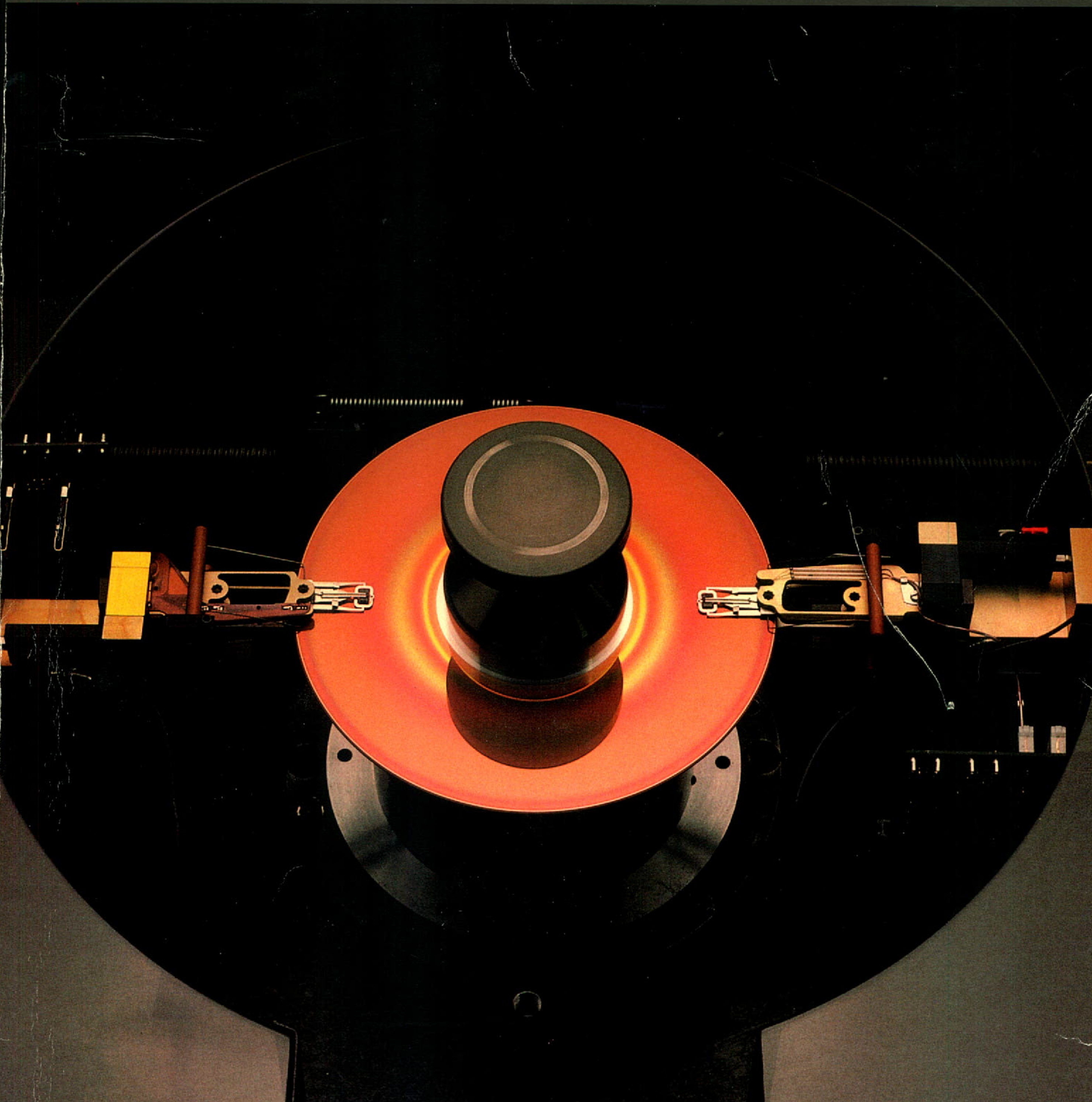
Digital Equipment Corporation Annual Report 1983



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	1983	1982	% Change
Total operating revenues	$4,271,854,000	$3,880,771,000	+10.1
Net income	$ 283,622,000	$ 417,155,000	−32.0
Net income per share	$5.00	$7.53	−33.6
Total stockholders' equity	$3,541,282,000	$3,164,464,000	+11.9
Stockholders' equity per share	$62.84	$57.30	+ 9.7

On the Cover: Digital has moved to the forefront of technology with its disk memory peripherals. Continued investments in engineering, product development, and manufacturing processes have resulted in smaller disks with larger storage capacity.

Annual Meeting of Stockholders

The Annual Meeting of Stockholders will be held at 11:00A.M., Thursday, November 3, 1983, in the Huntington Suites, The Colonnade Hotel, 120 Huntington Avenue, Boston, Massachusetts. Stockholders of record on September 9, 1983 will be entitled to vote at this meeting.

Contents

■ *The new IVIS (Interactive Video Information System) is a multi-media training option for the Professional 350 personal computer.*

To our Shareholders, Employees and Friends:

With the close of Fiscal 1983, Digital Equipment Corporation completed its 26th year of operations. Total operating revenues for the year reached $4.27 billion, net income was $283 million, and earnings per share were $5.00.

The persistent recession hurt the capital equipment portion of our business during the year. We have been proud of the degree to which the largest and most important companies have become dependent upon our computers, but the length of this recession caused them to cut back on their projects that use computers.

The company continued its heavy investment in new products to meet the challenge of satisfying the most critical industrial and commercial needs. Spending for research and engineering increased by 35 percent to $472 million, equal to 11 percent of revenues.

Digital continued to grow during the year, and we continued the evolution of our organization in ways designed to encourage the necessary discipline and cooperation among the various groups in the company. Steps were taken to ensure that the groups continue to have the freedom to be innovative, and to make certain that they have the resources needed to succeed.

Order rates showed considerable improvement in the fourth quarter. We were particularly pleased by the widespread acceptance of Digital's office automation capabilities. We have always been leaders in electronic mail and word processing for the scientific and industrial markets. In the last few years, we have applied this experience to obtain a significant and growing share of the burgeoning office automation market.

Toward the end of the year, we achieved volume shipments of our personal computers. These products were not designed for home use or even casual business use. Rather, they are high quality, professional computers that take advantage of everything we know about ensuring the comfort and efficiency of people who will use them for many hours each day. We plan to satisfy that part of the market that wants and needs professional quality personal computers for serious work.

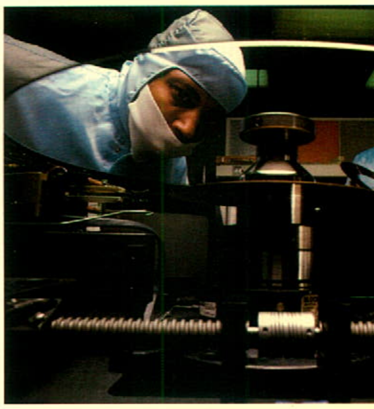
Our long-time users in laboratories, universities, engineering and manufacturing have added Digital's new office products and personal computers to their operations while continuing to expand their Digital computer systems for solving technical problems. Our new networking and communications products make this expansion especially easy.

We see the minicomputer market growing significantly because large numbers of people who have started to use personal computers will find them useful for many applications. Others will want the expanded capability and growth possibilities of a minicomputer. In addition, many original equipment manufacturers (OEMs), who considered making their own computers using readily available chips, have concluded that it is easier to buy complete computers from Digital and take advantage of the wealth of software systems that have been developed for them. One result of this trend is that the Digital MICRO/PDP-11, a complete, full-function PDP-11 using the latest technology, is selling faster than we can make it.

Our Field Service, training and extensive Software support groups are growing and becoming a larger and more profitable part of the corporation. Our sales force, which we believe has the highest yield per salesperson in the industry, is still salaried. This allows them to focus on customers' needs without worrying about commissions. This ensures that they do the best possible job for our customers.

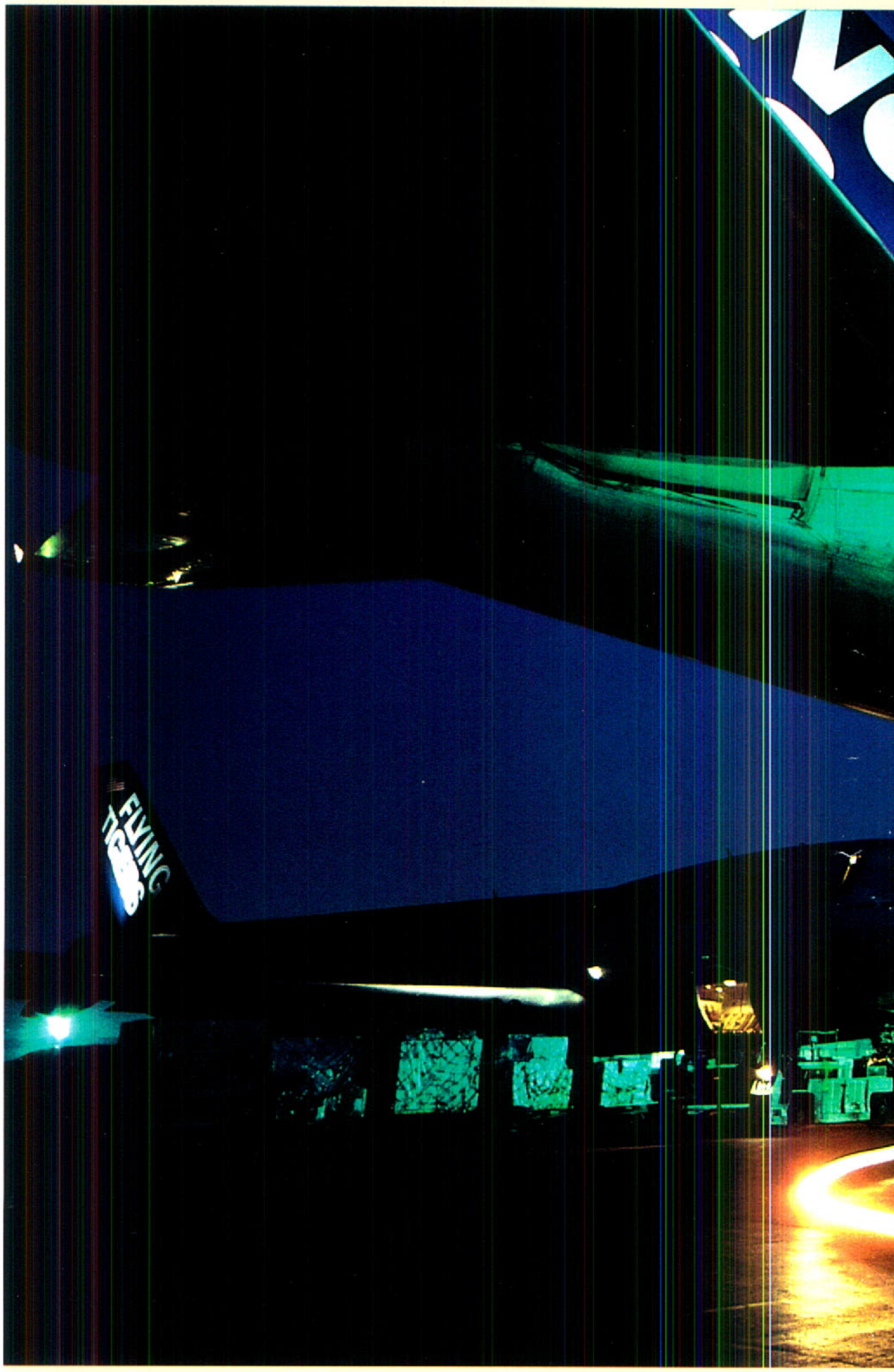
We feel that our part of the computer industry is more exciting than ever, and we see more products and applications than we can accomplish.

