digital

Q3FY96 Overview and Speaking Points

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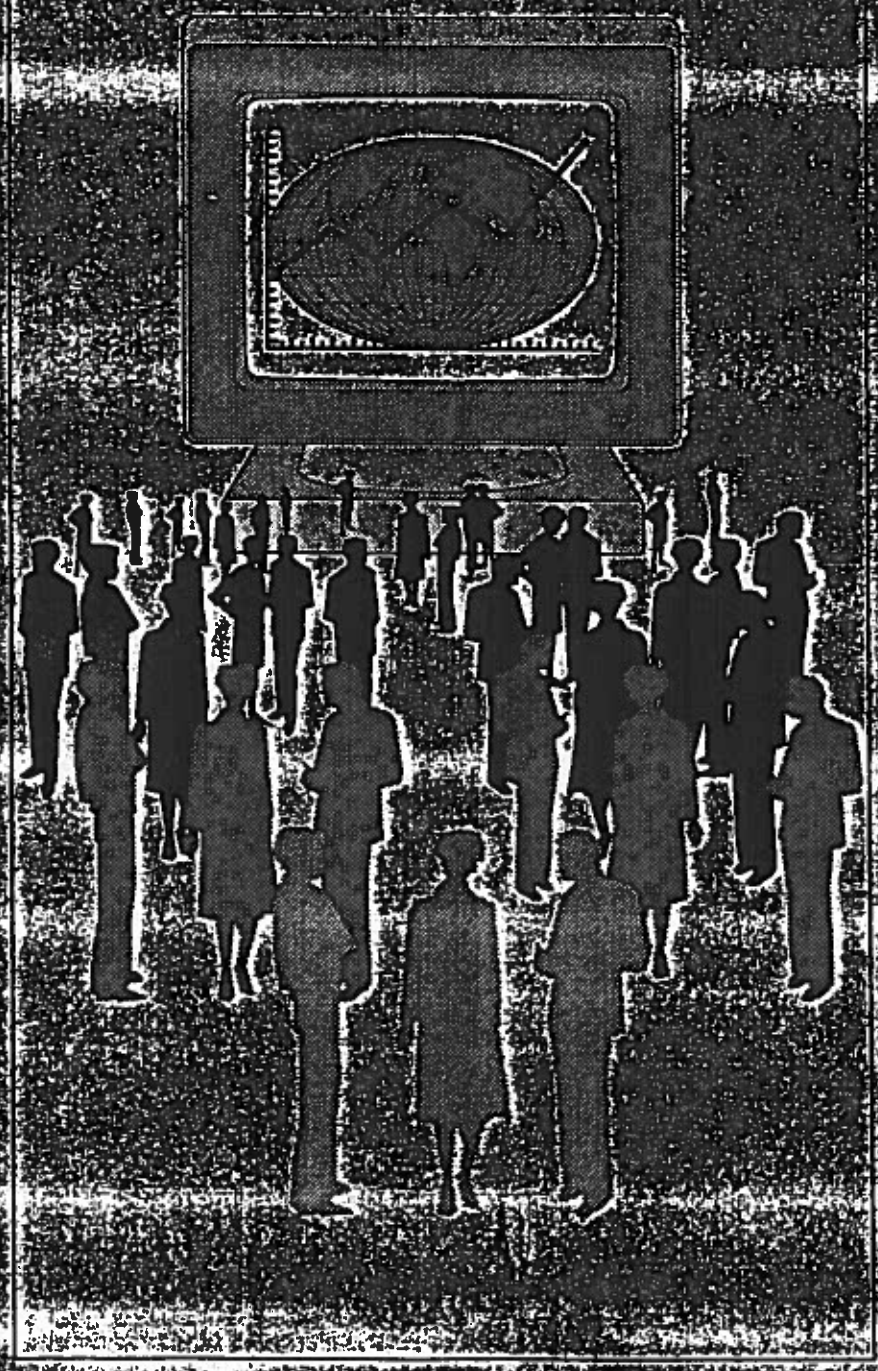

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Backgrounders

Press Reviews

Digital at a Glance

Name:	Digital Equipment Corporation
Headquarters:	Maynard, Massachusetts
President:	Robert B. Palmer
Founded:	August 1957
No. Countries with Digital offices:	101
Worldwide Facilities:	22.9 million sq.ft.
Employees:	61,100
NYSE Designation:	DEC
Fortune 500 Rank:	65th

Financial Highlights

	FY'1995	*Q1FY'96*	*Q2FY'96*
Total Operating Revenues	$13.81 billion	$3.27 billion	$3.951 billion
Net Income/(Loss)	$121.8 million	$48 million	$148.8 million
Net Income/(Loss)Per Share	$0.59	$0.26	$0.91
R&D Investment	$1,040 million	$256 million	$263 million

European Data

Date established in Europe:	March 1963
Employees:	20,704*
No. Countries with Digital Offices:	27
European NOR FY94:	$6.0 Billion

The Company

Digital Equipment Corporation is the world's leader in open client/server solutions from personal computing to integrated worldwide information systems. Digital's scalable Alpha platforms, storage, networking, software and services, together with industry-focused solutions from business partners, help organizations compete and win in today's global marketplace.

