Digital Equipment Corporation Annual Report 1981

Corporate Profile

Digital Equipment Corporation designs, manufactures, sells and services computers and associated peripheral equipment, and related software and supplies. The Company's products are used worldwide in a wide variety of applications and programs, including scientific research, computation, communications, education, data analysis, industrial control, timesharing, commercial data processing, graphic arts, word processing, health care, instrumentation, engineering and simulation.

Financial Highlights

Fiscal Year	1981	1980	% Change
Total operating revenues	**$3,198,099,000**	$2,368,045,000	+35.1
Net income	**$ 343,297,000**	$ 249,861,000	+37.4
Net income per share	**$6.70**	$5.45	+22.9
Total stockholders' equity	**$2,679,689,000**	$1,651,749,000	+62.2
Stockholders' equity per share	**$49.31**	$36.25	+36.0

Annual Meeting of Stockholders

The Annual Meeting of Stockholders will be held at 11:00 A.M., Thursday, November 5, 1981 in the Oval Room, The Copley Plaza Hotel, Copley Square, Boston, Massachusetts. Stockholders of record on September 9, 1981 will be entitled to vote at this meeting.

Contents

ON THE COVER
Digital's new DECmate Work Processor is a compact, low-cost multipurpose computer designed for small businesses, professionals and individuals within large organizations. It provides personal data and word processing capabilities and can be linked to other Digital computers.

To Our Shareholders, Employees and Friends

With the close of Fiscal 1981, Digital Equipment Corporation completed its 24th year of operations, and we are pleased to report to you on our progress.

The year brought a continuation of the uncertainty that has marked the economies of the United States and other major countries for the past two years. Persistently high interest rates and other recessionary pressures caused some of our customers to alter their buying habits, yet Digital finished the year in a healthy operating position.

Total operating revenues for the year grew 35 percent to $3.2 billion, net income increased 37 percent to $343 million and earnings per share reached $6.70.

There was steady demand for our products and services from throughout our worldwide customer base, yet Digital was able to reduce longer-than-desired delivery times on many of its most popular products through the availability of increased capacity provided by manufacturing facilities which became operational during the year. This new capacity, plus additional manufacturing space currently being built, places the company in a strong position to meet projected product demands in the future.

Fiscal 1981 spending for new buildings and equipment totaled $399 million, a 90 percent increase over the previous year. We moved into new plants in Augusta, Maine, and Kaufbeuren, West Germany, and completed major additions to plants in Canada, Ireland and Scotland. A new printed circuit board facility in South Carolina and additions to Digital's Semiconductor Technology Center in Hudson and Technical Group headquarters in Marlboro, both in Massachusetts, will be completed during Fiscal 1982. Current projects also include a doubling of two New Hampshire facilities, our Central Engineering organization in Nashua and our Commercial Group headquarters in Merrimack. The company has also begun construction of a manufacturing facility in Singapore and has announced plans to expand its technical support center at Valbonne, France and establish a new customer support center in The Netherlands at Nijmegen.

Continuing its heavy investment for the future, the company spent $251 million during the year on new product development, a 35 percent increase over last year. We plan a similar increase in spending on product development in the year ahead. We will continue to build on our traditional product strengths, with increasing emphasis on small systems.

Prior years' development efforts produced several important new hardware and software products during the year. Among them:

- *VAX-11/750*, a smaller, less expensive 32-bit computer featuring new semiconductor circuit designs developed by Digital;
- *PDP-11/24*, an entry-level addition to our 16-bit family, whose design permits the packaging of the entire computer central processor on a single 8x10-inch circuit board;
- *GIGI*, a compact, low-cost graphics generator featuring Digital's LSI-11 microcomputer;
- *DECmate Work Processor*, a low-cost data- and word-processing unit for use in offices or by small businesses;
- *DECnet Phase III*, the latest enhancements to Digital's computer networking software.

Several new tape and disk storage systems were also introduced, as were new printing terminals, video display devices and several easy-to-use application software packages for use with both large and small Digital computer systems.

Digital's worldwide employee population was expanded by almost 8,000 persons during the year and now stands at 63,000. A significant portion of this new hiring involved expansion of the company's customer support organizations, including sales, maintenance, software support and educational services. These organizations now total more than 22,000 people at more than 400 locations in 38 countries.

New Customer Training Centers were opened in Finland and Western Canada and Digital's automated telephone diagnosis of computer hardware and software products, which we believe to be the most advanced in our industry, was expanded significantly.

As part of our on-going effort to maximize the effectiveness and efficiency of the Digital organization in meeting customer needs, we made some changes in our organization during the year. The formation of the new Technical Volume Group will strengthen the company's ability to serve its Technical OEMs (Original Equipment Manufacturers) and microcomputer customers. Another new group will oversee the sale of Digital's products through new distribution channels. These include industrial and commercial distributors and office equipment dealers. We will continue to realign our organization so that it is well positioned to meet the evolving needs of customers.

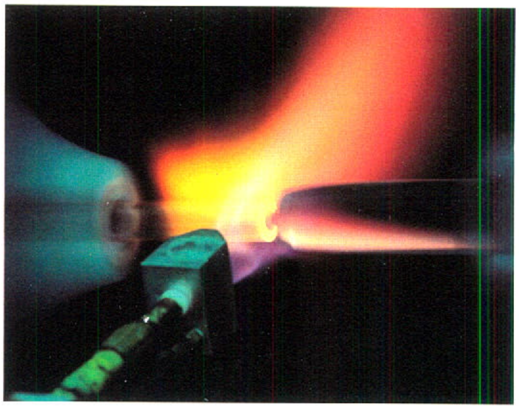
Our outlook at this point in the company's evolution is marked by caution and confidence. Our caution comes from our expectations that economic uncertainties will persist, at least into the near future; rapid growth and constant change will continue to present management challenges and, of course, there will be increased competition.

However, we are confident that we have the resources to meet these challenges. We believe that Digital is well positioned to achieve continued growth in sales and earnings. We have a strong and stable organization around the world. The company is financially sound, as indicated by the fact that Digital received a AAA rating as a bond risk from Standard & Poors, the highest rating assigned by that organization. Digital currently offers a broad array of exciting leadership products. These products, plus many more under development, will continue to enhance our strong position for the future.

Kenneth H. Olsen

Kenneth H. Olsen
President
September 15, 1981

Corning, world famous glassmaker, uses Digital's computers in many areas of its organization. At Wilmington, North Carolina, a large PDP-11/70 and several midrange 11/34s are linked via DECnet to control intricate silica fiber manufacturing processes. At Big Flats, New York, a PDP-11/70 serves as "host" to 20 of Digital's data collection terminals that gather manufacturing information from throughout the plant. A sophisticated testing system at the company's Research and Development Center in Corning, New York, uses a PDP-11/34 to analyze the ability of Corning's photochromic glass to lighten or darken under varying light conditions.



Digital and Interaction

Digital Equipment Corporation manufactures highly interactive computer systems which are approachable and easy to use. These products have helped shape Digital into an organiztion which stresses personal interaction in all aspects of its activities.

The idea of personalized interactive computing isn't new. Digital pioneered the idea in 1960 with the introduction of the PDP-1, the first commercially available computer system to offer an interactive video display. That was the beginning of personal computing.

Subsequent products from Digital introduced techniques which today are important trends in computer use. The PDP-6 computer introduced in 1964 was the first interactive timesharing system. A year later, the PDP-8, the first minicomputer, made it possible to distribute computers throughout an organization, beginning a trend toward distributed computing which was furthered by the PDP-11 in 1969 and, more recently, Digital's VAX computers which were introduced in 1977. Each of these milestone computer architectures stressed personal interaction.

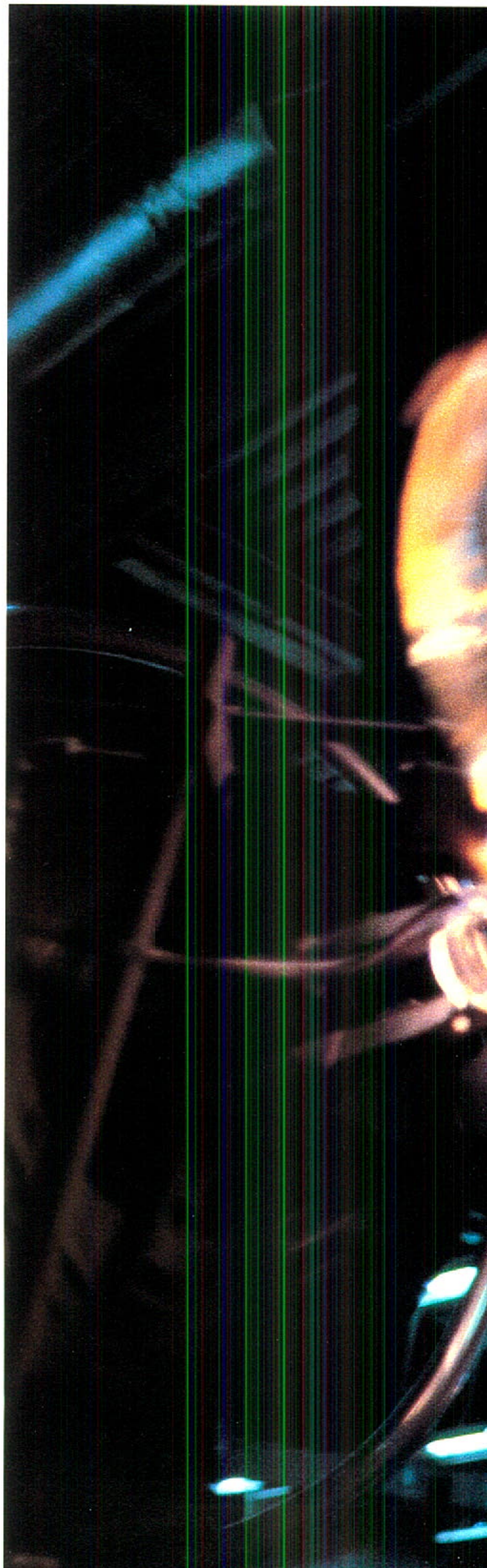
The PDP-6 evolved into the current family of DECsystem-10s and 20s, large timesharing systems that provide simultaneous personal access to a powerful computer for large numbers of users.

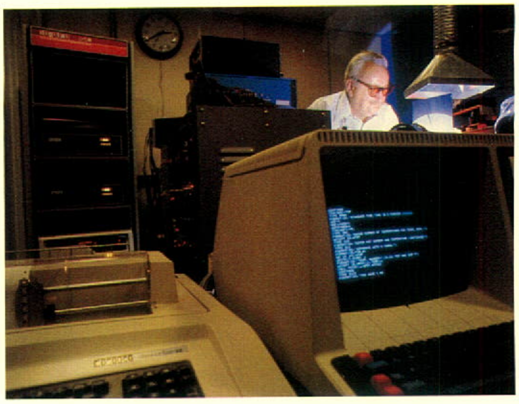
The PDP-8 was the industry's best selling computer for many years until it was surpassed by the PDP-11. More than 200,000 PDP-11s have been installed through the world to date.

Soon after its introduction four years ago, the VAX computer became the standard for scientific computers. The introduction this past year of the smaller, lower-priced VAX-11/750, plus enhancements to the powerful VAX software tools, have broadened the popularity of these computers into the commercial and business environment as well. Digital's VAX computers are also widely used in computer-aided design and manufacturing applications.

As the use of interactive computing spread, terms were invented to describe the ways in which people worked with computers. "Distributed processing," "timesharing," "networking" and, most recently, "personal computing" have become common terms in the industry. Digital didn't invent these terms, but we feel we made important contributions to starting and promoting the spread of these concepts.

Actually, each of these terms describes a facet of the same activity: working together – people with computers, people with other people, computers with other computers. At Digital, we call it "interaction", and it underlies the company's on-going contributions to the way the world uses computers.





In the United Kingdom, Control Systems, Ltd. of Uxbridge and the Horserace Totalisator Board of the U.K. have installed PDP-11/34 computers in six vans which are driven to operating racecourses where the computers are connected to portable ticket-issuing machines to automate wagering activities and electronic displays. Transactions are printed out each day to satisfy legislative requirements.

Interaction with the Market

Discussions of discrete "office" systems versus "distributed" systems versus "central data processing" systems are giving way to discussions of computer needs in terms of total information management systems designed to increase the efficiency and creativity with which people use information throughout an organization. Computers have become vital tools in managing the accelerating rate of change which is profoundly affecting every organization, public and private, large and small.

To help fill these evolving needs, Digital offers the broadest range of computer products and services in the industry, ranging from microcomputers costing just a few hundred dollars to large timesharing systems costing $1 million or more.

The Office. The office is not a new market for computers. Today's office is the "office of the future" that was talked about just a few years ago. And so it is with current discussions. What is happening in the office today is not a revolution, but simply an orderly evolution to higher levels of efficiency and effectiveness in managing information as technology brings computing capability into the hands of more people at every level and in every segment of an organization.

In June 1981, Digital introduced the DECmate Work Processor, a low-cost multipurpose computer designed for small businesses, professionals and individual applications within large organizations. The DECmate system provides broad functionality including a variety of office applications and data processing software, an enhanced version of Digital's word processing software, list processing and communications capabilities which allow the Work Processors to be linked to other Digital computers.

Shortly after the close of Fiscal 1981, Digital announced additional new capabilities designed to help organizations manage rapid change. These new capabilities integrate five different sets of products: (1) The new DECmate Work Processor; (2) office applications software for computer-based word processing, electronic mail and integrated on-line text-editing and typesetting; (3) information management systems that allow easy access to distributed data bases by anyone within an organization; (4) new networking and communications software; (5) new service and customer support programs designed to help reduce the cost of ownership of Digital's computer systems.