Kenneth H. Olsen, President
September 16, 1983



Digital's R&D spending in disc storage technology has given the company a ten-fold improvement in storage densities over the past five years.

The world is Digital's marketplace, and customers depend on quality products backed by strong service and delivery.

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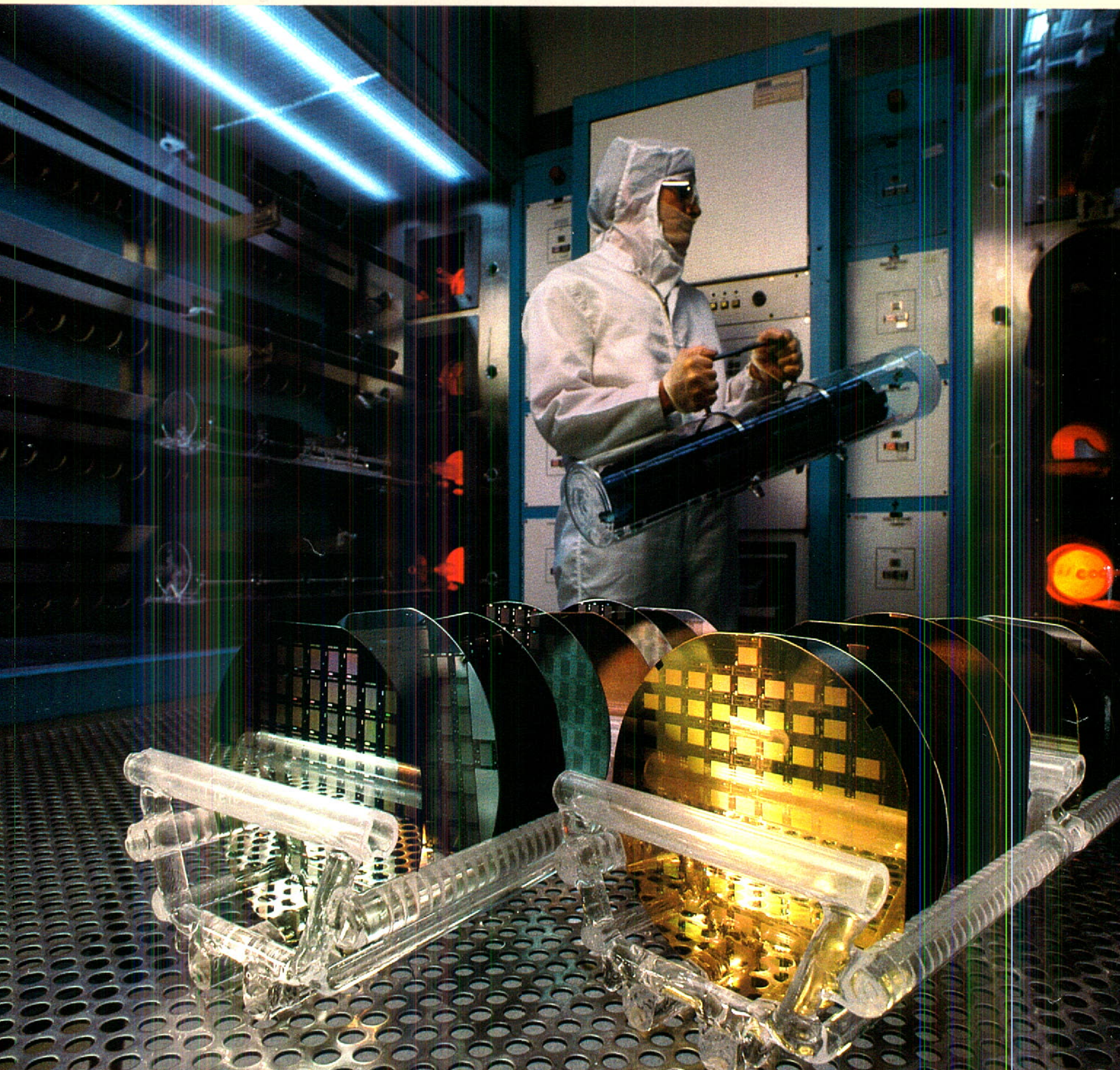


The Company

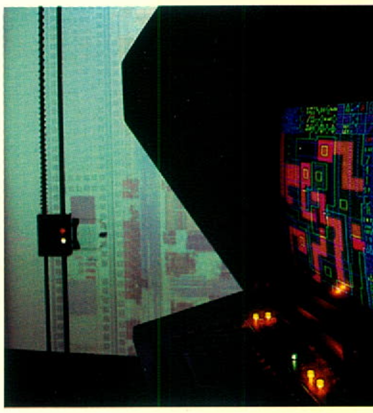
Digital first earned its reputation in the technical and scientific marketplace by building systems for computer users who needed powerful, well-engineered and inexpensive products to do their jobs. After 26 years in business, Digital continues to serve users who consider quality the key to their success.

Digital has carried that quality to a broad range of products and services now sold to a diversity of markets. The company sells equipment to laboratories, government, factories, schools and universities, small businesses, large offices, hospitals and farms. From the corner grocery store to Federal agencies, from the one-person law office to the largest industrial corporations, Digital provides products and services that meet the growing and changing needs of customers around the world.

As the price of computers has come down and as computers have become easier to use, markets have expanded rapidly. Digital's product range has expanded as well, and flexibility has allowed the company to become an important force in responsibly shaping the face of the computing age.

Digital is the world's second largest manufacturer of computers, associated peripheral equipment and related software and supplies. During Fiscal 1983, the company grew to 73,000 employees, with 30,000 sales and support specialists in 43 countries. In 1983 Digital ranked 95th on the *Fortune 500* list of the largest industrial corporations in the United States.

Growth is the natural result of high demand for products, but it is not Digital's major goal. The company's primary goal is, and always has been, quality – in products, services, people, values and relationships with customers.



Digital relies heavily on computer-aided-design (CAD) tools to design and build products, from semiconductor chips to multi-user systems.

Our semiconductor development and manufacturing operations in Hudson, Massachusetts, have given us advanced chips for our own use and for sale to our customer base.

■ *Digital's customers span a range of markets, from technical to commercial, from small business to multinational, from manufacturing to agriculture.*

Computing Capabilities

UNDERSTANDING what a computer can do is almost always more important to users than understanding how computers are made. Digital works closely with customers to help them understand how our products and service can work together to achieve their computing objectives.

Digital's products span a range beginning with the LSI or VLSI (large scale or very large scale integration) chip, and extending up to very large multi-user timesharing systems.

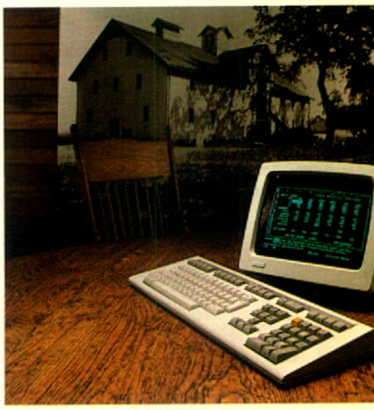
To explain how these products fit customer requirements, we group our major product families around a model of three general sizes of computing jobs. At the individual level, we have terminals and personal computers. At the team and department level, we have PDP-11 minicomputers and VAX superminicomputers. At the organizational level, we have DECsystem-10 and DECSYSTEM-20 mainframe computers and VAXclusters. The unique aspect here is Digital's system architecture – a well-defined set of standards across product families that enables our customers to access information easily from one family to another – PDP-11 to VAX, for example.

Beginning at the *personal level,* terminals are strategically very important to Digital. We have been very successful in this market, shipping over 1.2 million of our terminals worldwide.

Our personal computers address the need for personal productivity – one person, one computer. We build our personal computers for small businesses and professionals, as well as for individual users within larger organizations.

Digital is unique in the personal computer marketplace by virtue of complementary products that are optimized for different uses. For example, the DECmate II is optimized for word processing; the RAINBOW 100 for industry standard application software; and the Professional 350 for distributed computing. All three computers share the same packaging and modular design.

We will continue to enhance our personal computers with new graphics capabilities, additional languages, applications software and increased disk storage capacity. One of the most exciting



At the Trefethan Vineyard in Napa Valley, California, Digital's DECmate small business system assists in the day-to-day management of the vineyard.

enhancements to the Professional 350 is the Interactive Video Information System (IVIS) that combines text and graphics with moving or static video and synchronized sound. The result is a dynamic, interactive training tool for industrial, governmental, military and educational organizations that also retains full capability as a desktop personal workstation.

Digital addresses *team computing* with entry level systems with cost-effective, multi-user capability. This area is strategically important because it represents small companies as well as small departments within larger companies.

With team computing, we capitalize on the huge installed base and application strength of PDP-11 minicomputers; literally thousands of application packages exist. Our new MICRO/PDP-11 continues the PDP-11 tradition by offering multi-user capability in a compact, open office packaging.

Departmental level computing addresses relatively complex but manageable problems while providing economies of scale and multi-user capability. This is a major application, for which we turn to the strengths of the VAX computer family.

The original high-end VAX-11/780 has undergone continuous evolution since its announcement. As a result, the VAX-11/780 has significantly better price performance and much more application breadth today. Its initial market focus was on the highly technical markets, but that has broadened over the last few years into the commercial and information management areas.

The mid-size VAX 11/750 is another success story. It, too, has undergone continuous evolution from its initial announcement to today's product, which is a full-function broad-spectrum system for both technical and commercial markets.

The VAX-11/730, the smallest member of the family, has taken VAX functionality into entirely new markets, and we are off to a great start. There were over 2,000 shipped worldwide in its first full year of manufacturing, and we are now manufacturing in quantity.

Modern Terminals Limited has been at the forefront of Hong Kong's port development, and is one of the world's busiest container terminals. MTL's data center handles the 1,900 containers loaded and unloaded on average each day. The PDP-11-based computer systems provide on-line support for all container and cargo operations, maintaining up-to-date information on container locations, contents, destinations, special cargos and shipping schedules.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The glue that holds all of these products together and clearly differentiates them in the marketplace is the VMS operating system. VAX and VMS – coupled with our information management, VNX, communications, languages and office offerings – provide the driving power to meet a wide range of customer applications and needs.

For example, VAX computers within the office run a program called ALL-IN-1 that allows an individual to choose from a complete range of office applications, including word processing, electronic mail, spelling correction, electronic filing and calendar management.

