223**	**$62.25**

At the time these options are exercised, the common stock account is increased by the par value ($1 per share) of the shares sold and the remaining portion of the proceeds is credited to additional paid-in capital. The excess of the fair market value of the shares on the grant date over the option price is charged to operations each year as the restrictions lapse. Such charges to operations amounted to $32,008,000 in the fiscal year ended July 2, 1988, $20,653,000 in the fiscal year ended June 27, 1987 and $21,155,000 in the fiscal year ended June 28, 1986. The amount deductible for Federal income taxes exceeds the amount charged to income for book purposes. The Federal income tax benefits relating to this difference have been credited to additional paid-in capital.

Employee Stock Purchase Plans □ Under the Company's Employee Stock Purchase Plans, all United States and certain international employees may be granted the opportunity to purchase common stock at 85% of market value on the first or last business day of the six month payment period, whichever is lower. Common stock reserved for future grants aggregated 2,099,727 shares at July 2, 1988 and 3,937,958 shares at June 27, 1987. There were 1,838,231 shares issued at an average price of $93.25 per share during the year ended July 2, 1988 and 1,420,697 shares at $83.16 per share during the year ended June 27, 1987. There have been no charges to income in connection with the options other than incidental expenses related to the issuance of the shares. Federal income tax benefits relating to such options have been credited to additional paid-in capital.

Note J – Treasury Stock

The Company purchased on the open market 3,000,000 shares of its common stock at an aggregate purchase price of $363,499,000, or $121.17 per share, during the year ended July 2, 1988 and 5,000,000 shares at an aggregate purchase price of $781,790,000, or $156.36 per share, during the year ended June 27, 1987. All of the acquired shares are held as common stock in treasury for distribution to employees under the Employee Stock Purchase Plans and Restricted Stock Option Plans. The difference between the average acquisition cost of the shares and the proceeds is charged to retained earnings.

Note K – Leases

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

Fiscal Years	*(in thousands)*
1989	$ 275,681
1990	222,634
1991	178,345
1992	129,521
1993	96,252
Later years	381,054
Total minimum lease payments	$1,283,487

Total rental expense for the fiscal years ended July 2, 1988, June 27, 1987 and June 28, 1986 amounted to $406,376,000, $335,518,000 and $257,695,000, respectively.

Quarterly Financial Data (unaudited)

Selected quarterly financial data for the years ended July 2, 1988 and June 27, 1987 is set forth below:

(in millions except per share data)	Total Operating Revenues	Gross Profit	Income Before Income Taxes	Net Income	Net Income Per Share[1]
1988					
First Quarter	**$ 2,529.8**	**$1,333.9**	**$ 369.8**	**$ 269.9**	**$2.03**
Second Quarter	**2,782.2**	**1,459.1**	**429.5**	**329.5**	**2.48**
Third Quarter	**2,824.0**	**1,462.5**	**406.9**	**305.1**	**2.33**
Fourth Quarter	**3,339.4**	**1,751.6**	**534.6**	**401.1**	**3.08**
Total Year	**$11,475.4**	**$6,007.1**	**$1,740.8**	**$1,305.6**	**$9.90**
1987					
First Quarter	$ 2,038.5	$1,011.9	$ 294.6	$ 182.6	$1.37
Second Quarter	2,271.8	1,176.5	423.8	270.0	2.02
Third Quarter	2,410.1	1,260.6	460.2	307.6	2.29
Fourth Quarter	2,669.0	1,426.6	510.4	377.2	2.85
Total Year	$ 9,389.4	$4,875.6	$1,689.0	$1,137.4	$8.53

[1]*Earnings per share are computed independently for each of the quarters presented. Therefore, the sum of the quarterly earnings per share in 1988 does not equal the total for the year.*

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Investor Information

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

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

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

Unlisted trading privileges have been granted by the:

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

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

Correspondence may be directed to:

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

Requests for specific information are handled as follows:

Digital Equipment Corporation's Annual Report on Form 10-K for the fiscal year ended July 2, 1988, including schedules thereto, which is filed with the Securities and Exchange Commission, will be sent without charge upon written request. The Company's annual report, filings with the Securities and Exchange Commission, interim reports and additional information about the Company and its products can be obtained by addressing:

Digital Equipment Corporation
Inquiry Section
444 Whitney Street NR202-1/H3
Northboro, MA 01532-2597
(508) 351-4401

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

Mark A. Steinkrauss
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Investor Information (continued)

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

Digital Equipment Corporation
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111 Powdermill Road (L12)
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(508) 493-5213

Transfer Agent and Registrar
for Common Stock

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

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

Morgan Shareholder Services Trust Company
30 West Broadway
New York, NY 10007

Customer Inquiries

Digital Equipment Corporation customers who have questions and/or problems relating to their account should contact the Customer Assistance Department at (508) 493-7161.

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