One of the most popular attractions at the Children's Museum on Boston's waterfront is a highly interactive, "hands-on" exhibit featuring PDP-11/70 and 11/40 computers provided by Digital. Several of Digital's VT-100 terminals located throughout the museum offer children of all ages the opportunity to experience the fun and fascination of working directly with a computer. The system also manages the museum's administrative needs and provides computing capabilities on a timesharing basis to several nonprofit organizations in the Boston area.

Graphics. With the growth in computer use has come an increased demand for the ability to display information in graphic presentations for business charts and graphs, computer-aided design and instruction, computerized typesetting and mathematical modeling.

In December, 1980, Digital introduced a new terminal to provide versatile, low-cost graphics capabilities for VAX, PDP-11 and DECSYSTEM-20 computers. Called GIGI, for General Imaging Generator and Interpreter, it uses an LSI-11 microcomputer built into a keyboard which can be attached to a color or black-and-white television monitor. GIGI was designed initially for the education market, but we expect it to be used in many technical and commercial applications as well.

Distributed Processing and Networking. Placing computers throughout all areas of an organization and linking them together in networks is an accelerating trend among users. The design of products to fill these needs has been a major focus of Digital's product development activity for many years.

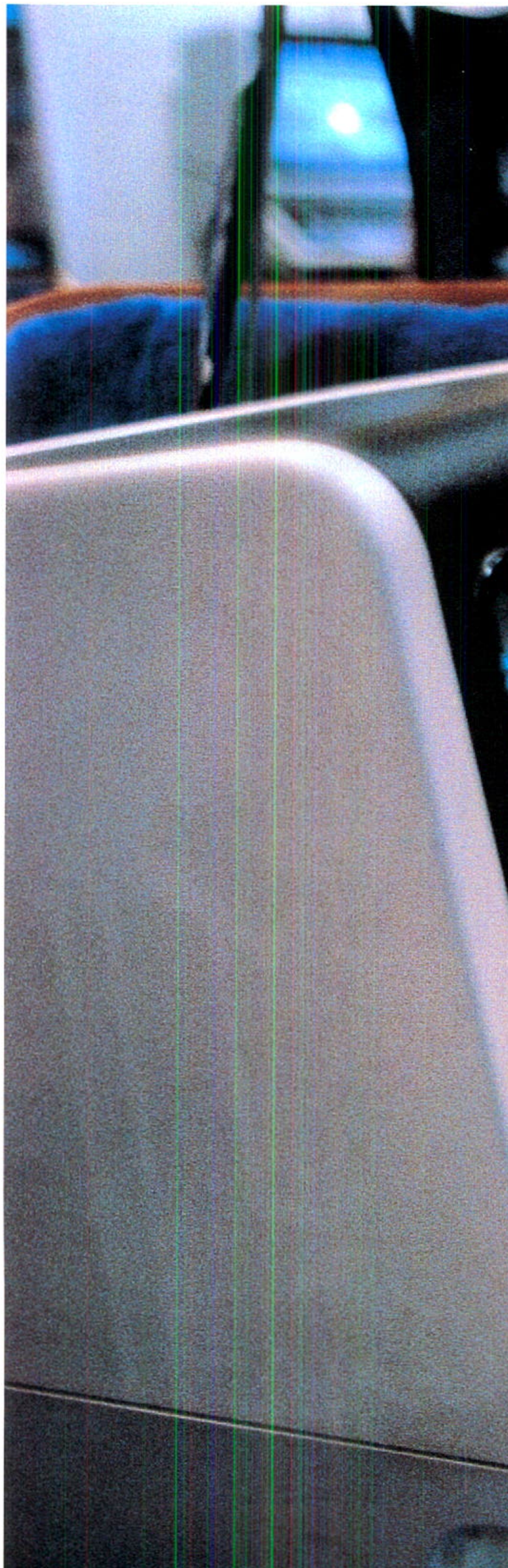
Digital's networking capability, called DECnet, is a set of easy-to-use software tools first introduced in 1975. Since that time, the company has become a leading supplier of products which link Digital's computers to each other, to computers made by other manufacturers and to public communications networks.

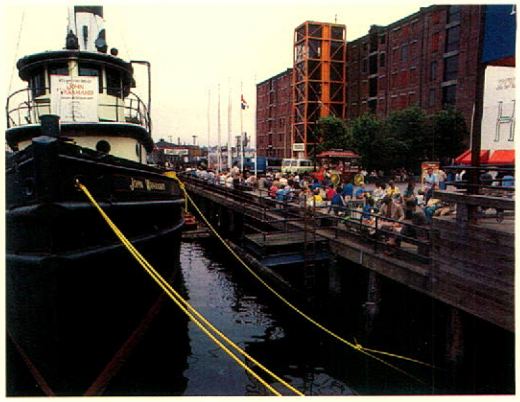
During the past year, Digital's networking capability was significantly expanded with the introduction of DECnet Phase III, which provides enhanced communications and network management capabilities for VAX and PDP-11 computers.

Local Area Networks. Specifications for a new local-area network were announced in October, 1980, which were the result of a collaborative effort among Digital, Xerox Corporation and Intel Corporation. Based on Ethernet™ technology, this specification has been accepted by a number of manufacturers of computers, semiconductors and office equipment as a standard for building networks of computers within an office area or a building. Digital is developing products for the future which will take advantage of this and other technologies.

Interaction with the User

Digital's computer systems range from microcomputers and individual work stations to large, powerful timesharing systems, and much attention has been paid to making them as compatible as possible with each other. This compatibility is designed to maximize the computer's ability to meet current user needs and to permit the easy addition of more computers as the user's needs grow in the future. And because of a high degree of software compatibility, not only system to system but across generations of Digital's computers, the user's investment in software is protected and can be built upon. We believe this to be a particularly important benefit to our customers as the costs of software development continue to rise.





General Electric Company is one of the largest users of Digital's products, with a variety of computer models distributed throughout its vast organization. At GE's Schenectady, New York, Research and Development Center, a VAX-11/750 analyzes complex product design information. At the Mobile Communications Business Division in Lynchburg, Virginia, engineering work developed on a large VAX-11/780 computer is sent via a DECnet communications link to a Digital VT72 text processing terminal where it is formatted and readied for typeset. Digital Word Processing systems in the offices of GE managers generate correspondence and reports.

Specialized Software. Much of Digital's early development effort was directed toward hardware and software products that could serve as tools to help users generate their own solutions to problems. However, the rapid proliferation of computers distributed throughout an organization, driven by declining prices and increased functionality and ease of use, has caused computer users in increasing numbers to seek specialized solutions to their specific application problems.

During the past year, Digital responded with new software products designed to do specific jobs. For users of large systems, software is offered for word processing, graphics, and a number of industry specific programs to run on the VAX, PDP-11 and DEC DATASYSTEM computers. A number of application specific software packages are also now available for users of Digital's small systems in several areas. These include the construction management industry, the dental and legal professions, and small business accounting.

Additional application software for all of Digital's computer systems is available through a new External Applications Software Library which was established during the year. This library is made up of customer-developed programs which have been reviewed and distributed by Digital to be installed and supported by other customers who wish to use them.

Digital also has more than 2,000 Software Support professionals throughout its worldwide Customer Services organization to help customers develop specialized solutions to their software problems.

Interaction with Technology

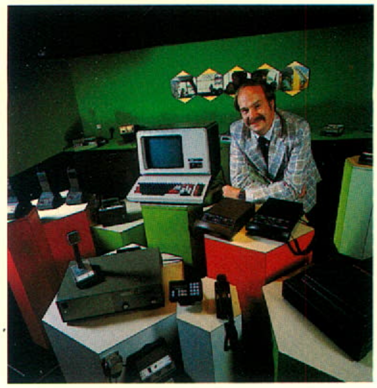
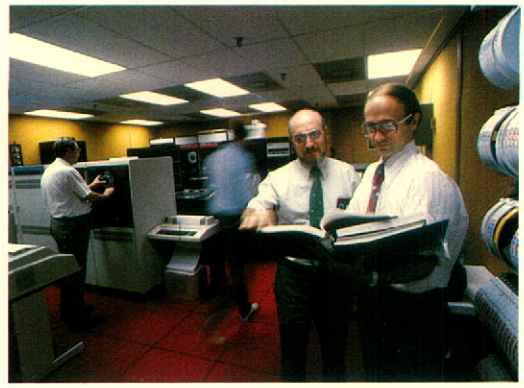
Digital pursues technology that can be manufactured reliably in high volume and that will prove useful to customers by making it easier for them to interact with computers to get the job done.

During Fiscal 1981, Digital spent more than $250 million on research and engineering of products to meet the future needs of customers. The development effort of prior years yielded a number of significant products during the year:

VAX-11/750 and Gate-array Technology. The idea of personalized, interactive computing has guided Digital's product development from the beginning. It was the idea on which the company was founded and it led us initially to the PDP-1; later, to the PDP-6, the PDP-8, the PDP-11, and most recently to VAX, and to all the family members which evolved from these milestone computer architectures.

The VAX-11/780 computer introduced in 1977 quickly became the standard for 32-bit computers, not only because of its impressive power and addressing capability, but also because of the broad range of rich and powerful software available on VAX for technical, scientific, commercial and business applications.

During the past year, Digital introduced the second member of the VAX family. Called the VAX-11/750, this new computer provides 60 percent of the power of the 780 at about 40 percent of the cost. And it is just one-third the size of the larger 780, thanks to the innovative use of new gate-array circuits developed at Digital's Semiconductor Technology Center in Hudson, Massachusetts.


Barclays Bank, with 3000 branches in England and Wales and 2000 more outside the country, is the largest international bank in the United Kingdom. Its Management Services Department in London uses a large VAX-11/780 system for a variety of research, planning and forecasting activities. In addition to being able to determine its communications needs, project its staffing requirements and create business models, the computer also generates comprehensive management reports for several other departments within Barclays.

The VAX-11/750 has broadened the existing technical and commercial markets for VAX computers. It uses the same operating system software, the same languages and the same information management architecture as the larger 11/780. Thus, any program that will run on one VAX system will run on any other VAX system without change.

The PDP-11 Family. Still going strong 12 years after its introduction, Digital's PDP-11 computer continues to be the best-selling 16-bit computer ever made. The family ranges from the LSI-11 microcomputer to the large and powerful PDP-11/70 which provides a direct upward migration path to the VAX family of computers.

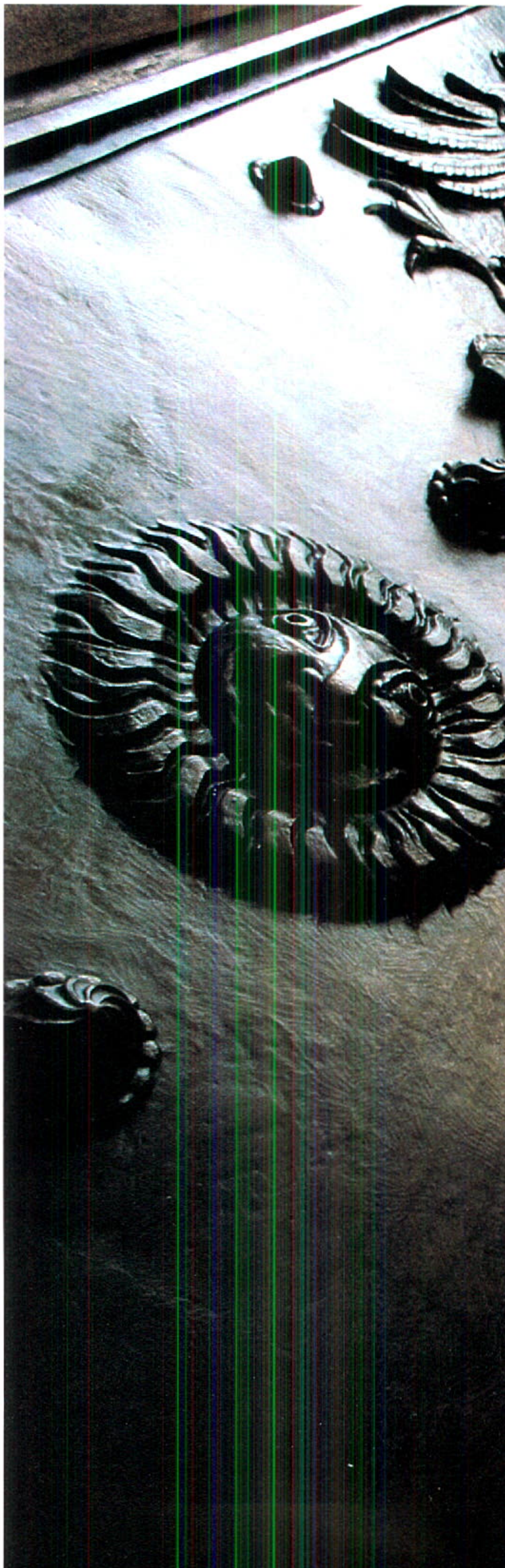
During Fiscal 1981, Digital introduced the newest member of the PDP-11 family, an entry-level computer called the 11/24. Designed for optimum compactness, the entire computer fits on a single 8x10-inch circuit board. The 11/24 system provides for storage of up to 1 million bytes of data, permitting the running of a wide range of applications originally developed to run on larger, more expensive PDP-11 systems. During the fourth quarter of the fiscal year, we began volume shipments of the mid-range 11/44, which had been introduced in Fiscal 1980.

DECSYSTEM-10 and 20 Family. During the year, Digital shipped its first Symetric Multiprocessing (SMP) mainframe system. In simple terms, SMP is a very large system employing two DECsystem-1090 processors that work together cooperatively to support up to 175 active jobs and 512 dedicated terminals.