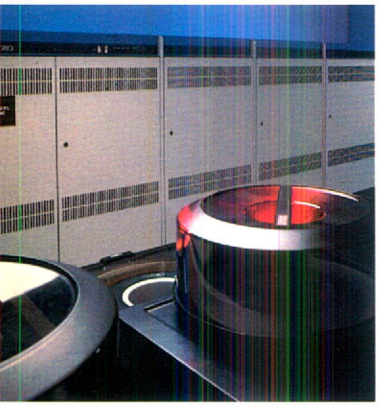
We match our processing power with advanced memory storage products. Digital recently announced the RA81 and RA60 data storage disks for use with both VAX systems and larger PDP-11 computers. The RA81 disk offers the lowest storage cost per unit of data, and both have the highest storage capacity per square foot of floor space in the industry. Investments in these areas have allowed Digital to offer substantial cost, capacity and performance improvements to customers, while designing and building the best storage products in the industry.

At the *organizational level* Digital provides large timesharing systems, in addition to VAXclusters, that address the need for growth or capacity, availability and data integrity.

VAXclusters represent new application and new market opportunities. They demonstrate continuing technical leadership and redefine the competitive environment. Any VAX-11/780 or 750 ever sold can be upgraded into the VAXcluster environment. VAXclusters extend traditional Digital value into new computing environments. By providing high availability through redundant processors, mass storage and data links, VAXclusters will allow customers to grow computing systems in a new way since processors and mass storage can be incrementally added as required with little if any disruption to the operating environment.

Our high-end DECsystem-10 and DECSYSTEM-20 computers remain popular because of their ability to meet applications requiring high performance timesharing, and their ability to self-tune dynamically to match changing work loads.

■ *The Bank of Ireland, with a network of 550 offices in four countries, is a major VAX-based office automation and ALL-IN-1 customer. Founded in 1783, the Bank continues a strong commitment to the support of education, the arts and cultural heritage. Each year, the Bank of Ireland sponsors the Nation's Cup, the prestigious international jumping competition under the auspices of the Royal Dublin Society.*



■ *Digital's VAX computers are popular among technical and commercial customers who need powerful computers at the departmental or organizational level.*

We are moving to further integrate the DECsystem-10 and DECSYSTEM-20 with other Digital product families – specifically, the VAX and personal computers – in order to preserve our customers' investments while providing a broad range of products to meet their future needs. New applications can be done with either VAX-clusters or DECsystem-10 or and DECSYSTEM-20 computers.

Overall, Digital will continue to design a wide range of products in a family with consistent and compatible architecture. The result will be a set of products that will match a wide set of customer needs in a wide array of market applications.

On balance, we feel Digital has the strongest products and service in the marketplace today, and we intend to retain that edge. Our product strengths include our rich architecture, the broadest line of compatible systems, the broadest line of component products and a range of software that is the envy of the industry. We have unsurpassed interconnectability with our own products and outstanding interconnectability with non-Digital computers. Our products are easy to use, and they offer exceptional value.

Our product scope is matched by support services designed to meet wide ranging customer needs. Our customer support program includes customized software development, call-in software support centers, guaranteed uptime for critical applications, remote diagnosis facilities, automated telephone diagnosis, 170 carry-in repair centers internationally, and a fleet of mobile repair units based in major cities in the United States, Canada and Western Europe. Digital also offers customers and employees 340 training courses in 17 languages around the world.

For customers whose needs are not met by Digital's standard computer systems, the company maintains Computer Special Systems facilities around the world to provide customized services in hardware and software design, applications programming, systems engineering, project management and computer networking.

The breadth of Digital's products and customer services is matched in turn by the breadth of its markets. Digital is well-known among customers in the scientific, technical and educational fields. But as we enter more of the first-time user markets, we face new challenges to become as well-known to them.

During this past year, we organized our marketing into six major strategic groups that will plan the company's business in key markets. Each group is expert in the applications and product needs of its targeted customers. This focus, along with the placement of account and decision-making responsibilities directly in the field, provides faster response time to customer needs and gives us a closer working knowledge of customers' businesses as well.

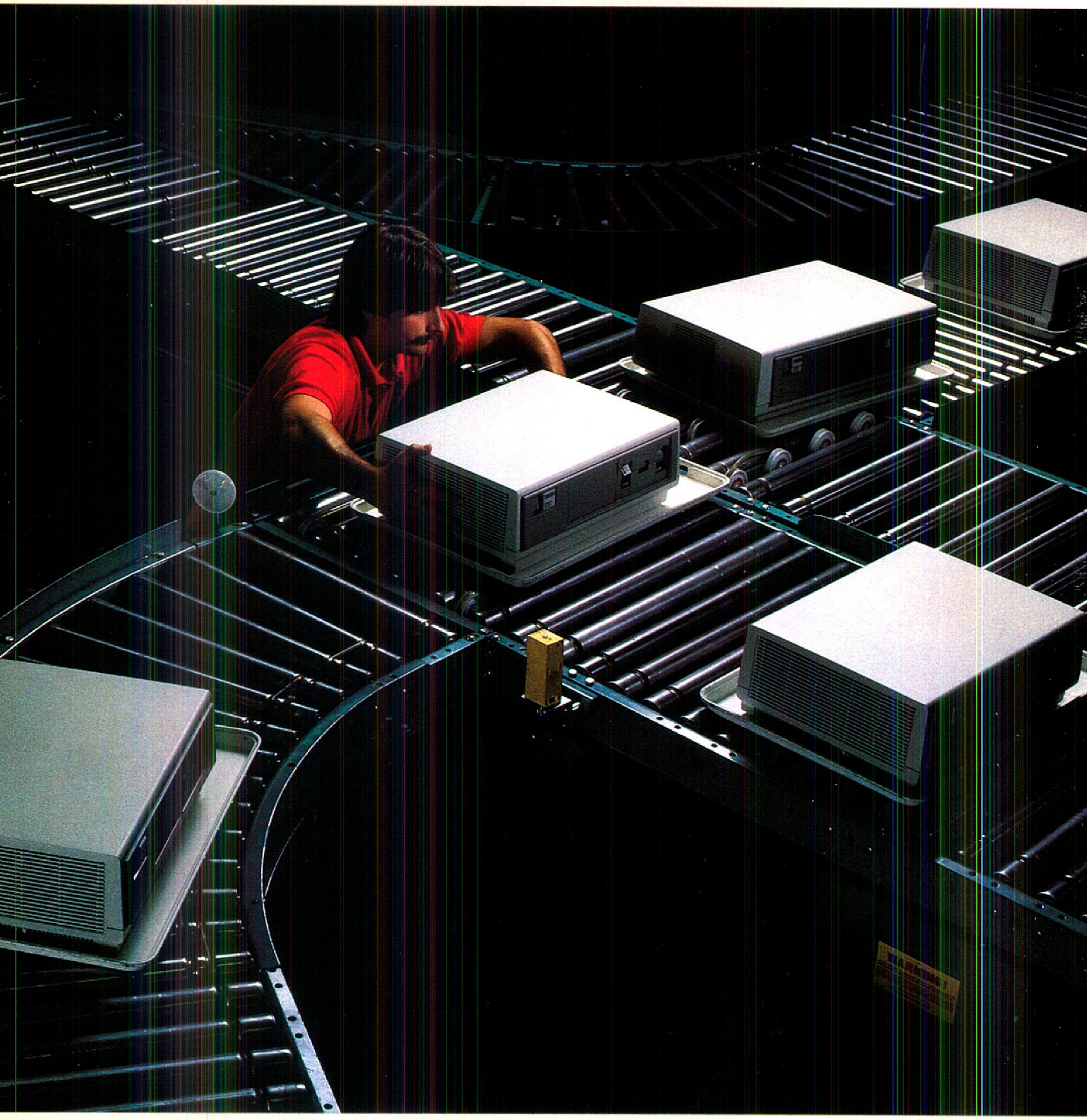
In addition to our redefined direct sales programs, we have significantly broadened our retail outlets – both Digital-owned and independent. Digital has had a network of retail stores for the past several years, beginning in Manchester, New Hampshire. This past year we broadened the number and charter of these stores to become Digital Business Centers that focus on the complete needs of the small business professional. Simultaneously, we contracted with several independent retail outlets to carry our new personal computers on an international basis, enabling our direct sales force to focus on high-volume customers. The result is a strong network of Digital-owned and independent channels that focuses on the cost-sensitive, entry level end of the marketplace.

The ongoing vital role of our OEMs in new market penetration and existing market specialization cannot be overstated. We have worked for many years to forge bonds of trust and support with our OEM customers and many beneficial programs have resulted. In the commercial sector, for example, we have authorized many of our OEMs to become Digital Distributors, giving them access to special support programs. With our technical OEMs, we are working for improved volume product scheduling and delivery. OEM customers who purchase our LSI chip and board level products are receiving more integration assistance than ever before.

With all of these elements in place for users around the world, the computing technology and support available from Digital parallels the way users work: not in isolation, but together, sharing and refining information in order to do the job better.

During the past year, we expanded Digital-owned computer stores and broadened their scope to become Digital Business Centers. Like our 36 other locations, the Center in San Francisco's financial district puts Digital in close touch with local businesses.

■ *Volume demands have led to high quality manufacturing on a worldwide basis. Digital has achieved economies of scale without losing the value of individual contribution to the manufacturing process.*



Manufacturing and Engineering for the '80s

Manufacturing has always played a significant role in the success and growth of Digital. We are continuing to develop programs of process and enhanced quality control that will allow us to use manufacturing to gain a competitive edge.

We have implemented a close integration of manufacturing and engineering at the front end of the design process. By analyzing functions of products to achieve the lowest possible total cost, we achieve at the same time the highest quality and optimum functionality. This integrated approach makes use of teams from design, manufacturing, service and marketing to arrive at the most efficiently designed product to manufacture and sell.

Automation techniques, such as computer-aided design, robots, high-volume assembly and automated warehouses, are enhancing manufacturing productivity. High-volume manufacturing, done in concert with a skilled work force around the world, allows us to benefit from economies of scale. Components like keyboards, monitors and disks that are common to many systems are designed and engineered to be assembled quickly and easily. We are now building products to such high standards of quality that we can often ship them directly to customers, without putting components through a separate final assembly and testing stage.

We have also developed advanced Artificial Intelligence tools, known as "expert systems," that help improve accuracy and response to customer needs. As a pioneer and leader in the field of Artificial Intelligence, Digital has been able to use its research to aid managers in solving complex problems.

In 1980, we implemented a new expert system called XCON – the first large Artificial Intelligence system to be used routinely in an industrial environment. XCON is a computer program that configures VAX systems, determining placement of hardware and software components. Orders processed by XCON check for correct lengths of cables, pieces of hardware, memory and other components. The expert system generates a configuration sheet for the technician on the plant floor to assist in assembling VAX computers. In U.S. and European manufacturing operations, all VAX system orders are now configured by XCON.