* This figure represents all regular employees working in Europe, including Manufacturing and Engineering. Previous editions of the Blue Book did not include these two functions.

Digital's Environmental, Health and Safety Performance

(Backgrounder)

Customer inquiries and bid specifications related to Digital's Environment, Health and Safety (EHS) performance and product features have risen, particularly in Europe.

According to a recent survey of 40 Account Managers in Europe, 58% of Digital customers inquire and/or require EHS features when purchasing products. The purchase decision of 27% of these accounts can be influenced by EHS features, especially when price, performance and quality are equal. The data showed that 13% of accounts have established EHS requirements as a bid qualifier.

Ever since Digital's founder Ken Olsen first listed the environment as a priority in 1974, Digital has had a long tradition of achievement in the environmental, health and safety areas.

The company seeks exemplary solutions to global environmental problems through its products and information technology, and by contributing to the transfer of environmentally sound technologies and management methods throughout the industrial and public sectors.

Earth Vision, or Digital's corporate EHS policy statement, guides the company's efforts. It provides a framework for action that ensures wise choices today, sound goals for tomorrow and a standard for measuring progress.

Under Earth Vision, Digital commits to conducting its business in a manner that conserves the environment and protects the safety and health of its customers, employees and the community.

This commitment is based on

1. conserving natural resources
2. protecting the environment and the community
3. providing employees with a safe and healthy workplace
4. designing, producing and distributing products in a safe and environmentally protective manner
5. communicating known hazards, along with necessary safety precautions, to customers, employees and the community
6. evaluating potential hazards associated with its products and operations
7. considering full compliance with the law as being the minimum acceptable standard

The company has a number of design, production, distribution and product retrieval programs to ensure that manufacturing processes and product disposal minimally impact the global environment.

1. Design for the Environment (DFE)

Because the environmental impact of all phases of a product life cycle are largely determined by decisions made during the design and engineering phases, Digital invests significantly in programs to establish and apply best practices for environmental health and safety features throughout the product's life cycle. These programs focus on materials acquisition, manufacturing, distribution, use, service, recovery, recycling and disposal. They apply to products including distribution packaging, software media, documentation and supplies, even paper and toner cartridges for printers.

The result is pollution prevention rather than pollution control -- fewer hazardous materials and wastes, more reclamation and recycling.

Among Digital's DFE efforts are

- Eliminating or reducing hazardous materials used in products and packaging that may be hazardous during product use or eventually become hazardous wastes.

- Clearly marking batteries and other components that contain potentially hazardous materials for easy identification and separation.

- Design for disassembly, to allow for easy and fast disassembly and recovery of components and raw materials after the product's first useful life. Due to less screws (9 versus 28) and many snap-to-fit connections in Digital's VT510, disassembly time was reduced by two-thirds -- from 15 to 5 minutes.

- Designing energy efficiency into its personal computers.

2. Reducing the Environmental Impact of Distribution Packaging

Digital devotes a significant effort to reducing the environmental impact of distribution packaging. The company's initiatives include:

- Maintaining a staff of professional packaging engineers to ensure that packaging is designed to minimize environmental impacts

- Designing the distribution packaging to minimize waste while protecting the product during shipment

- A packaging reduction program that has resulted in a 5,400 ton (4,860,000 kg) reduction in total packaging waste.

- Labeling packaging components and materials with recycled and recyclable content

3. Product Take-Back and Materials Recovery

For every three computers bought today, one is turned in for disposal. That ratio will rise to one for one in ten years.

End-of-life computer products, if not dealt with correctly, can pose a risk to the environment. Take-back enables companies like Digital to recover assets and resources, generate revenue and ensure responsible disposition that protects the environment.

Digital pioneered product take-back in the late 1980s.

The corporation's Waste Management Unit realized that a half billion dollars in revenue could be generated by reselling spare parts from PCs and other products, and turned to EHS for advice. EHS, at the same time, was looking for a way to resolve spiraling costs and problems associated with overflowing landfills.