With SMP, terminals can be connected to either computer. This is more efficient than running the two processors independently because the workload is automatically balanced and data files and peripheral devices can be shared between the two computers. The DECsystem-1090 SMP is the largest member of the DECsystem-10 and -20 family of mainframe computers and is designed to permit direct access to personal computing capabilities to a large number of users simultaneously through timesharing terminals.

Mass Storage Systems. As computers become more functional and less expensive, their numbers continue to grow, creating greater demand for more low-cost data storage capabilities.

During the past year, Digital introduced its first Winchester-type disk storage systems. These new products provide greater data storage capacity and enhanced reliability at lower cost. Large disk storage systems with capacity for 516 million bytes of data were introduced for use with VAX and large PDP-11 systems. New storage systems were also added for use with Digital's smaller computer systems.



Digital's computers are helping to enhance the responsiveness and effectiveness of the Canadian Red Cross Society. At its national headquarters in Toronto, a large PDP-11/70 computer, together with other PDP-11s being installed in each of 16 regional Red Cross centers throughout the country, will enable the Society to compile a complete list of blood donors and a comprehensive inventory of blood supplies, including rare blood types, for immediate access in the event of an emergency.

Interaction with the Customer

Digital believes that the highest degree of interaction in any of its activities needs to be in the area of customer service and support.

Because Digital has shipped more computers than any other manufacturer except one, its service resources must be deployed virtually everywhere, ready to be delivered promptly and effectively. Digital's customer support organization provides maintenance, training and consulting services from more than 400 locations worldwide.

The mission of Digital's customer support organization is to maximize computer availability to the customer and to minimize the cost of system ownership.

For Digital, minimizing the cost of system ownership means helping customers to reduce programming and training costs and helping to solve business problems while achieving the highest possible level of system utilization for the customer.

To implement this philosophy, the company has integrated maintenance, software and training services into a unified support organization that can interact with the customer on a day-to-day basis. This organization was expanded significantly during the past year and now includes more than 16,000 support personnel working in 38 countries on five continents.

In addition to its constant interaction with customers, Digital's support organization is heavily involved with the company's engineering and manufacturing organizations to ensure that the products we sell have maximum reliability and maintainability designed into them and that these features are carried through the manufacturing process.

At the individual account level, a maintenance expert and a software consultant join with a sales representative to form a team to ensure that customer needs are met. These account teams are, in turn, backed by network coordinators, education and training consultants and a variety of other support specialists.

Digital believes this team concept of customer support will become increasingly important as more and more users become involved with distributed computing, networking and office information systems.


CANADIAN RED CROSS
MOBILE LAB

The Digital Research Laboratory of the New York Institute of Technology is recognized as the leading innovator in both the art and technology of computer graphics, providing sophisticated graphics services to clients worldwide while also pioneering in digital video, audio and networking research. Started six years ago with an 11/45 computer which is still in operation, the laboratory program now includes several VAX-11/780s and more than two dozen PDP-11s which form a campus-wide network. Students are introduced to computer graphics through several of Digital's GIGI image generators linked to a large VAX-11/780 system.

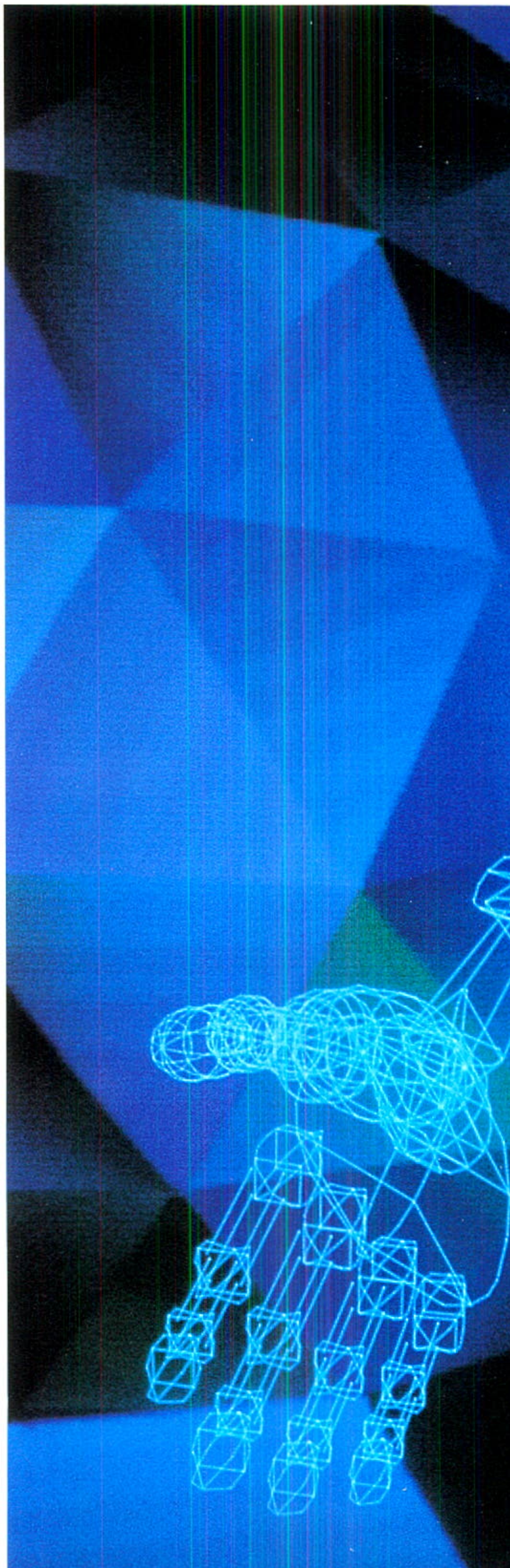
Because the most important opinions of Digital's service capabilities are those of its customers, the company has, for the past eleven years, surveyed every customer under service contract. By giving customers this opportunity to evaluate the service they receive, we have been able to constantly improve the levels of service and evaluate the performance of the Digital support organizations involved. This past year, more than 50,000 customers responded to our survey, and as has been the case for the past several years, our scores were higher than those of the previous year. Our goal is to make those scores even higher.

Innovations in Service Delivery. Digital was the first computer manufacturer to offer comprehensive remote diagnostic services for both hardware and software problems. Computer-to-computer remote diagnosis via dial-up telephone connection saves time and money for both the company and the customer. It permits the prompt dispatch of service specialists with the appropriate skills who understand the problem before they arrive at the customer site, because the remote diagnosis has located the trouble. In most cases, the service specialist is able to bring the correct replacement parts to correct the problem in one visit, thereby saving time and money for both the Customer and Digital. We believe our remote diagnostics capabilities to be the most advanced in the industry and we continue to strive to make them even better.

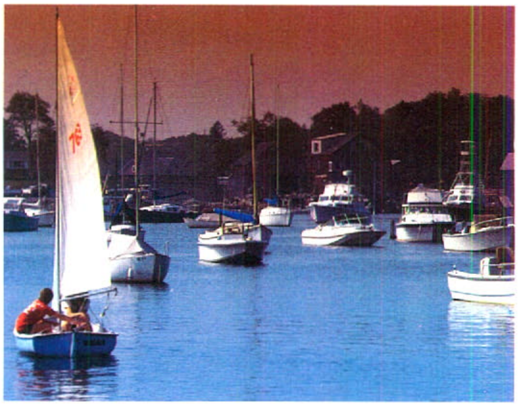
Digital was also the first manufacturer to offer a family of software support services, enabling customers to get more value from their systems. Today, the company has remote software telephone support centers serving customers in North America, Europe, Japan and Australia. These centers complement the full range of applications services provided by Digital's software specialists in the field.

During the past year, a new Customer Support Center was opened in Atlanta, Georgia to provide users of Digital's office systems with immediate answers to software, hardware and usage questions. The company's first "carry-in" Service Center for users of Digital's terminals will be opened during the first quarter of Fiscal 1982 at Lanham, Maryland, near Washington, D.C. Additional carry-in service centers are planned for the future.

Educational Services. Another important component of Digital's customer support organization is Educational Services, which last year delivered more than 50,000 student weeks of classroom instruction from training centers around the world. Digital's training curriculum includes more than 300 different courses offered in 17 languages. In addition, self-paced courses, interactive computer-based instruction and classes at customer sites are also offered. With the opening last year of new centers in Vancouver, British Columbia and Helsinki, Finland, Digital now has 24 such centers, all of them located in or near major cities.



Scenic Cohasset Harbor on Boston's South Shore provides the setting for a thriving business that depends upon one of Digital's small computers. Gibb-Henderson, Inc., supplier of marine hardware to boating enthusiasts, uses a small DEC DATASYSTEM business computer to manage its inventory of over 1,000 items and to handle accounting, record-keeping and customer lists for its main office and nearby retail store.



DECUS, the Digital Equipment Computer Users Society, is the largest and most active computer users' society in the industry with 45,000 members worldwide. DECUS issues papers, supports publications, provides a forum for the exchange of ideas and holds meetings in which Digital people actively participate. DECUS also makes available to its members a software library containing more than 1,700 active programs.

Computer Special Systems. For those customers whose needs are not met by standard Digital systems, the company also maintains Computer Special Systems facilities in the United States, Canada, England, Germany, France, Sweden, Japan and Australia. These centers provide customers with special hardware and software design, applications programming, systems engineering and project management. This organization also has particular expertise in the development and implementation of computer networks.

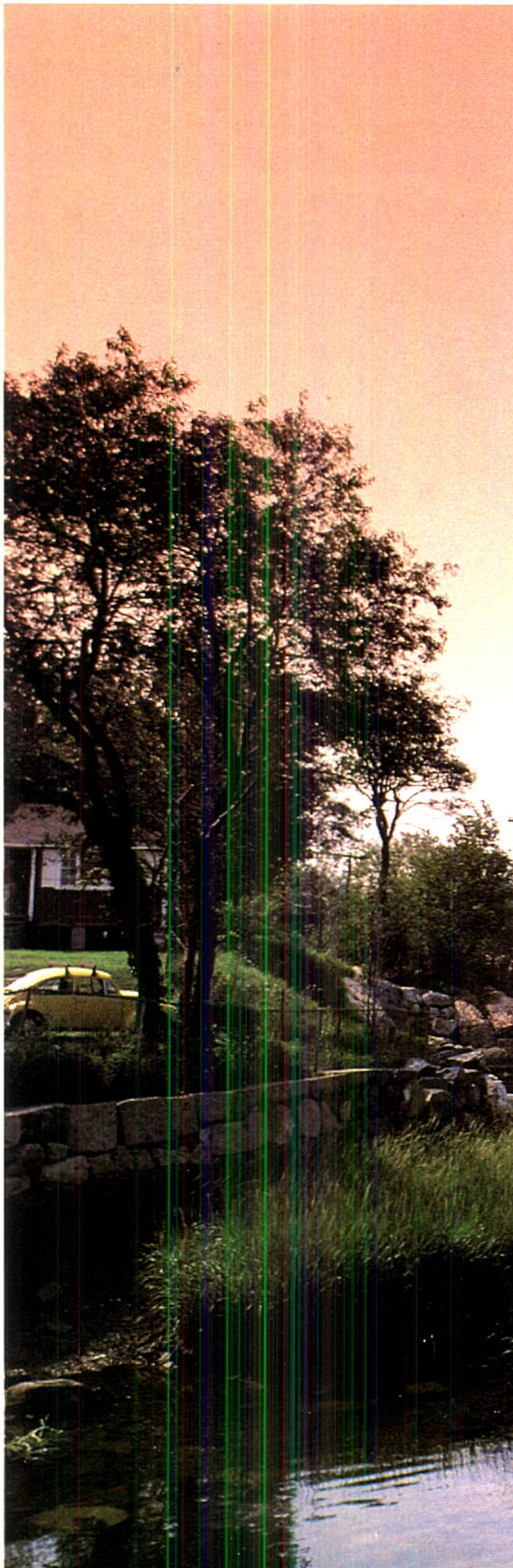
Efficient Distribution Channels. Digital sells its products through a variety of distribution channels: direct to end users, through Original Equipment Manufacturers (OEMs), through commercial and industrial distributors, through business equipment dealers, through a catalog and through our own retail stores.

Many of our customers, particularly large organizations with many locations, are serviced directly by Digital's worldwide Sales organization, which is deployed throughout every major industrialized country of the world.

Because Digital realized from the beginning that it couldn't possibly handle the countless special applications for its products, the company was early in recognizing that specialized companies closely allied with special fields could participate heavily in Digital's growth and success. OEMs have, from the beginning, played a vital role in Digital's progress and will continue to do so. The range of markets served by Digital's OEMs is far broader than the markets served directly by the company. In most cases, they are specialized markets which are understood in fine detail by the OEM.

There are essentially two type of OEMs. The first builds products such as test equipment, brain scanners, oil rigs or electronic displays such as stadium scoreboards in which the computer made by Digital is built into their product. The second type of OEM takes Digital's systems substantially as they are, and adds specialized application software needed by the customer for a specific job. The emphasis here is on understanding the special requirements of, and installing a computer system in the user's environment.

Digital's Authorized Distributor program was expanded during the year. Under this program, selected OEMs serving commercial customers are permitted to use a special Digital logo in their promotion and to participate in a cooperative advertising program. Participants in this program represent a diverse geographical and speciality cross-section within the commercial market.



Digital has developed innovative computer maintenance technology and techniques designed to maximize computer availability to customers and to minimize the cost of system ownership. Prompt, cost-efficient service is provided to users of Digital's terminals and small systems through fleets of fully equipped mobile units based in major cities in the United States, Canada and Western Europe. These repair-shops-on-wheels are operated by trained service specialists who bring the appropriate skills and replacements parts to customer sites for one-visit solutions to maintenance problems.

The company also broadened its distribution program for microcomputer products during the year with the addition of authorized distributors in California, Ohio and New York, who will provide off-the-shelf delivery of Digital's LSI-11/2 and 11/23 microcomputers through regional and local outlets.