■ *Advanced engineering and manufacturing process development is underway on thin-film disk technology. Advanced techniques such as these will enable Digital to stay in the forefront of disk memory technology.*

■ *Digital's personal computers are built in plants around the world. The main system box units are manufactured in Westfield, Massachusetts, where a special line has been established to meet high volume requirements.*

■ *Digital manufactures its storage products around the world. Our operation in Singapore plays a vital role for several key products and in one of 12 sites involved in storage manufacturing.*

■ *Digital operates one of the world's largest clean rooms in Colorado Springs, Colorado. Our new RA81 is the latest disk product to go through the clean room in volume production. The ultra-clean facility enables us to meet very high reliability standards with our latest disk drives.*

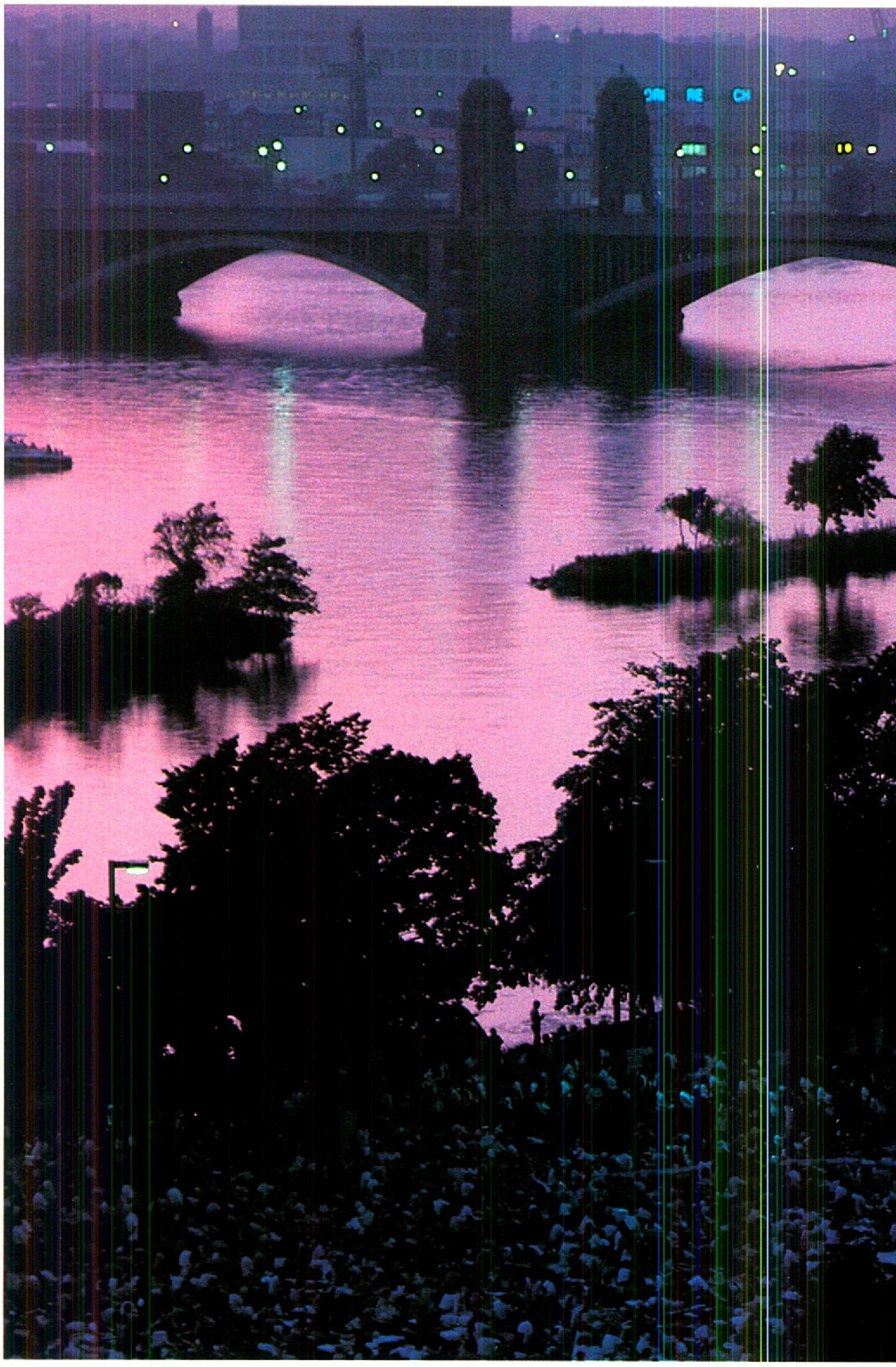
XSEL, Digital's expert sales assistant system, is an outgrowth of an Artificial Intelligence project to assist in the configuration of customer equipment needs, site and environmental planning, and delivery estimation to help the sales force configure complex systems directly.

Throughout the 1980s, Digital will continue to develop a "knowledge network" of expert systems to provide the flexibility and adaptability for providing service to worldwide customers in a timely, cost-effective manner. The network will form the active communication bridge among sales and marketing, engineering, manufacturing and field service, and will complement the traditional management information and communication systems now in operation.

The development of many of these programs and others is tied to Digital's External Research Program, whose goal is to stimulate cooperative research between Digital personnel and external research centers. The original program for XCON, for example, was developed in conjunction with Carnegie-Mellon University, one of the many colleges and universities with whom Digital has a long-term research relationship. By establishing and maintaining dialogues with these institutions, Digital can augment its own research program and help influence future product decisions.

Digital's manufacturing excellence is worldwide, but two of our 29 facilities received special public attention during the year. Our facilities in Springfield and Boston, Massachusetts, opened in 1972 and 1980, respectively, were designed to establish profitable and productive business operations that would also give inner city residents access to meaningful jobs – goals that both facilities have achieved. This achievement received national recognition when the President of the United States, Ronald Reagan, visited Massachusetts in January and praised the Boston facility as an outstanding example of opportunity, technical training and commitment to the urban community.

■ *No company exists and prospers within itself, and Digital shares much of its success by supporting the arts, sciences and programs in health care and education. For the past three years, Digital has sponsored the public television broadcast of the world-famous Boston Pops Orchestra.*

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A World Citizen

With equipment, services and a corporate philosophy based on compatibility and interaction, it was only natural that Digital become involved from its beginning with its communities. From early relationships with neighbors in the company's hometown of Maynard, Massachusetts, our public involvement has grown to encompass a variety of activities in every area of the world where we do business.

The health of a business is related directly to the health and well-being of its communities. We carefully implement programs designed to bring mutual benefit to the company and these communities, defined as both the local areas in which Digital is a presence and the larger social, business and research environments on which the company will depend for its resources.

Our most important worldwide community is our employees. We remain committed to programs that ensure equal opportunities for hiring and advancement worldwide and have continued to pursue programs to attract and develop minority and female employees. To promote personal and professional growth, we provide continuing education, personal skills workshops, management development, tuition refunds, and university courses at company facilities.

Through local and corporate support in the form of cash and equipment grants, scholarship programs and human resources, we support internationally a variety of programs in secondary and university education, health care, civic and cultural affairs. For Fiscal 1983, total company investment in contributions programs worldwide approached $24 million. Under the Employee Matching Gift Program, Digital matches dollar-for-dollar employee gifts to schools, non-profit organizations and special charities like United Way and Special Olympics. This year, employee contributions through the Matching Gift Program increased by 34 percent over last year.

■ *Tomorrow's resources are found in many of the programs we support today. At the Massachusetts Institute of Technology, Digital is becoming involved with Project Athena, a five-year project designed to explore advanced uses of computers and interactive graphics in undergraduate education.*

■ *Oxford High School, Oxford, Massachusetts, has won national recognition for its computer literacy programs. The school uses techniques like student-programmed robots and outdoor orienteering exercises to teach students about computers. Digital has worked with Oxford on technical support and curriculum development for the past several years.*

Eleven-Year Financial Summary

Operations *(in millions except per share data)*	1983	1982	1981
Revenues			
Equipment sales	$2,867.5	$2,793.7	$2,384.2
Service and other revenues	1,404.4	1,087.1	813.9
Total operating revenues	4,271.9	3,880.8	3,198.1
Costs and Expenses			
Cost of equipment sales, service and other revenues	2,606.0	2,187.6	1,778.7
Research and engineering expenses	472.4	349.8	251.2
Selling, general and administrative expenses	830.6	758.6	632.2
Operating income	362.9	584.8	536.0
Interest expense	13.1	14.8	29.2
Interest income	(61.2)	(102.8)	(60.6)
Income before income taxes	411.0	672.8	567.4
Provision for income taxes	127.4	255.6	224.1
Net income	$ 283.6	$ 417.2	$ 343.3
Net income per share[1]	$ 5.00	$ 7.53	$ 6.70
Average shares outstanding	56.7	55.4	52.6
Financial Position *(in millions except per share data)*			
Inventories	1,353.8	1,137.4	1,102.2
Accounts receivable, net of allowances	1,125.0	807.6	758.1
Working capital	2,377.0	2,181.2	2,029.8
Property, plant and equipment, at cost	1,961.4	1,605.4	1,128.4
Total assets	4,541.1	4,024.0	3,456.1
Long-term debt	92.8	92.4	88.4
Stockholders' equity	3,541.3	3,164.5	2,679.7
Stockholders' equity per share	$ 62.84	$ 57.30	$ 49.31
General Information and Ratios *(dollars in millions)*			
Current ratio	3.9:1	4.1:1	4.2:1
Additions to property, plant and equipment	$ 419.2	$ 511.2	$ 398.5
Depreciation	$ 203.2	$ 152.6	$ 102.1
Debt to debt plus equity ratio	2.6%	2.8%	3.2%
Operating income as a percentage of total operating revenues	8.5%	15.1%	16.8%
Income before income taxes as a percentage of total operating revenues	9.6%	17.3%	17.7%
Net income as a percentage of total operating revenues	6.6%	10.7%	10.7%
Net income as a percentage of average stockholders' equity	8.5%	14.3%	15.9%
Net income as a percentage of average total assets	6.6%	11.2%	11.2%
Number of days sales of accounts receivable outstanding	82	73	73
Number of employees at year-end	73,000	67,100	63,000
Revenues per average number of employees *(in thousands)*	$ 61.0	$ 59.7	$ 54.0
Common shares outstanding *(in thousands)*	56,357	55,227	54,348
Shareholders at year-end	40,903	44,706	39,948