Shortly after the close of the fiscal year, Digital announced the DECdealer program, designed to broaden the sales outlets for the new DECmate Work Processors. This program involves independent office equipment dealers who sell the new system, including printing terminals, word processing and accounting software, directly to end users.

The company sells from a comprehensive catalog which is distributed to more than 35,000 users of Digital's computers. These customers can order spare parts, supplies, media such as disks and tapes, and certain modules and terminals simply by dialing a special toll-free telephone number.

Digital also sells its products through a network of company-owned retail stores located in 25 major metropolitan areas. The objective of these stores is to sell small computer systems with standard software packages to businesses whose needs are met by these products. Customers with special needs are referred to the appropriate OEM or distributor.

Interaction with People

Other parts of this annual report describe some of Digital's activities, its philosophies and its goals.

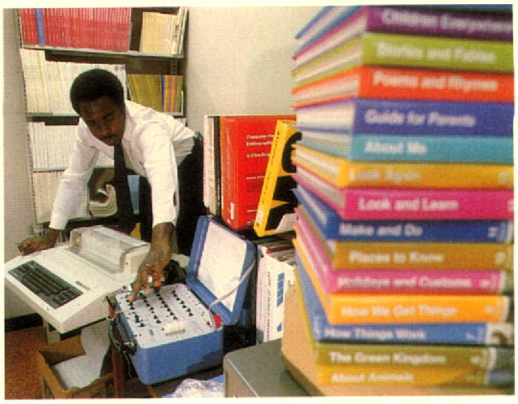
While Digital cannot be all things to all people, the company recognizes that it has important obligations to many people who have reasonable expectations of the company which we must work hard to meet.

Customers expect Digital to be a reliable supplier of high quality products and services. Our shareholders expect us to work hard to make their investments grow.

Digital also feels a deep sense of responsibility to its employees and to the community at large, particularly to those communities in which the company maintains facilities and where it is expected to be a thoughtful neighbor and responsible citizen.

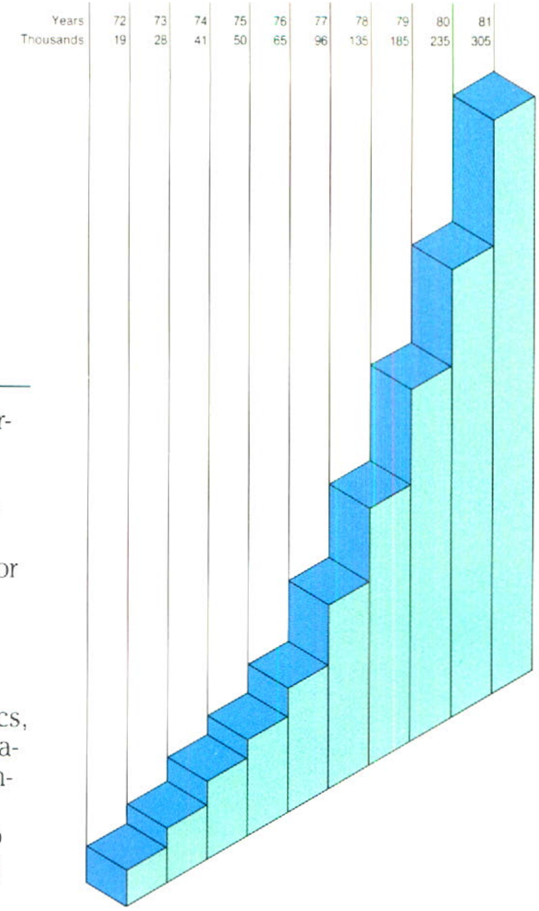
Digital is very proud of the quality of its worldwide organization and the company strives to recognize the contributions of its employees by providing programs designed to enhance their effectiveness in the organization and to promote their individual development as well.

These programs include continuing education, personal skills workshops, job enlargement training, management development, tuition refunds and university courses at company facilities. All of these programs were expanded during the year to accommodate the steadily growing numbers of employees at all levels of the organization who seek both personal and professional growth.


Stories and Fables
Poems and Rhymes
Guide for Parents
About Me
Look Again
Look and Learn
Make and Do
Places to Know
Holidays and Customs
How We Get Things
How Things Work
The Green Kingdom
About Animals


digital
GVW 6400

Computer Shipments



Ensuring that all employees have equal opportunities for hiring and advancement is also a serious commitment at Digital and the company has continued to aggressively pursue affirmative action programs to attract and develop minority and female employees. An extensive in-company program of continuing education offers specialized job-related training, individual courses, and university-level programs leading to degrees. Further opportunities are available to employees through company-sponsored programs at scores of colleges and universities.

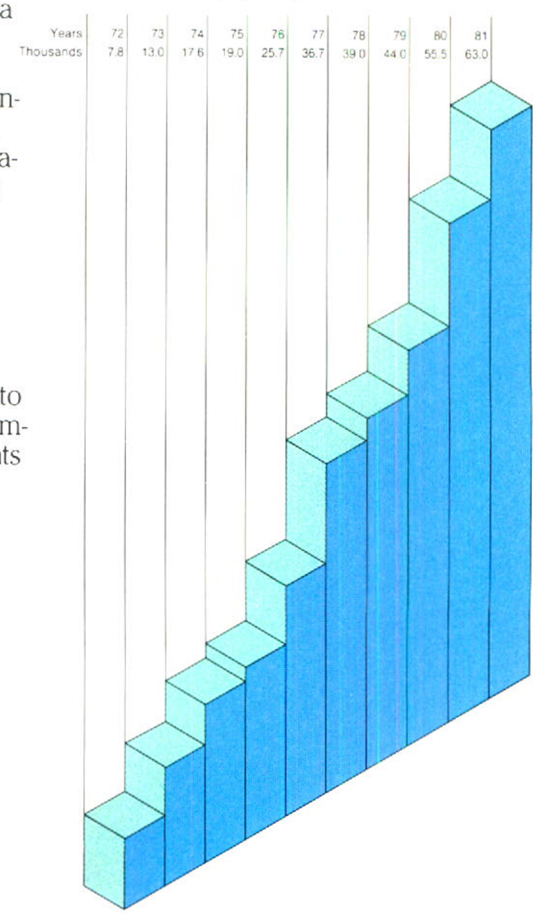
There was a significant increase during the past year in the number of employees involved in Digital's tuition-refund program; Student loans (which are also available to dependents of employees) and scholarships are offered as well to encourage even greater participation by Digital employees in programs of continuing education.

The company also increased its involvement with the outside community, recognizing the importance of promoting educational, civic, social and cultural programs at the national, regional and local levels. During the past year, the company made gifts valued at almost $7 million to organizations in every area of the world where Digital does business.

Our involvement included scholarships to 138 college-bound high school seniors in Digital communities, plus dozens more scholarships to support technical and research activities, and education programs for minorities and women. Digital also supported a long list of activities which serve large segments of the community, both young and old, through schools, hospitals and clinics, public service agencies, cultural organizations, and civic groups. The company also matched dollar-for-dollar the personal gifts of its employees to these kinds of organizations. During the past year, Digital became an important underwriter of public television for the first time, providing major funding to the Boston Pops Orchestra summer series on the Public Broadcasting System television network.

As the use of Digital's products continues to increase around the world, the company will expand its organization to meet the growing needs of its customers. And as we grow, we remain committed to ensure that the jobs we create are useful and challenging and that the environment in which our people work is attractive and enjoyable. We believe strongly that by meeting these commitments to our employees we strengthen the company's ability to meet its commitments to its customers, investors and the community at large.

Employee Population



Digital Equipment Corporation Financial Statements

Index	Page

Ten Year Financial Summary

Operations (In Millions except per share data)	**1981**	1980	1979
Revenues			
Equipment sales	**$2,384.2**	$1,779.4	$1,381.8
Service and other revenues	**813.9**	588.6	422.3
Total operating revenues	**3,198.1**	2,368.0	1,804.1
Costs and Expenses			
Cost of equipment sales, service and other revenues	**1,778.7**	1,319.9	1,012.3
Research and engineering expenses	**251.2**	186.4	138.3
Selling, general and administrative expenses	**632.2**	478.9	370.1
Operating income	**536.0**	382.8	283.4
Interest expense	**29.2**	27.0	24.3
Interest income	**(60.6)**	(53.8)	(35.8)
Income before income taxes	**567.4**	409.6	294.9
Provision for income taxes	**224.1**	159.7	116.5
Net income	**$ 343.3**	$ 249.9	$ 178.4
Net income per share[1]	**$ 6.70**	$ 5.45	$ 4.10
Average shares outstanding	**52.6**	47.2	44.9
Financial Position (In Millions except per share data)			
Inventories	**1,102.2**	819.9	513.5
Accounts receivable, net of allowances	**758.1**	629.1	475.1
Working capital	**2,029.8**	1,658.2	1,076.9
Property, plant and equipment, at cost	**1,128.4**	772.3	582.1
Total assets	**3,456.1**	2,666.1	1,863.2
Long-term debt	**88.4**	489.7	340.7
Stockholders' equity	**2,679.7**	1,651.7	1,120.2
Stockholders' equity per share	**$ 49.31**	$ 36.25	$ 27.59
General Information and Ratios (Dollars in Millions)			
Current ratio	**4.2:1**	4.5:1	3.8:1
Additions to property, plant and equipment	**$ 398.5**	$ 209.9	$ 93.9
Depreciation	**$ 102.1**	$ 69.8	$ 57.7
Debt to debt plus equity ratio	**3.2%**	22.9%	23.3%
Operating income as a percentage of total operating revenues	**16.8%**	16.2%	15.7%
Income before income taxes as a percentage of total operating revenues	**17.7%**	17.3%	16.4%
Net income as a percentage of total operating revenues	**10.7%**	10.6%	9.9%
Net income as a percentage of average stockholders' equity	**15.9%**	18.0%	17.6%
Net income as a percentage of average total assets	**11.2%**	11.0%	10.6%
Number of days sales of accounts receivable outstanding	**73**	81	82
Number of employees at year-end	**63,000**	55,500	44,200
Revenues per average number of employees (in thousands)	**$ 54.0**	$ 47.5	$ 43.4
Common shares outstanding (in thousands)	**54,348**	45,568	40,606
Shareholders at year-end	**39,948**	35,144	28,835

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

1978	1977	1976	1975	1974	1973	1972
$1,128.1	$ 847.5	$ 586.7	$ 433.2	$ 360.8	$ 229.1	$ 166.3
308.5	211.1	149.6	100.6	61.1	36.4	21.3
1,436.6	1,058.6	736.3	533.8	421.9	265.5	187.6
802.3	595.1	424.3	301.2	233.6	146.8	101.3
115.7	79.7	58.4	48.5	36.6	25.0	20.1
281.0	205.9	136.1	109.3	83.8	55.6	40.5
237.6	177.9	117.5	74.8	67.9	38.1	25.7
22.4	11.7	9.9	4.8	2.1	.7	.6
(12.3)	(10.2)	(11.8)	(3.6)	(3.1)	(1.2)	(.7)
227.5	176.4	119.4	73.6	68.9	38.6	25.8
85.3	67.9	46.0	27.6	24.5	15.1	10.5
$ 142.2	$ 108.5	$ 73.4	$ 46.0	$ 44.4	$ 23.5	$ 15.3
$ 3.40	$ 2.78	$ 1.98	$ 1.28	$ 1.27	$ .72	$ .50
43.2	39.0	37.1	35.9	35.1	32.6	30.8
428.1	375.0	218.8	174.8	137.4	102.7	62.1
375.2	323.1	219.3	165.0	144.6	107.2	68.4
887.0	574.2	499.0	333.2	238.6	152.7	87.2
507.8	352.4	215.8	167.6	127.4	83.9	58.9
1,501.4	1,070.4	856.0	565.1	440.3	287.4	192.4
341.6	90.6	91.4	85.2	10.6	—	—
904.8	735.5	606.0	394.4	339.6	223.5	144.8
$ 22.69	$ 18.73	$ 15.61	$ 10.94	$ 9.49	$ 6.73	$ 4.67
4.7:1	3.5:1	4.3:1	5.2:1	3.8:1	3.4:1	2.8:1
$ 167.0	$ 143.2	$ 54.5	$ 45.9	$ 50.1	$ 31.8	$ 27.7
$ 50.2	$ 28.5	$ 22.0	$ 16.9	$ 12.4	$ 8.0	$ 5.1
27.4%	11.0%	13.1%	17.8%	3.0%	—	—
16.5%	16.8%	16.0%	14.0%	16.1%	14.4%	13.7%
15.8%	16.7%	16.2%	13.8%	16.3%	14.5%	13.8%
9.9%	10.3%	10.0%	8.6%	10.5%	8.9%	8.2%
17.3%	16.2%	14.7%	12.5%	15.8%	12.8%	11.3%
11.1%	11.3%	10.3%	9.2%	12.2%	9.8%	8.9%
82	88	85	92	96	112	109
39,000	36,700	25,700	19,000	17,600	13,000	7,800
$ 38.0	$ 33.9	$ 32.9	$ 29.2	$ 27.6	$ 25.5	$ 26.8
39,873	39,259	12,944	12,022	11,932	11,079	10,343
25,868	22,738	15,442	15,033	14,393	14,226	15,430

Management's Discussion and Analysis of Results of Operations

As an aid to understanding the Company's operating results, the following tables indicate the percentage relationships of income and expense items included in the Consolidated Statements of Income for the three fiscal years ended June 27, 1981 and the percentage changes in those items for such years.

Income and Expense Items as a Percentage of Total Operating Revenues				Percentage Increase		
1979	1980	**1981**	Income and Expense Items	**1980 to 1981**	1979 to 1980	1978 to 1979
76.6%	75.1%	**74.6%**	Equipment sales	**34%**	29%	22%
23.4%	24.9%	**25.4%**	Service and other revenues	**38%**	39%	37%
100.0%	100.0%	**100.0%**	Total operating revenues	**35%**	31%	26%
56.1%	55.7%	**55.6%**	Cost of sales, service and other revenues	**35%**	30%	26%
7.7%	7.9%	**7.9%**	Research and engineering expenses	**35%**	35%	20%
20.5%	20.2%	**19.8%**	Selling, general and administrative expenses	**32%**	29%	32%
15.7%	16.2%	**16.7%**	Operating income	**40%**	35%	19%
1.3%	1.1%	**0.9%**	Interest expense	**8%**	11%	8%
(2.0%)	(2.2%)	**(1.9%)**	Interest income	**13%**	51%	192%
16.4%	17.3%	**17.7%**	Income before income taxes	**39%**	39%	30%
6.5%	6.7%	**7.0%**	Income taxes	**40%**	37%	37%
9.9%	10.6%	**10.7%**	Net income	**37%**	40%	25%

Revenues

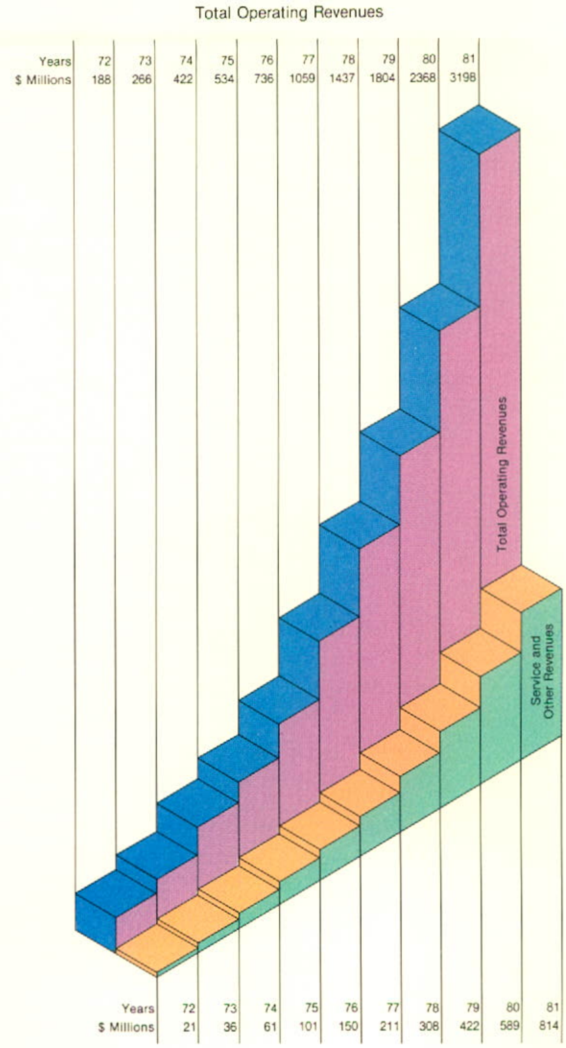
The Company's 35% growth in total operating revenues in fiscal 1981 and 31% and 26% increases in fiscal 1980 and 1979, respectively, are attributable to the continuation of several factors that have existed for some time. Among these have been the expansion of existing and development of new computer applications by users of computers. This broadening of computer applications is due in large part to advances in computer technology leading to the introduction of new or enhanced products, which offer improved price performance characteristics. Other factors contributing to the demand for the Company's products have been customer acceptance of distributed data processing and the opportunities computers offer customers to reduce costs and improve productivity, which is particularly important to customers in periods of high inflation. Additionally, the development of related technologies, such as the Company's DECnet Networking Software, has extended the potential applications for the Company's other computer products.

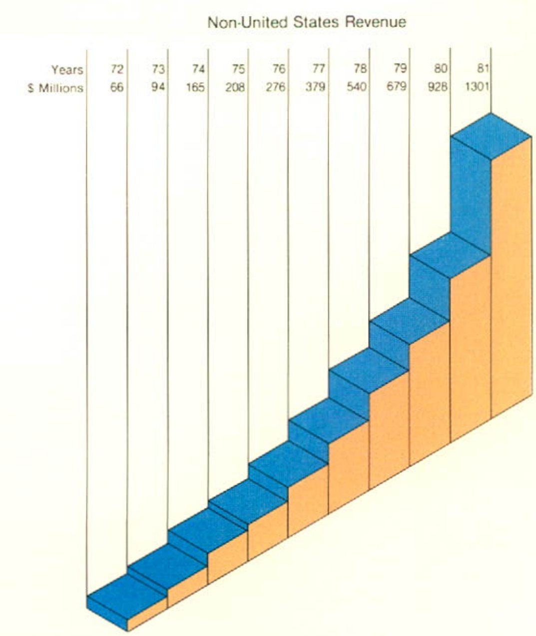
Complementing these factors are the Company's broad range of products, its introduction of new and improved products as a result of its research and development efforts, its substantial capital spending program, and its extensive product maintenance and customer support services, all of which have allowed the Company to grow with the expansion of its markets.

During the fiscal 1979-1981 periods, several products experienced particularly strong demand. These included the PDP-11 family and VAX family of computer products, the VT-100 video display terminal and several of the Company's disk storage products. Contributing to fiscal 1981 revenue growth was the Company's ability to gradually reduce product lead times as it added new capacity and, to a minor extent, the effect of price increases introduced the previous fiscal year.

Service and other revenues, which principally include maintenance service, customer training, software revenues and the sale of replacement parts, comprise an increasing share of the Company's total revenues. During the fiscal 1979-1981 period, service and other revenues increased from 23.4% to 25.4% of total revenues. This increase reflects the growth in the base of installed computer systems and the growing diversity and utility to the customer of such services.

Despite the persistence of high inflation, high interest rates and uncertain economies in the United States and Western Europe, management believes the prospects for its business remain favorable. The Company's broad product line, high quality customer base, and wide spectrum of markets should minimize fluctuations in our business due to specific market or geographic weaknesses.



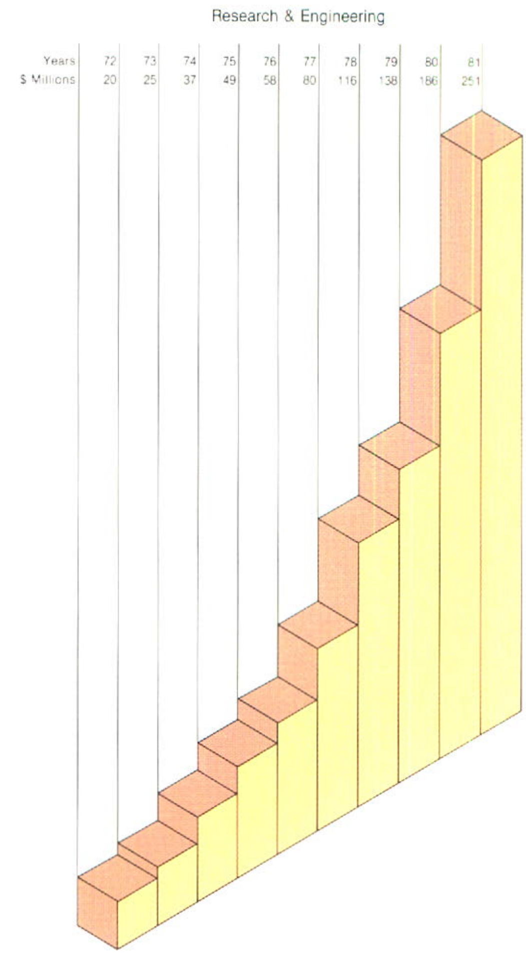


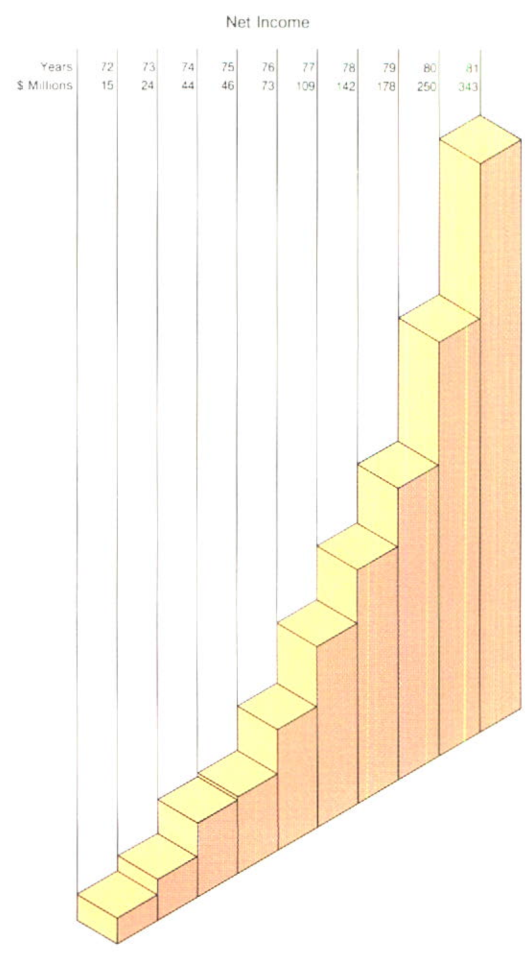
Expenses and Profit Margins

Technology improvements, production automation and higher production volumes have historically resulted in a lowering of the Company's product costs, the benefits of which have been passed on to its customers through selective price reductions or through the introduction of products with improved price performance characteristics. However, inflation continues to cause an increase in certain manufacturing costs and other elements of cost of sales.

Expense levels in fiscal 1981 increased at a slightly lower rate relative to operating revenues than in fiscal 1980. A similar improvement trend in expense to revenue relationships is reflected in the fiscal 1980 operating results, when compared to fiscal 1979. Operating income increased 40% over fiscal 1980, compared to a 35% increase from fiscal 1979 to 1980. Operating income was 16.7% of total operating revenues in fiscal 1981, compared to 16.2% in fiscal 1980 and 15.7% in fiscal 1979. The year to year improvements from 1979 to 1981 are consistent with the Company's objective of improving its operating profit margins by not allowing its expense levels to increase at a more rapid rate than its revenues. The fiscal 1981 improvement also reflects the benefit of the fiscal 1980 increases in the prices of the Company's products.

Net income per share for fiscal 1981 was $6.70, a 23% improvement over the $5.45 in fiscal 1980, which constituted a 33% increase over fiscal 1979 net income per share of $4.10. Net income per share increased less rapidly than income before income taxes in both fiscal 1981 and 1980, primarily due to increases in common shares and common share equivalents.

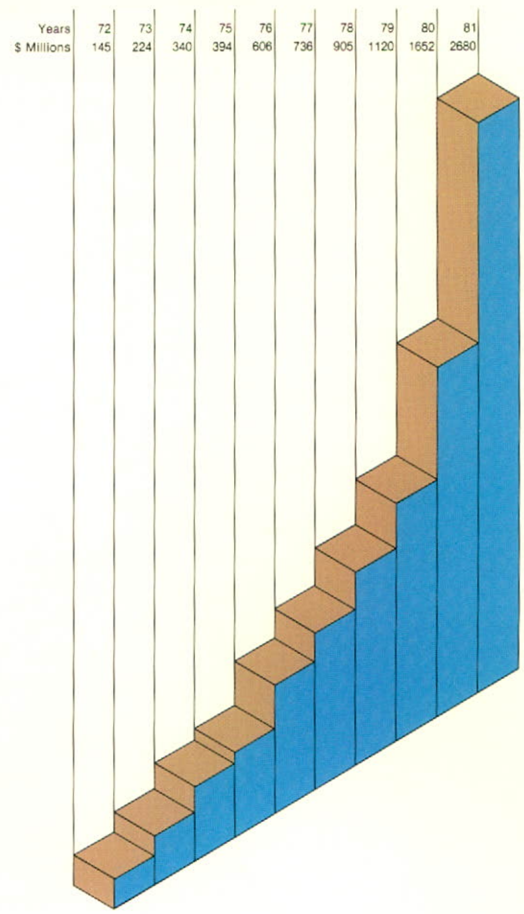




Inflation and Changing Prices

The preceding discussion and analysis is based on the Company's financial statements presented in historical dollars. See pages 41 through 44 for supplementary information on the Company's historical financial data adjusted for the effects of inflation and changing prices.

Total Stockholders Equity



Availability of Funds to Support Current and Future Operations

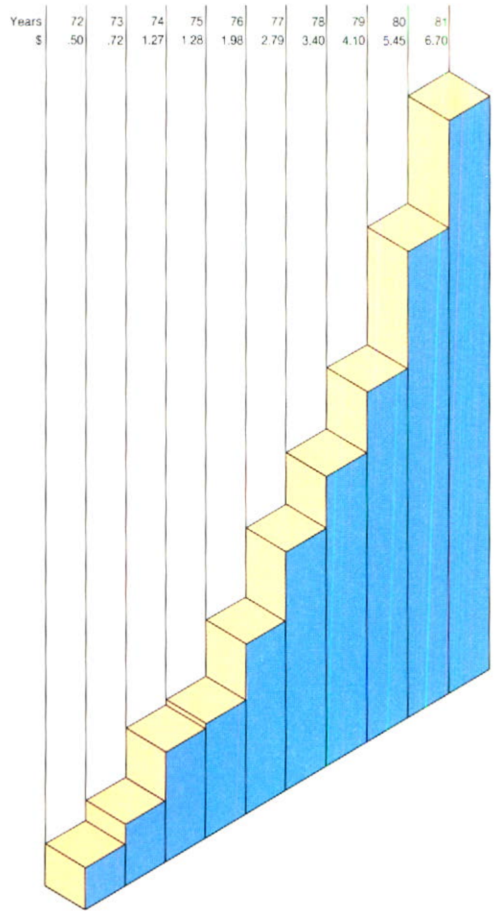
The need for funds to support the Company's rapid growth has historically caused it to use external financing to supplement internally generated funds, and to refrain from paying dividends. Based on its present rate of growth and ability to generate funds internally, the Company foresees the need to continue to use external financing.