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

1980	1979	1978	1977	1976	1975	1974	1973
$1,779.4	$1,381.8	$1,128.1	$ 847.5	$ 586.7	$ 433.2	$ 360.8	$ 229.1
588.6	422.3	308.5	211.1	149.6	100.6	61.1	36.4
2,368.0	1,804.1	1,436.6	1,058.6	736.3	533.8	421.9	265.5
1,319.9	1,012.3	802.3	595.1	424.3	301.2	233.6	146.8
186.4	138.3	115.7	79.7	58.4	48.5	36.6	25.0
478.9	370.1	281.0	205.9	136.1	109.3	83.8	55.6
382.8	283.4	237.6	177.9	117.5	74.8	67.9	38.1
27.0	24.3	22.4	11.7	9.9	4.8	2.1	.7
(53.8)	(35.8)	(12.3)	(10.2)	(11.8)	(3.6)	(3.1)	(1.2)
409.6	294.9	227.5	176.4	119.4	73.6	68.9	38.6
159.7	116.5	85.3	67.9	46.0	27.6	24.5	15.1
$ 249.9	$ 178.4	$ 142.2	$ 108.5	$ 73.4	$ 46.0	$ 44.4	$ 23.5
$ 5.45	$ 4.10	$ 3.40	$ 2.78	$ 1.98	$ 1.28	$ 1.27	$ .72
47.2	44.9	43.2	39.0	37.1	35.9	35.1	32.6
819.9	513.5	428.1	375.0	218.8	174.8	137.4	102.7
629.1	475.1	375.2	323.1	219.3	165.0	144.6	107.2
1,658.2	1,076.9	887.0	574.2	499.0	333.2	238.6	152.7
772.3	582.1	507.8	352.4	215.8	167.6	127.4	83.9
2,666.1	1,863.2	1,501.4	1,070.4	856.0	565.1	440.3	287.4
489.7	340.7	341.6	90.6	91.4	85.2	10.6	–
1,651.7	1,120.2	904.8	735.5	606.0	394.4	339.6	223.5
$ 36.25	$ 27.59	$ 22.69	$ 18.73	$ 15.61	$ 10.94	$ 9.49	$ 6.73
4.5:1	3.8:1	4.7:1	3.5:1	4.3:1	5.2:1	3.8:1	3.4:1
$ 209.9	$ 93.9	$ 167.0	$ 143.2	$ 54.5	$ 45.9	$ 50.1	$ 31.8
$ 69.8	$ 57.7	$ 50.2	$ 28.5	$ 22.0	$ 16.9	$ 12.4	$ 8.0
22.9%	23.3%	27.4%	11.0%	13.1%	17.8%	3.0%	–
16.2%	15.7%	16.5%	16.8%	16.0%	14.0%	16.1%	14.4%
17.3%	16.4%	15.8%	16.7%	16.2%	13.8%	16.3%	14.5%
10.6%	9.9%	9.9%	10.3%	10.0%	8.6%	10.5%	8.9%
18.0%	17.6%	17.3%	16.2%	14.7%	12.5%	15.8%	12.8%
11.0%	10.6%	11.1%	11.3%	10.3%	9.2%	12.2%	9.8%
81	82	82	88	85	92	96	112
55,500	44,200	39,000	36,700	25,700	19,000	17,600	13,000
$ 47.5	$ 43.4	$ 38.0	$ 33.9	$ 32.9	$ 29.2	$ 27.6	$ 25.5
45,568	40,606	39,873	39,259	12,944	12,022	11,932	11,079
35,144	28,835	25,868	22,738	15,442	15,033	14,393	14,226

Management's Discussion and Analysis of Results of Operations

Income and Expense Items as a Percentage of Total Operating Revenues				Percentage Changes		
1981	1982	1983	Income and Expense Items	1982-83	1981-82	1980-81
74.6%	72.0%	67.1%	Equipment sales	3%	17%	34%
25.4%	28.0%	32.9%	Service and other revenues	29%	34%	38%
100.0%	100.0%	100.0%	Total operating revenues	10%	21%	35%
55.6%	56.4%	61.0%	Cost of sales, service and other revenues	19%	23%	35%
7.9%	9.0%	11.1%	Research and engineering expenses	35%	39%	35%
19.8%	19.5%	19.4%	Selling, general and administrative expenses	9%	20%	32%
16.7%	15.1%	8.5%	Operating income	(38%)	9%	40%
0.9%	0.4%	0.3%	Interest expense	(11%)	(50%)	8%
(1.9%)	(2.6%)	(1.4%)	Interest income	(40%)	70%	13%
17.7%	17.3%	9.6%	Income before income taxes	(39%)	19%	39%
7.0%	6.6%	3.0%	Income taxes	(50%)	14%	40%
10.7%	10.7%	6.6%	Net income	(32%)	22%	37%

As an aid to understanding the Company's operating results, the above tables indicate the percentage relationships of income and expense items included in the Consolidated Statements of Income for the three fiscal years ended July 2, 1983 and the percentage changes in those items for such years.

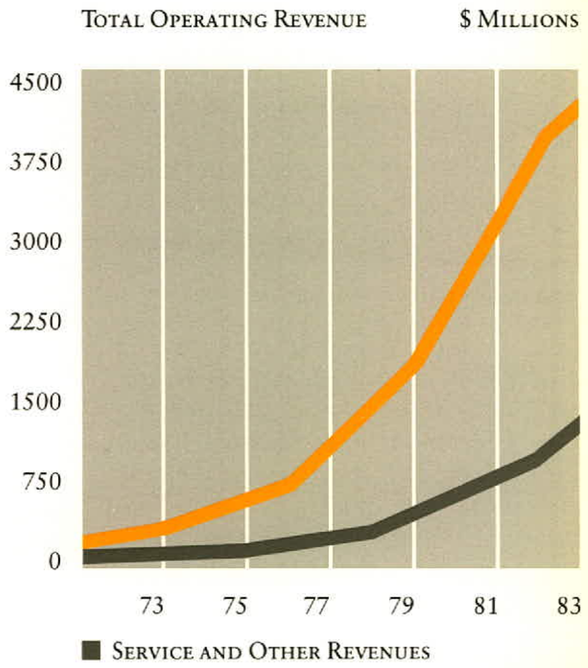
Revenues

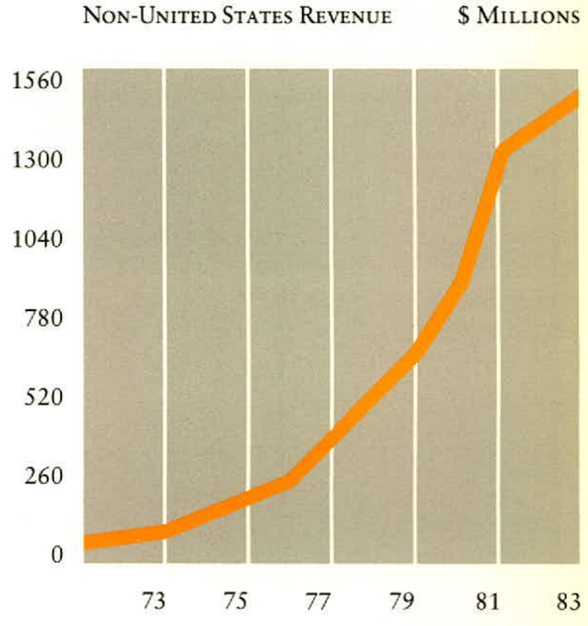
For fiscal year 1983, the Company's total operating revenues increased by 10% compared to increases of 21% and 35% in the two preceding fiscal years. Although the Company grew steadily through the economic recession of the last several years, the overall shipment growth and profitability of the Company in fiscal 1983 were less than anticipated. In fiscal 1983 the Company's equipment sales were particularly slowed by the depressed capital equipment markets both in the United States and overseas. The Company is a major supplier of capital equipment to leading industrial corporations around the world. Product start-up delays during the initial manufacturing phase for some of the Company's new products also impacted shipments and the growth of sales.

The healthier outlook for capital spending, the introduction and increased availability of many of the Company's new products, and continued aggressive selling and marketing efforts have resulted in a recent improvement in the Company's order rate.

In fiscal 1983, the Company realigned its marketing organization into six marketing groups more closely focused on the Company's key markets. This realignment occurred at the same time the Company was decentralizing many of its U.S. sales and administrative functions previously performed at the corporate level. These changes should lead to a more responsive sales and marketing organization. The Company will continue to make changes in its organizational structure as changes in its markets and needs dictate.

In fiscal 1983, service and other revenues, which principally include maintenance service, software revenues, customer training and the sale of replacement parts, grew 29%. This portion of the Company's total revenues grew from 25% to 33% of total revenues during the fiscal 1981-1983 period.



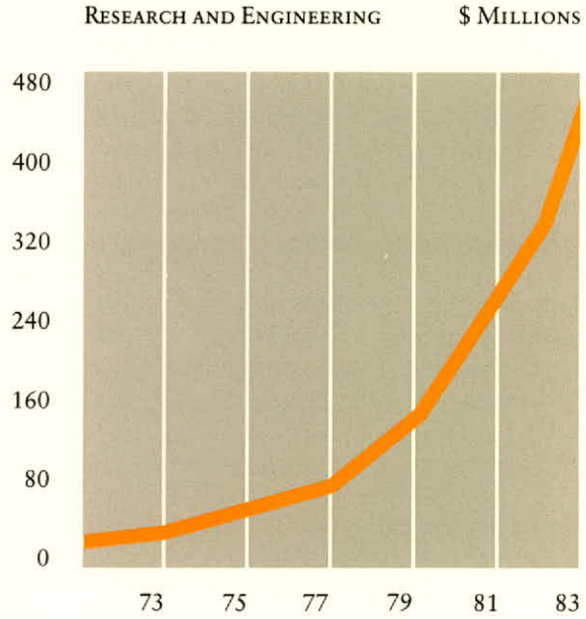


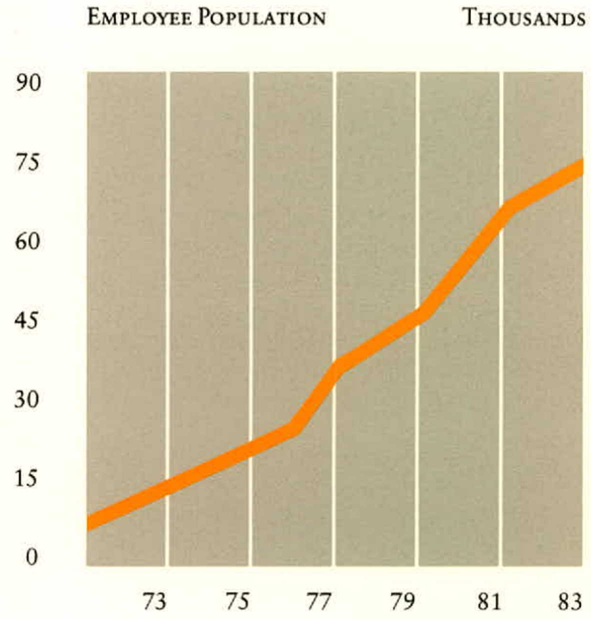
Expenses and Profit Margins

Cost of sales increased to 61.0% of total operating revenues in fiscal 1983 compared to 56.4% in fiscal 1982 and 55.6% in fiscal 1981. This increase was the result of price reductions, lower margins on some new products, lower than anticipated equipment sales and consequent underabsorbed manufacturing costs, and the impact of a stronger U.S. dollar. Substantial new-product development and start-up costs also contributed to the increase in cost of sales.

Research and engineering expenses grew 35% in fiscal 1983 and were 11.1% of revenues compared to 9% in fiscal 1982 and 7.9% in fiscal 1981. The Company feels it is imperative to pursue its research and engineering efforts as the industry becomes increasingly competitive. Research and engineering spending will continue to be a significant percentage of revenues in the years ahead. In the last three years the Company spent over one billion dollars in research and engineering, leading to the announcement of many new products. In fiscal 1983 the Company introduced several new products, such as the RA81 and RA60 data storage disks, a new concept in high-capacity computing for VAX computer systems called VAXcluster, and, at the other end of the spectrum, the MICRO/PDP-11 microcomputer, designed for "team computing."