During the fiscal 1979-1981 period, funds used to support operations and future growth exceeded funds generated from operations by $338 million. External financing during this period consisted primarily of the issuance of $400 million of 8⅞% Convertible Subordinated Debentures in fiscal 1980 and the $241 million proceeds from the sale of 2.5 million shares of common stock in fiscal 1981.

At the end of fiscal 1981, the Company's short- and long-term debt totaled $98 million, down from $498 million at the end of fiscal 1980. This decrease reflects principally the conversion into common stock in fiscal 1981 of the $400 million of 8⅞% Convertible Subordinated Debentures. Cash and temporary cash investments were $666 million at the end of fiscal 1981, compared to $616 million at the end of fiscal 1980. Unused lines of credit for short-term financing at the end of fiscal 1981 were $226 million, including revolving credit agreements totalling $150 million.

The Company believes its financial performance over the years, its low debt to debt plus equity ratio and its high credit rating, leave it positioned to obtain the financing required to support its future growth.

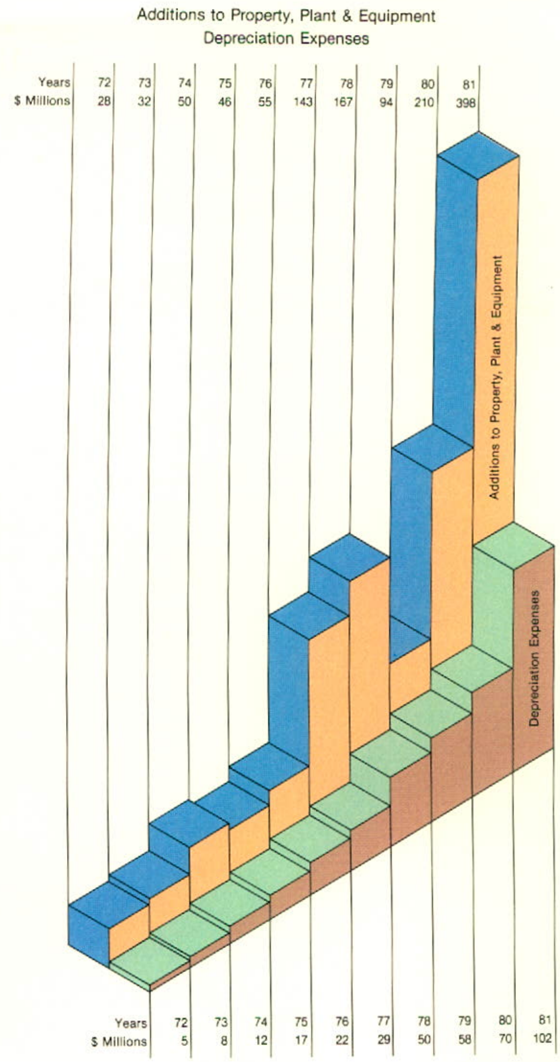
Net Income Per Common Share



Spending for Operations

The major increases in working capital requirements were for accounts receivable which increased $129 million or 21%, and inventories which increased $282 million or 34% during fiscal 1981, compared to a 35% increase in total operating revenues. The increase in accounts receivable reflected a decline in the average number of days sales outstanding from 81 days as of the end of fiscal 1980 to 73 days as of the end of fiscal 1981. The increase in inventory was principally due to the Company's desire to improve customer satisfaction by reducing product delivery times, and the increasing demand for its products. There was an improvement in the ratio of net income to average total assets (11.2% in 1981, 11.0% in 1980 and 10.0% in 1979).

Capital spending for property, plant and equipment totaled $398 million in fiscal 1981, a 90% increase over the Company's 1980 capital spending of $210 million. The 1981 capital expenditures consisted of land and building additions of $138 million, leasehold improvements of $29 million and equipment additions of $231 million. Approximately 50% of this spending was for expansion of manufacturing capacity, including facilities completed or under construction in Arizona, Colorado, South Carolina, Puerto Rico, Maine, Massachusetts and New Hampshire in the United States; Singapore and Hong Kong in the Far East; Ireland and West Germany in Europe. The Company expects to continue to invest significant amounts in capital expenditures in future years to support the growth of its operations. While the actual spending level will be dependent on economic conditions and the growth in demand for its products and services, the Company presently anticipates capital expenditures in excess of $500 million in fiscal 1982.

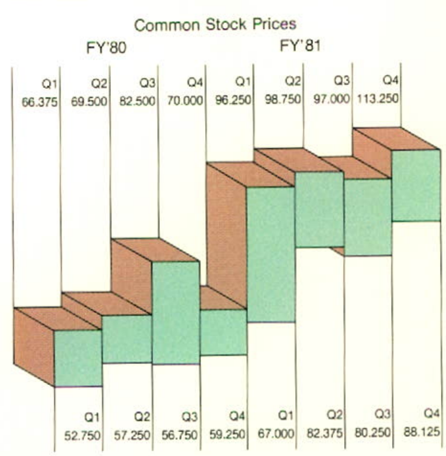


Common Stock Information

The Company's common stock is listed and traded on the New York Stock Exchange and the Pacific Stock Exchange. There were 39,373 stockholders of record as at July 31, 1981. The high and low quarterly sales prices for the past two fiscal years are presented below.

Fiscal Quarter	1981 High	1981 Low	1980 High	1980 Low
First	**$ 96.250**	**$67.000**	$66.375	$52.750
Second	**98.750**	**82.375**	69.500	57.250
Third	**97.000**	**80.250**	82.500	56.750
Fourth	**113.250**	**88.125**	70.000	59.250

The Company has never declared any cash dividends. It has been the policy of the Company to use its earnings to finance expansion and growth. While the payment of future dividends will rest with the discretion of the Board of Directors and will depend, among other things, upon the Company's earnings, capital requirements and financial condition, the Company expects to retain all of its earnings for use in the business and has no present plans to pay cash dividends.



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. 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

Alfred M. Bertocchi
Vice President, Finance and Administration

Report of Independent Certified Public Accountants

To The Stockholders and Directors,
Digital Equipment Corporation

We have examined the consolidated balance sheets of Digital Equipment Corporation as at June 27, 1981 and June 28, 1980 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 June 27, 1981. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Digital Equipment Corporation as at June 27, 1981 and June 28, 1980, and the consolidated results of its operations and the consolidated changes in its financial position for each of the three fiscal years in the period ended June 27, 1981 in conformity with generally accepted accounting principles applied on a consistent basis.

Boston, Massachusetts
August 4, 1981

COOPERS & LYBRAND

Consolidated Statements of Income (In Thousands except per share data)

	Year Ended		
	June 27, 1981	June 28, 1980	June 30, 1979
Revenues (Notes A and B)			
Equipment sales	**$2,384,236**	$1,779,466	$1,381,756
Service and other revenues	**813,863**	588,579	422,336
Total operating revenues	**3,198,099**	2,368,045	1,804,092
Costs and Expenses (Notes A and I)			
Cost of equipment sales, service and other revenues	**1,778,663**	1,319,912	1,012,257
Research and engineering expenses	**251,186**	186,392	138,266
Selling, general and administrative expenses	**632,190**	478,967	370,128
Operating income	**536,060**	382,774	283,441
Interest expense	**29,265**	26,996	24,262
Interest income	**(60,638)**	(53,829)	(35,753)
Income before income taxes	**567,433**	409,607	294,932
Provision for income taxes (Notes A and C)			
Federal	**156,636**	116,784	89,388
Foreign	**55,157**	34,733	18,811
State	**12,343**	8,229	8,299
Total provision for income taxes	**224,136**	159,746	116,498
Net income	**$ 343,297**	$ 249,861	$ 178,434
Net income per share (Note E)	**$ 6.70**	$ 5.45	$ 4.10
Average shares outstanding (Note E)	**52,567**	47,171	44,941

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

Consolidated Balance Sheets (In Thousands)

Assets	**June 27, 1981**	June 28, 1980
Current Assets		
Cash and temporary cash investments (Note D)	**$ 665,582**	$ 616,286
Accounts receivable, net of allowances of $25,528 and $22,151	**758,109**	629,063
Inventories (Note A):		
Raw materials	**221,311**	199,210
Work-in-process	**346,817**	271,348
Finished goods	**534,120**	349,366
Total Inventories	**1,102,248**	819,924
Prepaid expenses	**40,844**	30,646
Net deferred Federal and foreign income tax charges	**89,790**	40,693
Total Current Assets	**2,656,573**	2,136,612
Property, Plant and Equipment, at cost (Note A)		
Land	**55,998**	38,261
Buildings	**378,461**	254,609
Leasehold improvements	**64,764**	45,783
Machinery and equipment	**629,220**	433,660
Gross Property, Plant and Equipment	**1,128,443**	772,313
Less accumulated depreciation	**328,944**	242,857
Net Property, Plant and Equipment	**799,499**	529,456
Total Assets	**$3,456,072**	$2,666,068

Liabilities and Stockholders' Equity		
Current Liabilities		
Loans payable to banks (Note F)	**$ 8,229**	$ 7,555
Accounts payable	**113,135**	103,104
Federal, foreign and state income taxes	**276,422**	153,518
Salaries, wages and related items	**102,663**	85,925
Deferred revenues and customer advances (Note A)	**79,148**	69,770
Current portion of long-term debt	**1,091**	1,035
Other current liabilities	**46,114**	57,489
Total Current Liabilities	**626,802**	478,396
Net deferred Federal and foreign income tax credits	**61,149**	46,201
Long-term debt (Note G)	**88,432**	489,722
Total Liabilities	**776,383**	1,014,319
Stockholders' Equity (Note J)		
Common stock, $1.00 par value; authorized 225,000,000 shares; issued and outstanding 54,347,814 and 45,568,498 shares	**54,348**	45,569
Additional paid-in capital	**1,350,974**	675,110
Retained earnings	**1,274,367**	931,070
Total Stockholders' Equity	**2,679,689**	1,651,749
Total Liabilities and Stockholders' Equity	**$3,456,072**	$2,666,068

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	Total Stockholders' Equity
July 1, 1978	$39,873	$ 362,110	$ 502,775	$ 904,758
Shares issued under stock option and purchase plans (Note J)	733	23,579		24,312
Restricted stock plans, charge to operations (Note J)		8,602		8,602
Stock option and purchase plans—excess Federal income tax benefits (Note J)		4,130		4,130
Net income—1979			178,434	178,434
June 30, 1979	40,606	398,421	681,209	1,120,236
Shares issued upon conversion of 4½% Convertible Subordinated Debentures	4,384	241,506		245,890
Shares issued under stock option and purchase plans (Note J)	579	21,287		21,866
Restricted stock plans, charge to operations (Note J)		9,306		9,306
Stock option and purchase plans—excess Federal income tax benefits (Note J)		4,590		4,590
Net income—1980			249,861	249,861
June 28, 1980	45,569	675,110	931,070	1,651,749
Sale of common stock	2,500	238,178		240,678
Shares issued upon conversion of 8⅞% Convertible Subordinated Debentures (Note G)	5,551	387,287		392,838
Shares issued under stock option and purchase plans (Note J)	728	31,890		32,618
Restricted stock plans, charge to operations (Note J)		9,751		9,751
Stock option and purchase plans—excess Federal income tax benefits (Note J)		8,758		8,758
Net income—1981			343,297	343,297
June 27, 1981	$54,348	$1,350,974	$1,274,367	$2,679,689

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

Consolidated Statements of Changes in Financial Position (In Thousands)

	Year Ended		
	June 27, 1981	June 28, 1980	June 30, 1979
Funds from Operations			
Net income	**$343,297**	$249,861	$178,434
Add—expenses not requiring funds in current period:			
Depreciation (Note A)	**102,139**	69,809	57,655
Disposal of property, plant and equipment	**26,300**	9,841	12,982
Restricted stock plans—charge to operations (Note J)	**9,751**	9,306	8,602
Deferred income tax provision (Note C)	**(25,391)**	18,468	(11,084)
Total funds from operations	**456,096**	357,285	246,589
Funds Used to Support Operations			
Increase (decrease) in working capital:			
Accounts receivable	**129,046**	153,996	99,862
Inventories	**282,324**	306,394	85,428
Prepaid expenses	**10,198**	11,775	5,819
Accounts payable	**(10,031)**	(16,265)	(36,332)
Income taxes	**(122,904)**	(23,897)	(65,810)
Other current liabilities	**(14,797)**	(55,551)	(43,377)
	273,836	376,452	45,590
Additions to property, plant and equipment	**398,482**	209,897	93,911
Total funds used to support operations	**672,318**	586,349	139,501
Net increase (decrease) in funds from operations	**(216,222)**	(229,064)	107,088
Funds provided by Financing Sources			
Sale of common stock	**240,678**	—	—
Increase (decrease) in:			
Loans payable to banks (Note F)	**674**	(4,437)	3,170
Long-term debt			
4½% Convertible Subordinated Debentures	—	(249,995)	—
8⅞% Convertible Subordinated Debentures (Note G)	**(400,000)**	400,000	—
Other	**(1,290)**	(997)	(909)
Net increase in stockholders' equity upon conversion of:			
4½% Convertible Subordinated Debentures	—	245,890	—
8⅞% Convertible Subordinated Debentures (Note G)	**392,838**	—	—
Common stock issued under stock option and purchase plans (Note J)	**32,618**	21,866	24,312
Total funds from financing sources	**265,518**	412,327	26,573
Net increase in cash and temporary cash investments	**49,296**	183,263	133,661
Cash and temporary cash investments at beginning of year	**616,286**	433,023	299,362
Cash and temporary cash investments at end of year	**$665,582**	$616,286	$433,023

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 of which are wholly-owned. All significant intercompany accounts and profits have been eliminated.

Translation of Foreign Currencies Assets and liabilities of foreign subsidiaries are translated into U.S. dollars at current exchange rates, except that 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 cost of sales and depreciation are translated at historical rates. Exchange gains and losses arising from translation are included in income currently.

The Company enters into forward exchange contracts to reduce the impact of foreign currency fluctuations on certain sales transactions and the asset and liability positions of foreign subsidiaries. The gains or losses on these contracts are included in income when the revenue from the sales is recognized and for assets and liabilities in the period in which the exchange rates change.

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

Research and Engineering and Warranty Costs Research and engineering and warranty costs are expensed as incurred. The Company's accounting policies with respect to warranty costs result in approximately the same charge to expense as would accrual of such warranty costs at the time of sale.

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. The Company has elected to provide for taxes on the entire income of its Domestic International Sales Corporation (DISC). Investment tax credits are treated as reductions of income taxes in the year in which the credits arise.

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 bases:

Classification	Depreciation Lives and Methods
Buildings	33 years (straight-line)
Leasehold improvements	Life of assets or term of lease, whichever is shorter (straight-line)
Machinery and equipment	8 and 10 years (sum-of-years), 4 and 5 years (double declining-balance)

Note B – International Operations

Industry The Company's business consists of the design, manufacture, sale and service of computers and associated peripheral equipment, and related software and supplies.

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, to a minor extent, through various representative and distributorship arrangements. A substantial portion of these sales consists of products manufactured domestically. 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 international sales subsidiaries, the parent corporation or other international 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 of the United States, including U.S. export sales, were $1,301,465,000 for the year ended June 27, 1981, $928,285,000 for the year ended June 28, 1980, and $679,354,000 for the year ended June 30, 1979, which represented 41%, 39%, and 38%, respectively, of total operating revenues.

The retained earnings of substantially all of the Company's international subsidiaries have been reinvested to support their operations. These accumulated retained earnings, before elimination of intercompany transactions, aggregated $508,948,000 at June 27, 1981, $303,132,000 at June 28, 1980, and $185,045,000 at June 30, 1979.

Financial information by geographical area is summarized as follows:

	Fiscal Year		
Sales	**1981**	1980	1979
		(In Thousands)	
United States customers	**$1,945,655**	$1,474,529	$1,148,701
Intercompany	**685,138**	453,814	324,564
	2,630,793	1,928,343	1,473,265
Europe customers	**934,663**	678,153	486,451
Intercompany	**—**	—	—
	934,663	678,153	486,451
Canada, Far East, Americas customers	**317,781**	215,363	168,940
Intercompany	**362,314**	187,179	113,875
	680,095	402,542	282,815
Eliminations	**(1,047,452)**	(640,993)	(438,439)
Net sales	**$3,198,099**	$2,368,045	$1,804,092
Profits			
United States	**$ 306,787**	$ 267,809	$ 203,586
Europe	**146,951**	79,095	50,416
Canada, Far East, Americas	**124,684**	71,889	50,487
Eliminations	**(42,362)**	(36,019)	(21,048)
Profit from operations	**536,060**	382,774	283,441
Interest Income	**60,638**	53,829	35,753
Interest Expense	**(29,265)**	(26,996)	(24,262)
Income before income taxes	**$ 567,433**	$ 409,607	$ 294,932
Assets			
United States	**$2,469,853**	$1,759,039	$1,239,266
Europe	**744,292**	500,888	339,383
Canada, Far East, Americas	**424,329**	266,743	174,459
Corporate assets (temporary cash investments)	**651,093**	598,733	432,240
Eliminations	**(833,495)**	(459,335)	(322,168)
Total assets	**$3,456,072**	$2,666,068	$1,863,180

Note C—Income Taxes

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

	Year Ended		
	June 27, 1981	June 28, 1980	June 30, 1979
	(In Thousands)		
Domestic	**$376,683**	$305,893	$235,167
Foreign	**190,750**	103,714	59,765
Total	**$567,433**	$409,607	$294,932

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

	1981	1980	1979
U.S. Federal statutory tax rate	**46.0%**	46.0%	47.0%
Tax benefit of manufacturing operations in (a):			
Puerto Rico	**(2.2)**	(3.7)	(2.2)
Ireland	**(1.7)**	(1.8)	(2.7)
Difference between U.S. and Foreign tax rates	**.6**	(.2)	(1.8)
State income taxes, net of Federal income tax benefit	**1.1**	1.0	1.4
Other	**(4.3)**	(2.3)	(2.2)
	39.5%	39.0%	39.5%

(a) Consolidated net income includes income of a domestic manufacturing subsidiary operating in Puerto Rico and of a foreign manufacturing subsidiary operating in Ireland. Under Puerto Rican law, the subsidiary is subject to tax at a rate of approximately 9% on its manufacturing earnings through fiscal 1995. Remitted earnings are not subject to U.S. Federal income taxes, but are subject to Puerto Rican withholding taxes at rates not in excess of 10%, less a partial credit for taxes paid to Puerto Rico. Under Irish law, the income from products manufactured for export is exempt from Irish taxes for a period of 15 years, which period expires in 1986 (for the years 1987-1991 the income is partially exempt). The income tax benefits per common share attributable to the tax status of these subsidiaries for the years ended June 27, 1981, June 28, 1980 and June 30, 1979 were $.42, $.48 and $.32, respectively.

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

	Year Ended		
	June 27, 1981	June 28, 1980	June 30, 1979
	(In Thousands)		
U.S. Federal:			
Currently payable	**$167,740**	$ 97,832	$ 93,484
Deferred	**(11,104)**	18,952	(4,096)
Total	**$156,636**	$116,784	$ 89,388
Foreign:			
Currently payable	**$ 69,444**	$ 35,217	$ 25,799
Deferred	**(14,287)**	(484)	(6,988)
Total	**$ 55,157**	$ 34,733	$ 18,811

Deferred tax expense results from timing differences in the recognition of revenues and expenses for tax and financial reporting purposes. The sources of these timing differences in the years ended June 27, 1981, June 28, 1980 and June 30, 1979, and the tax effect of each were as follows:

	Year Ended		
	June 27, 1981	June 28, 1980	June 30, 1979
	(In Thousands)		
Inventory related transactions	**$ (72,911)**	$ (28,774)	$ (23,840)
Installment sales, principally intercompany, and financing leases	**10,754**	12,468	(974)
Domestic International Sales Corporation profits	**14,893**	11,964	6,529
Depreciation	**10,720**	10,455	3,952
Other	**11,153**	12,355	3,249
Total	**$ (25,391)**	$ 18,468	$ (11,084)

In connection with its normal examinations of the Company's 1976 through 1979 tax returns, the Internal Revenue Service has proposed certain 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.

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

Note D–Cash and Temporary Cash Investments

The Company's policy is to invest cash in income producing temporary cash investments. Accordingly, uninvested cash balances are kept at minimum levels. Temporary cash investments are valued at cost, which approximates market, and principally include certificates of deposit and time deposits.

Note E–Net Income Per Share and Dividends

Net income per share is based on the weighted average number of common shares and, if their aggregate dilutive effect is material, common share equivalents outstanding during the year. In fiscal 1981, 1980 and 1979 common share equivalents were attributable principally to Convertible Subordinated Debentures (see Note G) and to a minor extent, stock options.

No cash dividends have ever been paid by the Company.

Note F–Short-Term Debt

Short-term debt and related interest rates were as follows:

	June 27, 1981		June 28, 1980	
	(In Thousands)	**Average Interest Rate**	(In Thousands)	Average Interest Rate
Loans payable to banks	**$8,229**	**30.3%**	$7,555	18.8%

The maximum aggregate short-term debt outstanding at any month-end was $20,080,000 during fiscal 1981 and $18,894,000 during fiscal 1980. Average short-term borrowings during these years, computed on a month-end basis, were $13,145,000 and $13,355,000 respectively. The average interest rate based on a weighted average of the stated month-end rates was 20.4% in fiscal 1981 and 14.9% in fiscal 1980. Short term debt was principally denominated in foreign currencies. The 30.3% interest rate at June 27, 1981 was principally caused by the high interest rate on Brazilian short-term debt.

Unused lines of credit for short-term financing were $76,352,000 at June 27, 1981 and $78,640,000 at June 28, 1980. At June 27, 1981 certain lines of credit required either the maintenance of compensating balances or the payment of facility fees; $8,000,000 required the maintenance of compensating balances equal to 5% of such unused lines and $13,000,000 required the payment of facility fees which in general are approximately the equivalent of 5% compensating balances.

After considering "float" none of the cash reflected in the balance sheets at June 27, 1981 and June 28, 1980 was required as compensating balances.

In March, 1980 the Company entered into revolving credit agreements totaling $150,000,000. These commitments are available on a revolving basis until March, 1983, converting at such time to term loans with final maturities in March, 1987. Borrowing rates under these commitments vary with the prime rate or the London Interbank Offer Rate. There are no compensating balance requirements under these agreements. Commitment fees on the unused portion of the commitment in general approximate 5% compensating balances. These credit arrangements were unused at June 27, 1981.

Note G–Long-Term Debt

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

	June 27, 1981	June 28, 1980
	(In Thousands)	
Lease obligations payable 1982-1993 (4.5%-11.7%) (a)	**$ 5,832**	$ 6,627
Collateralized obligations maturing serially to 1993 (5.4%) (b)	**7,600**	8,095
Sinking Fund Debentures due March 15, 2000 (9 3/8%) (c)	**75,000**	75,000
Convertible Subordinated Debentures due June 15, 2005 (8 7/8%) (d)	—	400,000
	$88,432	$489,722

Principal payments required during the next five fiscal years are as follows: 1982-$1,091,000; 1983-$1,146,000; 1984-$1,212,000; 1985-$5,220,000; and 1986-$5,263,000.

(a) Weighted average interest rate at June 27, 1981 of 8.1%.

(b) Interest rate shown is the weighted average rate at June 27, 1981.

(c) Sinking Fund Debentures were issued by the Company in March 1975. Sinking fund payments of $4,000,000 are required in each of the fiscal years 1985-1999. The Company at its option may increase the sinking fund payments up to an additional $4,000,000 in each such year. The Debentures are redeemable at the option of the Company at any time, as a whole or in part, at 109 3/8% of the principal amount during the year beginning March 15, 1975, and at declining percentages each year thereafter. However, prior to March 15, 1985, the Company may not redeem any of the Debentures from the proceeds of funds borrowed at an interest rate less than 9 3/8% per annum. The Indenture for the Debentures also contains certain restrictions on future borrowings and dividend distributions.

(d) On April 1, 1980, the Company issued $400,000,000 of 8 7/8% Convertible Subordinated Debentures. On January 6, 1981, the Company called for redemption all $397,873,000 of its then outstanding 8 7/8% Convertible Subordinated Debentures. At the election of the Debentureholders, substantially all of the Debentures were converted into shares of common stock.

Note H–Leases

Minimum annual rentals under noncancelable leases (which are principally for leased regional sales offices and manufacturing space) for the fiscal years listed are as follows:

Fiscal year	
	(In Thousands)
1982	$ 66,139
1983	57,210
1984	46,969
1985	33,387
1986	21,364
Later years	154,590
Total minimum lease payments	$379,659

Total rental expense for the fiscal years ended June 27, 1981, June 28, 1980 and June 30, 1979 amounted to $91,119,000, $62,466,000 and $37,306,000, respectively.

Note I—Pension Plans

The Company and its subsidiaries have pension plans covering substantially all of their employees. Total pension expense was $46,896,000 in fiscal 1981, $34,784,000 in fiscal 1980, and $23,654,000 in fiscal 1979. Annual contributions are made to the plans equal to the amounts accrued for pension expense. There was no unfunded past service liability as of June 27, 1981.

A comparison of accumulated plan benefits and plan net assets for the Company's domestic defined benefit plans and for those foreign subsidiaries with defined benefit plans, determined as of the beginning of each respective fiscal year is presented in the accompanying table. Foreign subsidiaries with insured plans, rather than defined benefit plans, have been excluded from this information.

	June 27, 1981	June 28, 1980
	(In Thousands)	
Actuarial present value of accumulated plan benefits:		
Vested	**$ 34,063**	$19,559
Nonvested	**23,375**	19,292
	$ 57,438	$38,851
Net assets available for benefits	**$117,323**	$67,831

The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 6 percent for both 1981 and 1980.

Note J—Stock Options

Restricted Stock Options Under its Restricted Stock Option and Purchase 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.

Information concerning activity during fiscal 1981 follows:

		Options Outstanding	
	Shares Reserved For Future Grants	Shares	Average Price Per Share
June 28, 1980	1,619,900	3,084,549	$21.59
Options granted	(648,060)	648,060	36.26
Options exercised		(308,813)	19.24
Options cancelled	65,382	(65,382)	22.01
Options terminated	(21,092)		
June 27, 1981	**1,016,130**	**3,358,414**	**$24.62**

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 $9,751,000 in fiscal 1981, $9,306,000 in fiscal 1980 and $8,602,000 in fiscal 1979. 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.

1968 Employee Stock Purchase Plan Under the Company's 1968 Employee Stock Purchase Plan, all United States, Canadian, German and United Kingdom employees may be granted options 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 982,532 shares at June 27, 1981 and 1,411,781 shares at June 28, 1980. There were 429,249 shares issued at an average price of $65.70 in fiscal 1981 and 379,387 shares at $50.02 in fiscal 1980. 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.