Selling, general and administrative expenses declined slightly to 19.4% of total operating revenues in fiscal 1983 compared to 19.5% in fiscal 1982 and 19.8% in fiscal 1981. The percentage decrease in these expenses occurred even though revenue growth was less than anticipated and advertising expenses increased considerably.

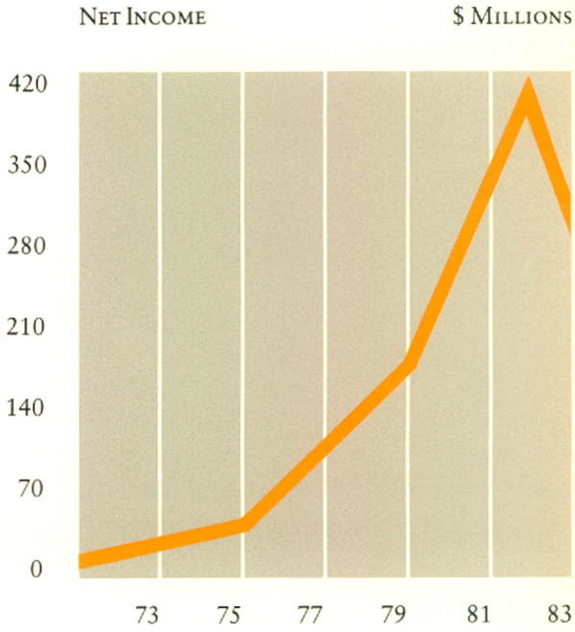




Expenses and Profit Margins (continued)

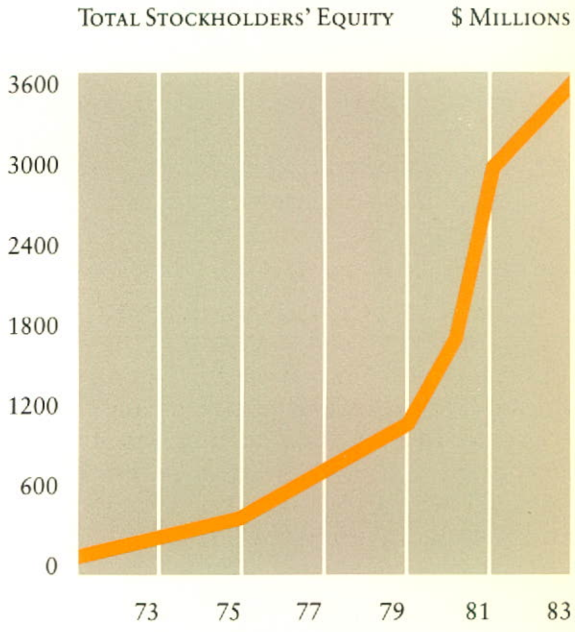
Also, during the year, the total number of employees increased by 5,900, bringing the total number of employees at year end to 73,000. The increase in the number of employees took place in the manufacturing, sales and service, and engineering organizations. During the year the Company acted to contain discretionary spending and initiated a delay of salary increases which lasted six months.

Net income per share for fiscal 1983 was $5.00, a 34% reduction over the $7.53 in fiscal 1982, which constituted a 12% increase over fiscal 1981 net income per share of $6.70.



Inflation and Changing Prices

The preceding discussion and analysis are based on the Company's financial statements presented in historical dollars. See pages 48 through 51 for supplementary information on the Company's historical financial data adjusted for the effects of inflation and changing prices.



Management's Discussion and Analysis of Financial Condition

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. The Company foresees the need to continue to use external financing.

During the fiscal 1981-1983 periods, funds used to support operations and future growth exceeded funds generated from operations by $446 million. External financing during this period consisted primarily of the $241 million proceeds from the sale of 2.5 million shares of common stock in fiscal 1981. From time to time the Company has and may issue commercial paper to meet short-term operational needs.

At the end of fiscal 1983, the Company's short- and long-term debt totaled $109 million, up from $106 million at the end of fiscal 1982. Cash and temporary cash investments were $556 million at the end of fiscal 1983, compared to $765 million at the end of fiscal 1982. Unused lines of credit at the end of fiscal 1983 were $244 million, including revolving credit agreements totaling $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 future growth.

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 40,033 stockholders of record as of July 29, 1983. The high and low quarterly sales prices for the past two fiscal years are presented as follows:

Common Stock Information (continued)

		1983
Fiscal Quarter	High	Low
First	$ 90.500	$ 61.750
Second	115.000	77.750
Third	132.125	99.750
Fourth	130.375	107.500

		1982
Fiscal Quarter	High	Low
First	$101.625	$83.250
Second	102.500	84.125
Third	90.250	71.375
Fourth	84.500	65.750

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.

Spending for Operations

Inventories grew 19% in fiscal 1983 as the Company prepared in part for an improved level of equipment sales in fiscal 1984. Inventory turns improved to 2.1 times versus 1.9 times in both fiscal 1982 and fiscal 1981. Accounts receivable grew 39%, reflecting primarily a rise in equipment sales at the end of the fourth quarter of fiscal 1983. While the average number of days

Spending For Operations (continued)

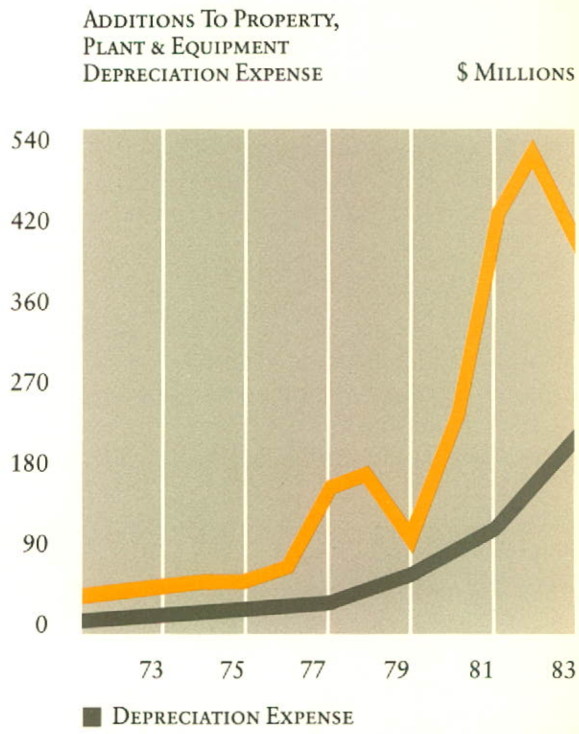
sales in accounts receivable outstanding grew to 82 days compared to 73 days in fiscal 1982, the Company is confident it can improve this measure in fiscal 1984.

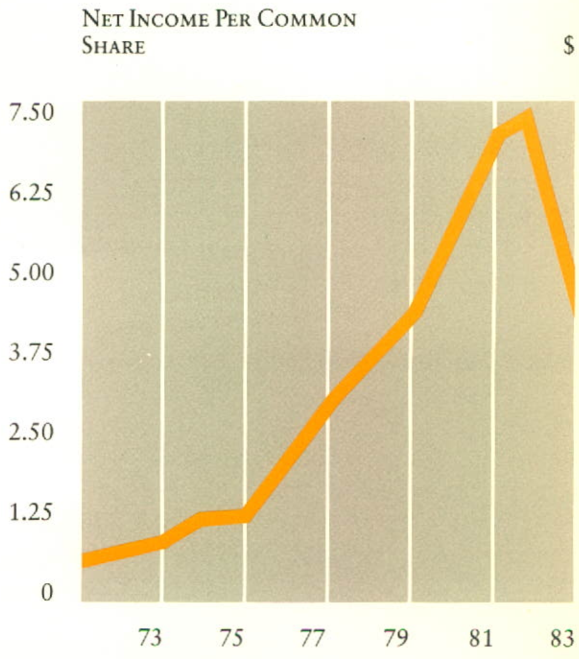
Capital spending in fiscal 1983 totaled $419 million, a reduction of $92 million or 18% from the $511 million spent in fiscal 1982. In fiscal 1983, 77% of the capital spending or $322 million was for equipment as the Company outfitted several recently completed facilities and continued to modernize and update its manufacturing, engineering and administrative facilities. Spending for land and building additions totaled $73 million while leasehold improvements totaled $24 million.

The ratio of net income to average total assets was 6.6% in fiscal 1983, and 11.2% in both fiscal 1982 and fiscal 1981.

During fiscal 1983 the Company added approximately 2 million square feet of new space, bringing the total amount of space to 23 million square feet up from 21 million square feet in fiscal 1982 and 17 million square feet in fiscal 1981. In fiscal 1983 the Company started construction of, or initiated plans for, facilities in Massachusetts and Connecticut in the United States; Reading, England; Galway, Ireland; Evry, France; Taiwan; and Hong Kong.

Capital spending in fiscal 1984 is expected again to be heavily concentrated in equipment as the Company continues to invest in capital expenditures 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 of approximately $425-$525 million in fiscal 1984.





Report of Management

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

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

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

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

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

Kenneth H. Olsen

Kenneth H. Olsen
President

A.M. Bertocchi

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 of July 2, 1983 and July 3, 1982 and the related consolidated statements of income, stockholders' equity and changes in financial position for each of the three fiscal years in the period ended July 2, 1983. 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 of July 2, 1983 and July 3, 1982, 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 July 2, 1983 in conformity with generally accepted accounting principles applied on a consistent basis.

Boston, Massachusetts
August 9, 1983

Coopers & Lybrand

Coopers & Lybrand

Consolidated Statements of Income

(in thousands except per share data)			Year Ended
	July 2, 1983	July 3, 1982	June 27, 1981
Revenues *(Notes A and B)*			
Equipment sales	$2,867,428	$2,793,701	$2,384,236
Service and other revenues	1,404,426	1,087,070	813,863
Total operating revenues	4,271,854	3,880,771	3,198,099
Costs and Expenses *(Notes A and I)*			
Cost of equipment sales, service and other revenues	2,605,970	2,187,620	1,778,663
Research and engineering expenses	472,392	349,778	251,186
Selling, general and administrative expenses	830,564	758,607	632,190
Operating income	362,928	584,766	536,060
Interest expense	13,078	14,746	29,265
Interest income	(61,195)	(102,811)	(60,638)
Income before income taxes	411,045	672,831	567,433
Provision for income taxes *(Notes A and C)*			
Federal	80,858	188,780	156,636
Foreign	36,273	41,375	55,157
State	10,292	25,521	12,343
Total provision for income taxes	127,423	255,676	224,136
Net income	$ 283,622	$ 417,155	$ 343,297
Net income per share *(Note E)*	$ 5.00	$ 7.53	$ 6.70
Average shares outstanding *(Note E)*	56,676	55,429	52,567

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

Consolidated Balance Sheets

(in thousands)	July 2, 1983	July 3, 1982
Assets		
Current Assets		
Cash and temporary cash investments *(Note D)*	$ 556,209	$ 764,647
Accounts receivable, net of allowance of $29,299 and $26,651	1,125,037	807,559
Inventories *(Note A)*:		
Raw materials	320,820	232,794
Work-in-process	557,509	381,806
Finished goods	475,501	522,838
Total Inventories	1,353,830	1,137,438
Prepaid expenses	38,484	38,392
Net deferred Federal and foreign income tax charges	127,799	131,503
Total Current Assets	3,201,359	2,879,539
Property, Plant and Equipment, at cost *(Note A)*		
Land	92,202	83,286
Buildings	619,153	567,082
Leasehold improvements	113,439	91,721
Machinery and equipment	1,136,574	863,305
Gross Property, Plant and Equipment	1,961,368	1,605,394
Less accumulated depreciation	621,642	460,920
Net Property, Plant and Equipment	1,339,726	1,144,474
Total Assets	$4,541,085	$4,024,013
Liabilities and Stockholders' Equity		
Current Liabilities		
Loans payable to banks *(Note F)*	$ 14,897	$ 12,341
Accounts payable	213,728	142,049
Federal, foreign and state income taxes	221,820	244,207
Salaries, wages and related items	194,035	152,712
Deferred revenues and customer advances *(Note A)*	103,523	82,984
Current portion of long-term debt	1,371	1,352
Other current liabilities	74,993	62,706
Total Current Liabilities	824,367	698,351
Net deferred Federal and foreign income tax credits	82,626	68,798
Long-term debt *(Note G)*	92,810	92,400
Total Liabilities	999,803	859,549
Stockholders' Equity *(Note J)*		
Common stock, $1.00 par value; authorized 225,000,000 shares; issued and outstanding 56,357,078 and 55,227,370 shares	56,357	55,227
Additional paid-in capital	1,509,781	1,417,715
Retained earnings	1,975,144	1,691,522
Total Stockholders' Equity	3,541,282	3,164,464
Total Liabilities and Stockholders' Equity	$4,541,085	$4,024,013

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
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	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
Shares issued under stock option and purchase plans *(Note J)*	879	45,384		46,263
Restricted stock plans, charge to operations *(Note J)*		13,891		13,891
Stock option and purchase plans – excess Federal income tax benefits *(Note J)*		7,466		7,466
Net income – 1982			417,155	417,155
July 3, 1982	55,227	1,417,715	1,691,522	3,164,464
Shares issued under stock option and purchase plans *(Note J)*	1,130	61,686		62,816
Restricted stock plans, charge to operations *(Note J)*		15,325		15,325
Stock option and purchase plans – excess Federal income tax benefits *(Note J)*		15,055		15,055
Net income – 1983			283,622	283,622
July 2, 1983	$56,357	$1,509,781	$1,975,144	$3,541,282

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

Consolidated Statements of Changes in Financial Position

(in thousands)	Year Ended July 2, 1983	July 3, 1982	June 27, 1981
Funds from Operations			
Net income	$283,622	$417,155	$343,297
Add—expenses not requiring funds in current period:			
Depreciation *(Note A)*	203,214	152,629	102,139
Disposal of property, plant and equipment	20,749	13,636	26,300
Restricted stock plans—charge to operations *(Note J)*	15,325	13,891	9,751
Deferred income tax provision *(Note C)*	32,587	(26,598)	(25,391)
Total funds from operations	555,497	570,713	456,096
Funds Used to Support Operations			
Increase (decrease) in working capital:			
Accounts receivable	317,478	49,450	129,046
Inventories	216,392	35,190	282,324
Prepaid expenses	92	(2,452)	10,198
Accounts payable	(71,679)	(28,914)	(10,031)
Income taxes	22,387	32,215	(122,904)
Other current liabilities	(74,168)	(70,738)	(14,797)
	410,502	14,751	273,836
Additions to property, plant and equipment	419,215	511,240	398,482
Total funds used to support operations	829,717	525,991	672,318
Net increase (decrease) in funds from operations	(274,220)	44,722	(216,222)
Funds provided by Financing Sources			
Sale of common stock	–	–	240,678
Increase (decrease) in:			
Loans payable to banks *(Note F)*	2,556	4,112	674
Long-term debt			
8⅞% Convertible Subordinated Debentures	–	–	(400,000)
Other	410	3,968	(1,290)
Net increase in stockholders' equity upon conversion of:			
8⅞% Convertible Subordinated Debentures	–	–	392,838
Common stock issued under stock option and purchase plans *(Note J)*	62,816	46,263	32,618
Total funds from financing sources	65,782	54,343	265,518
Net increase (decrease) in cash and temporary cash investments	(208,438)	99,065	49,296
Cash and temporary cash investments at beginning of year	764,647	665,582	616,286
Cash and temporary cash investments at end of year	$556,209	$764,647	$665,582

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

Notes to Consolidated Financial Statements

Note A – Significant Accounting Policies

Principles of Consolidation – The consolidated financial statements of the 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 will adopt Financial Accounting Standard No. 52, "Foreign Currency Translation" as of the beginning of fiscal 1984. Adoption of FAS No. 52 in fiscal 1983 would have had no impact on the Company's operating results.

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 basis:

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

Note B – International Operations

(in thousands)	1983	1982	Fiscal Year 1981
Revenues			
United States customers	$2,770,052	$2,497,584	$1,945,655
Intercompany	816,740	722,866	685,138
	3,586,792	3,220,450	2,630,793
Europe customers	1,074,853	1,006,052	934,663
Intercompany	–	–	–
	1,074,853	1,006,052	934,663
Canada, Far East, Americas customers	426,949	377,135	317,781
Intercompany	390,337	274,998	362,314
	817,286	652,133	680,095
Eliminations	(1,207,077)	(997,864)	(1,047,452)
Net Revenues	$4,271,854	$3,880,771	$3,198,099
Income			
United States	$ 169,802	$ 380,483	$ 306,787
Europe	127,568	127,214	146,951
Canada, Far East, Americas	69,404	88,260	124,684
Eliminations	(3,846)	(11,191)	(42,362)
Income from operations	362,928	584,766	536,060
Interest income	61,195	102,811	60,638
Interest expense	(13,078)	(14,746)	(29,265)
Income before income taxes	$ 411,045	$ 672,831	$ 567,433
Assets			
United States	$3,384,140	$2,730,160	$2,469,853
Europe	828,087	758,655	744,292
Canada, Far East, Americas	547,756	359,685	424,329
Corporate assets *(temporary cash investments)*	563,979	751,676	651,093
Eliminations	(782,877)	(576,163)	(833,495)
Total assets	$4,541,085	$4,024,013	$3,456,072

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 through various representative and distributorship arrangements.

The Company's international manufacturing operations include plants in Canada, the Far East and Western Europe. The products of these manufacturing plants are sold to the Company's 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.

Note B – International Operations (continued)

Sales to unaffiliated customers outside of the United States, including U.S. export sales, were $1,542,779,000 for the year ended July 2, 1983, $1,438,884,000 for the year ended July 3, 1982, and $1,301,465,000 for the year ended June 27, 1981, which represented 36%, 37%, and 41%, respectively, of total operating revenues.

The retained earnings of substantially all of the Company's international subsidiaries have been reinvested to support operations. These accumulated retained earnings, before elimination of intercompany transactions, aggregated $722,140,000 at July 2, 1983, $605,900,000 at July 3, 1982, and $508,948,000 at June 27, 1981.

Note C – Income Taxes

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

			Year Ended
(in thousands)	July 2, 1983	July 3, 1982	June 27, 1981
Domestic	$288,437	$535,184	$376,683
Foreign	122,608	137,647	190,750
Total	$411,045	$672,831	$567,433

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

	1983	1982	1981
U.S. Federal statutory tax rate	46.0%	46.0%	46.0%
Tax benefit of manufacturing operations in (a):			
Puerto Rico	(5.0)	(3.3)	(2.2)
Ireland	(4.4)	(3.6)	(1.7)
Investment tax credits	(5.5)	(2.9)	(1.8)
Research and engineering credit	(5.4)	(1.7)	–
Other	5.3	3.5	(0.8)
	31.0%	38.0%	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 through April 1990. The income tax benefits per common share attributable to the tax status of these subsidiaries for the years ended July 2, 1983, July 3, 1982, and June 27, 1981 were $.69, $.83 and $.42, respectively.

Note C – Income Taxes (continued)

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

(in thousands)	July 2, 1983	July 3, 1982	Year Ended June 27, 1981
U.S. Federal:			
Currently payable	$ 32,317	$137,813	$167,740
Deferred	48,541	50,967	(11,104)
Total	$ 80,858	$188,780	$156,636
Foreign:			
Currently payable	$ 27,944	$ 50,658	$ 69,444
Deferred	8,329	(9,283)	(14,287)
Total	$ 36,273	$ 41,375	$ 55,157

Deferred tax expense results from timing differences in the recognition of revenues and expenses for tax and financial reporting purposes. The sources of these timing differences in the years ended July 2, 1983, July 3, 1982 and June 27, 1981, and the tax effect of each were as follows:

(in thousands)	July 2, 1983	July 3, 1982	Year Ended June 27, 1981
Inventory related transactions	$ (3,766)	$(27,854)	$(72,911)
Installment sales, principally intercompany, and financing leases	(2,964)	(20,312)	10,754
Domestic International Sales Corporation profits	3,079	27,624	14,893
Depreciation	13,962	2,374	10,720
Tax benefit transfers	31,695	68,282	–
Other	14,864	(8,430)	11,153
Total	$ 56,870	$ 41,684	$(25,391)

In connection with its normal examinations of the Company's 1978 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.

The Company entered into "Safe Harbor" leases as defined under the Economic Recovery Tax Act of 1981. In accordance with the provisions of the agreements, the Company made payments of $1,622,000 and $103,954,000 for fiscal years 1983 and 1982, respectively, which amounts have been recorded as investments in tax benefits. These investments have been reduced by permanent tax savings of $24,283,000 and $68,282,000 in fiscal years 1983 and 1982, respectively, and the remaining unrecovered cost is amortized by an interest method over the periods during which the Company has the use of additional temporary tax savings. While there is a cash flow benefit, there is no significant impact on net income.

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 1983 and 1982 common share equivalents were attributable to stock options. In fiscal 1981 common share equivalents were attributable principally to Convertible Subordinated Debentures 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:

(in thousands)	July 2, 1983		July 3, 1982	
		Average Interest Rate		Average Interest Rate
Loans payable to banks . .	$14,897	13.4%	$12,341	21.1%

Note F – Short-Term Debt (continued)

The maximum aggregate short-term debt outstanding at any month-end was $18,163,000 during fiscal 1983, and $28,328,000 during fiscal 1982. Average short-term borrowings during these years, computed on a month-end basis, were $11,520,000 and $15,260,000, respectively. The average interest rate based on a weighted average of the stated month-end rates was 22.3% in fiscal 1983 and 26.5% in fiscal 1982. Short-term debt was principally denominated in foreign currencies. The short-term debt interest rates for fiscal 1983 and fiscal 1982 were significantly impacted by the high interest rate on Brazilian short-term debt.

The Company has revolving credit agreements totaling $150,000,000. These commitments are available on a revolving basis until March, 1985, converting at such time to term loans with final maturities in March, 1989. Borrowing rates under these commitments vary with the prime rate, domestic money market rates or the London Interbank Offer Rate. Although there are no compensating balance requirements under these agreements, commitment fees on the unused portion of the commitment approximates 3% compensating balances. These credit arrangements were unused at July 2, 1983.