Supplementary Financial Information

Quarterly Financial Data (Unaudited)

Selected quarterly financial data for fiscal 1981 and fiscal 1980 is set forth below:

	Total Operating Revenues	Gross Profit	Income Before Income Taxes	Net Income	Net Income Per Share
			(In Millions except per share data)		
1981					
First Quarter	**$ 654.4**	**$ 283.7**	**$ 92.9**	**$ 56.2**	**$1.17**
Second Quarter	**762.3**	**330.3**	**115.7**	**70.0**	**1.43**
Third Quarter	**843.4**	**384.5**	**165.7**	**100.2**	**1.89**
Fourth Quarter	**938.0**	**420.9**	**193.1**	**116.9**	**2.19**
Total Year	**$3,198.1**	**$1,419.4**	**$567.4**	**$343.3**	**$6.70**
1980					
First Quarter	$ 487.5	$ 215.1	$ 74.8	$ 45.2	$1.02
Second Quarter	553.9	242.8	89.1	54.0	1.21
Third Quarter	627.2	279.0	110.6	66.9	1.45
Fourth Quarter	699.4	311.2	135.1	83.8	1.73
Total Year	$2,368.0	$1,048.1	$409.6	$249.9	$5.45

Information on the Effects of Inflation (Unaudited)

General Background To provide readers of financial statements with information on the estimated effects of inflation, the Financial Accounting Standards Board issued Statement No. 33, Financial Reporting and Changing Prices, which requires disclosure of certain experimental information on the effects of inflation on business enterprises. The two different methods ("constant dollar" and "current cost") for estimating the effects of inflation are described below.

Constant Dollar This method provides data adjusted for the rate of general inflation using the Consumer Price Index for all Urban Consumers as the measure of the general inflation rate. The objective of this approach is to provide financial information in dollars of equivalent value or purchasing power (constant dollars), so that revenues for each year are matched with expenses expressed in units of corresponding value.

Current Cost This method is intended to measure the effect of changes in specific prices by substituting the current cost of resources for the actual acquisition costs. Changes in specific prices were principally based on external price indexes closely related to the resources being measured, internally developed indexes and recent production cost experience.

Consolidated Statement of Income Adjusted for the Effects of Inflation The amounts reported in the statement of income have only been adjusted for depreciation expense and the inventory component of cost of sales in arriving at the net income amounts adjusted for constant dollars and current costs since these are the costs most affected by inflation. Revenues and all other operating expenses are considered to reflect the average price levels for the year, and accordingly have not been adjusted.

Although the adjustments for depreciation expense and the inventory component of cost of sales affect the pretax income amounts, no adjustments have been made to the respective provisions for income taxes.

The adjustments to depreciation and cost of sales included in the adjusted net income amounts were as follows:

	Adjustment for General Inflation (constant dollars)	Adjustment for Changes in Specific Prices (current costs)
	(In Millions)	
Depreciation expense	$ 11.5	$ 6.4
Cost of sales, exclusive of depreciation	94.2	25.5
Total reduction in net income	$105.7	$31.9

The depreciation adjustments reduce net income in both cases, since the Company's property, plant and equipment under both methods has been adjusted upwards reflecting the replacement of historical costs by costs adjusted for the general inflation rate and in the case of current costs, adjusted for the specific estimated current costs.

Cost of sales adjusted for the general inflation rate is higher than cost of sales as reported, because the higher costs measured by the general inflation rate are substituted for the lower historical costs included in cost of sales as reported in the income statement. Cost of sales is also higher under the current cost method because the Company's first-in, first-out method of valuing inventories results in historical inventory costs being included in cost of sales reported in the income statement, whereas under the current cost method, the corresponding cost of sales element reflects higher current manufacturing costs.

The Company believes that the current cost method is more representative of its actual cost trends, and therefore the more relevant indicator of the effects of inflation on the Company's costs.

Purchasing Power of Net Monetary Assets Net monetary assets are cash and temporary cash investments and fixed dollar claims to money. The purchasing power of the Company's net monetary assets declined because of inflation by $53.1 million in fiscal 1981, as measured by the change in the Consumer Price Index.

Current Cost of Inventories and Property, Plant and Equipment The current cost of inventories and property, plant and equipment, net of accumulated depreciation, and the corresponding historical cost amounts at June 27, 1981 were as follows:

	Inventories	Property, Plant and Equipment, Net
	(In Millions)	
Current Cost	$1159.9	$961.6
Historical Cost	1102.2	799.5
Difference	$ 57.7	$162.1

The current cost of inventories is approximately 5% higher than the corresponding historical cost, which is reflective of the higher costs which would be incurred if the fiscal 1981 year-end inventories were to be replaced at the expected current costs. This is not necessarily a fair measure of the expected inflation effect on fiscal 1982 cost of sales, since the 1982 cost of sales will include the lower historical costs in inventory at the end of fiscal 1981, as well as the cost of products manufactured and sold in fiscal 1982 which are different and have different costs from those in inventory at the end of fiscal 1981.

Net property, plant and equipment at current costs exceeded the corresponding historical cost by $162.1 million. The current cost method assumes replacement of all the Company's property, plant and equipment as at June 27, 1981. However, the Company's property, plant and equipment is relatively new, with 90% of it having been acquired in the last 5 fiscal years. Consequently, the Company's future capital expenditures will be to principally expand, rather than replace, existing capacity.

The increase in the current cost of inventories held during fiscal 1981 was $36.5 million and in property, plant and equipment was $14.1 million. The increases during fiscal 1981, measured by the general inflation rate, were $92.2 million for inventories and $74.7 million for property, plant and equipment.

Consolidated Statement of Income and Changes in Stockholders' Equity Adjusted for the Effects of Inflation

For the Year Ended June 27, 1981

	As Reported	Adjusted for Inflation: Constant Dollars	Adjusted for Inflation: Current Costs
	(In Millions except per share data)		
Total operating revenues	$3,198.1	$3,198.1	$3,198.1
Cost of equipment sales, service and other revenues (a)	1,718.5	1,812.7	1,744.0
Depreciation expense	102.1	113.6	108.5
Other expenses (a)	810.1	810.1	810.1
Provision for income taxes	224.1	224.1	224.1
Net income	$ 343.3	$ 237.6	$ 311.4
Net income per share	$ 6.70	$ 4.69	$ 6.09
Stockholders' equity, June 28, 1980	$1,651.7	$1,913.0	$1,943.5
Net income as reported above	343.3	237.6	311.4
Decline in purchasing power of net monetary assets		(53.1)	(53.1)
Excess of general price level increase over specific price level increase of inventories and property, plant and equipment			(116.3)
Increase in common stock and additional paid-in capital	684.7	684.7	684.7
Stockholders' equity at June 27, 1981	$2,679.7	$2,782.2	$2,770.2

(a) Excludes depreciation expense

Five-Year Comparison of Selected Financial Data Adjusted for Effects of Inflation

The inflation adjusted data shown below has been expressed in average fiscal 1981 dollars (based on the average Consumer Price Index for each fiscal year), to provide comparability between years in terms of dollars of equivalent purchasing power. Corresponding historical cost amounts, as reported, are also shown to allow their comparison to the inflation adjusted data.

	1981	1980	1979	1978	1977
		(In Millions except per share data)			
Total operating revenues					
As reported	**$3,198.1**	$2,368.0	$1,804.1	$1,436.6	$1,058.6
In constant dollars	**3,198.1**	2,640.4	2,280.4	1,986.8	1,562.5
Net income					
As reported	**343.3**	249.9			
In constant dollars	**237.6**	187.4			
In current costs	**311.4**	267.7			
Net income per share					
As reported	**6.70**	5.45			
In constant dollars	**4.69**	4.15			
In current costs	**6.09**	5.85			
Net assets at year end					
As reported	**2,679.7**	1,651.7			
In constant dollars	**2,782.2**	1,913.0			
In current costs	**2,770.2**	1,943.5			
Decline in purchasing power of net monetary assets	**(53.1)**	(44.3)			
Excess of general price level increase over specific price level increase of inventories and property, plant and equipment.	**(116.3)**	(78.8)			
Market price per common share					
As reported at year end	**101.19**	67.12	55.75	46.62	46.25
In constant dollars	**96.74**	70.34	66.79	61.91	65.99
Average Consumer Price Index (1967 = 100.0)	**259.4**	232.6	205.2	187.6	175.8
Adjusted data on dividends per common share is not presented, because no cash dividends have ever been paid by the Company.					

Officers

Kenneth H. Olsen
President and Director

C. Gordon Bell
Vice President, Office of Development/Engineering

Alfred M. Bertocchi
Vice President, Finance and Administration

Roger C. Cady
Vice President, Manufacturing, Distribution & Control Product Group

George A. Chamberlain, 3d
Vice President and Treasurer

Richard J. Clayton
Vice President, Manufacturing Technology

Henry J. Crouse
Vice President, External Resources

James G. Cudmore
Vice President, LSI Group Manager

Sheldon A. Davis
Vice President, Personnel

William R. Demmer
Vice President, 32-Bit Systems Engineering

Ulf O. Fagerquist
Vice President, Large Systems Engineering

Pier-Carlo Falotti
Vice President, European Field Service

William C. Hanson
Vice President, Systems Manufacturing

Winston R. Hindle, Jr.
Vice President, Corporate Operations

Irwin Jacobs
Vice President, Commercial OEM Group

Theodore G. Johnson
Vice President, Corporate Marketing

Andrew C. Knowles, III
Vice President, Group Manager

Edward A. Kramer
Vice President, United States Sales

William H. Long
Vice President, Sales & International(1)

Seaforth M. Lyle
Vice President, Group Manager

Ward D. MacKenzie
Vice President, Group Manager

Julius L. Marcus
Vice President, Group Manager

Gerald T. Moore
Vice President, General International Area Sales

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

Stanley C. Olsen
Vice President, Group Manager(2)

Jean-Claude Peterschmitt
Vice President, Europe

Lawrence J. Portner
Vice President, Associate Head, Engineering

Richard Poulsen
Vice President, Field Service

Robert W. Puffer, III
Vice President, Mass Storage Manufacturing

F. Grant Saviers
Vice President, Storage Systems Engineering

Edward A. Schwartz
Vice President, General Counsel & Secretary

Joel Schwartz
Vice President, Laboratory Products Group

John J. Shields
Vice President, Group Manager

Godfrey S. Shingles
Vice President, European Marketing

John F. Smith
Vice President, Manufacturing

William R. Thompson
Vice President and Controller

William G. Witmore
Vice President, General International Area

(1) On leave of absence until October, 1981
(2) On leave of absence until July, 1982

Directors

Vernon R. Alden
Chairman, Massachusetts Business Development Council (A group chartered to attract business to the state)

Philip Caldwell
Chairman of the Board and Chief Executive Officer, Ford Motor Company (Manufacturers)

Arnaud de Vitry
Chairman of the Board, Dunlop, S.A. France (Manufacturers)
Chairman of the Board, Eureka SICAV, (French Investment Company)

Georges F. Doriot
Director of several corporations

William H. McLean
Engineering consultant and Director of several corporations

Kenneth H. Olsen
President, Digital Equipment Corporation

Dorothy E. Rowe
Director of several corporations

Headquarters

Corporate Headquarters

Digital Equipment Corporation
Maynard, Massachusetts 01754
Telephone: (617) 897-5111
TWX: 710-347-0212
Cable: Digital Mayn.
Telex: 94-8457

European Headquarters

Digital Equipment Corporation
International (Europe)
12, avenue des Morgines
Case Postale 510
1213 Petit-Lancy 1, Geneva
Switzerland
Telephone: (022) 93 33 11
Telex: 22 593

General International Area Headquarters

Digital Equipment Corporation
Nagog Square
Acton, Massachusetts 01720
Telephone: (617) 263-6000
TWX: 710-347-0216

Canadian Headquarters

Digital Equipment of Canada, Ltd.
100 Herzberg Road
Kanata, Ontario, Canada K2K 2A6
Telephone: (613) 592-5111
TWX: 610-562-8732

Investor Information

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

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

Unlisted trading privileges have been granted by the:

Boston Stock Exchange
Cincinnati Stock Exchange
Midwest Stock Exchange
Philadelphia Stock Exchange

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

Inquiries relating to investment in Digital Equipment Corporation should be directed to:

Albert E. Mullin, Jr.
Vice President, Corporate Relations
Digital Equipment Corporation
111 Powdermill Road (F5)
Maynard, MA 01754
(617) 493-5350

Digital Equipment Corporation's Annual Report on Form 10-K for the fiscal year ended June 27, 1981, 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
10 Forbes Road NR3
Northboro, MA 01532
(617) 351-4401

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

Digital Equipment Corporation
Investor Relations—ML
111 Powdermill Road (F5)
Maynard, MA 01754
(617) 493-7182

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

Digital Equipment Corporation
Investor Services
111 Powdermill Road (B79)
Maynard, MA 01754
(617) 493-5213

Digital Equipment Corporation customers who have questions and/or problems relating to their account should contact the Customer Assistance Department at (617) 493-7161.

Transfer Agent and Registrar for Common Stock

Morgan Guaranty Trust Company is the principal stock transfer agent and registrar, and maintains the shareholder 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 Guaranty Trust Company. Shareholders should state the name in which the stock is registered, account number, as well as the old and new addresses.

Morgan Guaranty Trust Company of New York
30 West Broadway
New York, NY 10015

Trustees and Registrars

For 9 3/8% Sinking Fund Debentures
Morgan Guaranty Trust Company of New York
30 West Broadway
New York, NY 10015

Auditors

Coopers & Lybrand
100 Federal Street
Boston, MA 02110
(617) 423-4200

Legal Counsel

Testa, Hurwitz & Thibeault
60 State Street
Boston, MA 02109
(617) 367-7500

Digital Equipment Corporation
Maynard, Massachusetts 01754