Unused lines of credit for short-term financing were $93,604,000 at July 2, 1983 and $92,758,000 at July 3, 1982. At July 2, 1983, $21,000,000 of these lines of credit required the payment of facility fees. Although there are no compensating balance requirements under these agreements, facility fees on the unused portion of the commitment approximates 3% compensating balances.

None of the cash reflected in the balance sheets at July 2, 1983 and July 3, 1982 was required as compensating balances.

Note G—Long-Term Debt

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

(in thousands)	July 2, 1983	July 3, 1982
Lease obligations payable 1984-2000 (7.5%-12.1%) (a)	$ 8,095	$ 9,389
Collateralized obligations maturing serially to 1993 (5.4%) (b)	6,530	7,080
Sinking Fund Debentures due March 15, 2000 (9 3/8%) (c)	75,000	75,000
Other	3,185	931
	$92,810	$92,400

Principal payments required during the next five fiscal years are as follows: 1984–$1,371,000; 1985–$5,481,000; 1986–$5,625,000; 1987–$5,468,000; and 1988–$5,510,000.

(a) Weighted average interest rate at July 2, 1983 of 7.9%.

(b) Interest rate shown is the weighted average rate at July 2, 1983.

(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.

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:

(in thousands)	
1984	$ 97,281
1985	82,217
1986	62,505
1987	48,319
1988	36,762
Later years	259,315
Total minimum lease payments	$586,399

Total rental expense for the fiscal years ended July 2, 1983, July 3, 1982 and June 27, 1981 amounted to $145,303,000, $120,751,000 and $91,119,000, respectively.

Note I—Pension Plans

The Company and its subsidiaries have pension plans covering substantially all of their employees. Total pension expense was $89,766,000 in fiscal 1983, $61,801,000 in fiscal 1982, and $46,896,000 in fiscal 1981. Annual contributions are made to the plans equal to the amounts accrued for pension expense. There was no unfunded past service liability as of July 2, 1983.

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. As of July 1, 1982, the domestic plan improved its vesting schedule.

The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 6 percent for both 1983 and 1982.

Note I—Pension Plans (continued)

(in thousands)	July 2, 1983	July 3, 1982
Actuarial present value of accumulated plan benefits:		
Vested	$ 86,805	$ 45,889
Nonvested	24,894	32,888
	$111,699	$ 78,777
Net assets available for benefits	$229,108	$172,853

Note J—Stock Plans

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 1983 follows:

	Shares Reserved For Future Grants	Options Outstanding: Shares	Options Outstanding: Average Price Per Share
July 3, 1982	5,204,396	3,840,257	$31.05
Options granted	(1,154,130)	1,154,130	82.82
Options exercised		(487,154)	23.66
Options cancelled	133,020	(133,020)	33.07
Options terminated	(18,657)		
July 2, 1983	4,164,629	4,374,213	$45.47

Note J—Stock Plans (continued)

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 $15,325,000 in fiscal 1983, $13,891,000 in fiscal 1982 and $9,751,000 in fiscal 1981. The amount deductible for Federal income taxes exceeds the amount charged to income for book purposes; the Federal income tax benefits relating to this difference have been credited to additional paid-in capital.

Employee Stock Purchase Plans—Under the Company's Employee Stock Purchase Plans, all United States and certain international employees may be granted 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 2,950,620 shares at July 2, 1983 and 3,598,655 shares at July 3, 1982. There were 648,035 shares issued at an average price of $74.88 in fiscal 1983 and 583,937 shares at $70.15 in fiscal 1982. 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.

Employee Stock Ownership Plan—The Employee Stock Ownership Plan ("ESOP") and a related trust were established in 1982. The Company intends to make contributions of stock or cash to the trust equivalent to not more than ½% of the base salaries (not in excess of $100,000 salary for any single employee) of substantially all U.S. employees for calendar years 1983 and 1984 and not more than ¾% of such base salaries for calendar years 1985, 1986 and 1987. Federal tax law generally allows a tax credit for the Company equal to the full value of the contribution.

Supplementary Financial Information

Quarterly Financial Data (Unaudited)

Selected quarterly financial data for fiscal 1983 and fiscal 1982 is set forth below:

(in millions except per share data)	Total Operating Revenues	Gross Profit	Income Before Income Taxes	Income	Net Income Per Share
1983					
First Quarter	$ 927.5	$ 353.4	$ 91.6	$ 56.8	$1.02
Second Quarter	1,015.7	401.5	98.4	61.0	1.08
Third Quarter	1,094.3	428.2	109.4	79.8	1.40
Fourth Quarter	1,234.4	482.8	111.6	86.0	1.51
Total Year	$4,271.9	$1,665.9	$411.0	$283.6	$5.00
1982					
First Quarter	$ 839.4	$ 359.9	$148.0	$ 88.8	$1.60
Second Quarter	965.8	422.0	165.1	99.1	1.79
Third Quarter	999.3	437.6	171.1	107.6	1.94
Fourth Quarter	1,076.3	473.7	188.6	121.7	2.20
Total Year	$3,880.8	$1,693.2	$672.8	$417.2	$7.53

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:

(in millions)	Adjustment for General Inflation (constant dollars)	Adjustment for Changes in Specific Prices (current costs)
Depreciation expense	$22.3	$ 12.4
Cost of sales, exclusive of depreciation	$48.9	$(71.4)
Total (increase) decrease in net income	$71.2	$(59.0)

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 lower 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 lower 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 $23.7 million in fiscal 1983, 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 July 2, 1983 were as follows:

(in millions)	Inventories	Property Plant and Equipment, Net
Current Cost	$1,263.3	$1,533.0
Historical Cost	1,353.8	1,339.7
Difference	$ (90.5)	$ 193.3

The current cost of inventories is approximately 7% lower than the corresponding historical cost, which is reflective of the lower costs which would be incurred if the fiscal 1983 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 1984 cost of sales, since the 1984 cost of sales will include the higher historical costs in inventory at the end of fiscal 1983, as well as the cost of products manufactured and sold in fiscal 1984, which are different and have different costs from those in inventory at the end of fiscal 1983.

Net property, plant and equipment at current costs exceeded the corresponding historical cost by $193.3 million. The current cost method assumes replacement of all the Company's property, plant and equipment as of July 2, 1983. However, the Company's property, plant and equipment are relatively new, with 83% of it having been acquired in the last 5 fiscal years. Consequently, the Company's future capital expenditures will be principally to expand, rather than replace, existing capacity.

The decrease in the current cost of inventories held during fiscal 1983 was $136.9 million, and the increase in property, plant and equipment was $49.7 million. The increases during fiscal 1983, measured by the general inflation rate, were $30.3 million for inventories and $36.2 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 July 2, 1983

(in millions except per share data)	As Reported	Adjusted for Inflation Constant Dollars	Current Costs
Total operating revenues	$4,271.9	$4,271.9	$4,271.9
Cost of equipment sales, service and other revenues (a)	2,499.0	2,547.9	2,427.6
Depreciation expense	203.3	225.6	215.7
Other expenses (a)	1,158.6	1,158.6	1,158.6
Provision for income taxes	127.4	127.4	127.4
Net income	$ 283.6	$ 212.4	$ 342.6
Net income per share	$ 5.00	$ 3.75	$ 6.05
Stockholders' equity at July 3, 1982	$3,164.5	$3,440.9	$3,335.9
Net income as reported above	283.6	212.4	342.6
Decline in purchasing power of net monetary assets	–	(23.7)	(23.7)
Excess of general price level increase over specific price level increase of inventories and property, plant and equipment	–	–	(153.7)
Increase in common stock and additional paid-in capital	93.2	93.2	93.2
Stockholders' equity at July 2, 1983	$3,541.3	$3,722.8	$3,594.3

(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 1983 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.

(in millions except per share data)	1983	1982	1981	1980	1979
Total operating revenues					
As reported	$4,271.9	$3,880.8	$3,198.1	$2,368.0	$1,804.1
In constant dollars	4,271.9	4,047.7	3,626.6	2,993.2	2,585.3
Net income					
As reported	283.6	417.2	343.3	249.9	
In constant dollars	212.4	320.5	269.4	212.5	
In current costs	342.6	375.4	353.1	303.5	
Net income per share					
As reported	5.00	7.53	6.70	5.45	
In constant dollars	3.75	5.78	5.32	4.70	
In current costs	6.05	6.77	6.90	6.63	
Net assets at year end					
As reported	3,541.3	3,164.5	2,679.7	1,651.7	
In constant dollars	3,722.8	3,440.9	3,119.2	2,168.8	
In current costs	3,594.3	3,335.9	3,144.5	2,203.4	
Decline in purchasing power of net monetary assets	(23.7)	(63.3)	(60.2)	(50.3)	
Excess of general price level increase over specific price level increase of inventories and property, plant and equipment	(153.7)	(193.8)	(131.8)	(89.4)	
Market price per common share					
As reported at year end	121.50	66.00	101.19	67.12	55.75
In constant dollars	119.92	66.79	109.69	79.73	75.70
Average Consumer Price Index (1967 = 100.0)	294.1	281.9	259.4	232.6	205.2
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

Alfred M. Bertocchi
Vice President, Finance and Administration

Roger C. Cady
Vice President, Group Manager – Engineering

George A. Chamberlain, 3d
Vice President and Treasurer

Richard J. Clayton
Vice President, Manufacturing Technology

Henry J. Crouse
Vice President, Manufacturing – Europe

James G. Cudmore
Vice President, Group Manager – Engineering

Sheldon A. Davis
Vice President, Organization – Europe

William R. Demmer
Vice President, 32-Bit Systems

Pier-Carlo Falotti
Vice President, Field Operations – Europe

William C. Hanson
Vice President, Systems Manufacturing

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

Theodore G. Johnson
Vice President *(1)*

William R. Johnson, Jr.
Vice President,
Systems & Communications Engineering

(1) on leave of absence through December 1983

Edward A. Kramer
Vice President, Corporate Marketing

William H. Long
Vice President, Group Manager

Ward D. MacKenzie
Vice President, Group Manager

Julius L. Marcus
Vice President, Group Manager – Engineering

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

Jean-Claude Peterschmitt
Vice President, Europe

Richard Poulsen
Vice President, Field Service

F. Grant Saviers
Vice President, Storage Systems

Edward A. Schwartz
Vice President, General Counsel and Secretary

Joel Schwartz
Vice President, Group Manager

John J. Shields
Vice President, Sales & Service

Godfrey S. Shingles
Vice President, Group Manager – Europe

John F. Smith
Vice President, Manufacturing & Engineering

William R. Thompson
Vice President, External Resources

William G. Witmore
Vice President, General International Area

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 and Chief Executive Officer, Eureka SICAV (French Investment Company)

Georges F. Doriot
Director of several organizations

William H. McLean
Engineering consultant and Director of several corporations

Kenneth H. Olsen
President, Digital Equipment Corporation

Dorothy E. Rowe
Trustee, Boston Five Cents Savings Bank
Trustee, School Street Mutual Fund

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Investor Information

The Company's common stock is listed and traded on the:
New York Stock Exchange
Pacific Stock Exchange
(Ticker Symbol "DEC")

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 July 2, 1983, 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 NR03-1/M03
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
Investors Relations – ML
111 Powdermill Road (K10)
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 (L2)
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

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