Today, Digital has a $15 million - $40 million business in salvaging and recycling parts and materials from old computers, including cost savings from not carrying old inventory.

The company recycled nearly 14 million kilos of computer-related equipment in fiscal 1995 and expects that figure to rise by 10 to 20 percent annually until the year 2000.

How does the Process Work?

Incoming computer equipment is consolidated in Recovery Centers and following inspection, reusable Digital systems and spare parts are identified. After refurbishing and extensive quality testing, these systems and/or parts are reused. Generic components (integrated circuits and chips) with a particular commercial value are extracted and sold to secondhand component vendors for reuse.

Remaining equipment is then dismantled, separated into several types of materials, and dispatched to specialized vendors for recycling or disposal under controlled and Digital-qualified processes. By concentrating recovery operations in these Centers, sufficient volumes of materials such as plastics, metals, components, sub-assemblies and glass can be generated to supply downstream reusers and recyclers.

Recovered materials are used in the following way:

- Ferrous materials are recycled to the metals industry. These materials account for most of the percentage-by-weight from computer equipment.

- Valuable metals such as aluminium, copper, tin and various alloys as well as some precious metals are reclaimed by sophisticated mechanical and metallurgical processes. These metals are present in the electromechanical subassemblies and components (e.g. in circuit boards).

- Well-defined plastic parts such as casings are used for new products like roofing tiles, or used as fuel in waste-to-energy facilities.

- Media, tapes or disks are reused, recycled after data is erased or used for energy recovery in the same process as other mixed plastics.

- Cathode Ray Tubes (CRTs) are melted together with virgin glass to make new CRTs, or the entire CRT is used as flux in the copper refining industry while the spent flux is recycled as secondary raw material for road construction purposes.

- Selected printer consumables are reconditioned for reuse or disassembled for material recycling.

- Corrugated cardboard is recycled into new packaging material, while polystyrene foam is recycled for foamed concrete and insulation.

- Non-recyclable residual materials are properly and responsibly disposed of via specialized disposal vendors.

Approximately 30 percent of a PC is steel, which fetches about 75 cents a kilo; 10 percent is aluminium, worth 6 to 12 cents per kilo; and 10 percent is boards and miscellaneous wire, including 1 percent of gold worth approximately 45 cents a kilo, according to Bob Butler, Digital's project engineering manager.

Only about one-half of one percent of an entire computer system or part actually goes to a landfill. Nearly 50 percent of today's PCs are plastics, which can be returned to their original makers for recycling.

Materials Recovery Service

European laws are moving towards holding manufacturers and importers responsible for the collection and disposition of end-of-life electronic equipment. Today, eleven countries worldwide are preparing legislation for mandatory product take-back.

Given its internal take-back programs, Digital was well-positioned to meet external requirments for new product take-back laws in an environmentally sound and cost-effective manner.

In response to customer requests and these growing legal requirements, in 1994 Digital opened its own take-back and recovery capabilities to the global market by offering a Materials Recovery Service in its Multivendor Customer Service Business Unit. This service guarantees optimal asset reutilization and material recycling of customers' computers, as well as certain electronic equipment.

Digital has turned the recovery operation into a service business, managing everything for customers from trade-in credits on old equipment for new equipment to completely dismantling old computers into 60 different material fractions including glass, steel, gold, microchips and other parts for resale to brokers.

Currently, Digital's Computer Asset Recovery Services operates centralized disposition centers in Nijmegen, the Netherlands and Contoocook, Massachusetts, USA.

At Nijmegen, 90% of all material in any shape or form is re-used with a staff of 70 demanufacturing the reutrn flow.

Every year these Recovery Centers process 15 million kg of products and equipment, with as much as 98 to 99% of these materials either resold, refurbished, reissued, recycled or reclaimed. As a result, as little as 1 to 2 percent of returned materials are sent to secured landfills.

The company's European Recovery Business passed a significant milestone in December 1995 when it reached the 10,000,000 kg mark of re-used, reclaimed or recycled material. Where Digital once spent money disposing of customers' unwanted equipment, it is now making money through the MRB service offering. This fiscal year, MRB is aiming for a $20 million revenue out of unwanted equipment coming from all over Europe.

Criteria for selection includes environmental impact, emissions of processes, the level of material that can be recycled, final destination of non-recyclables/permits, and transportation.

MCS also provides advice to its customers when solicited on how to better design their equipment for easy disassembly and reuse.

4. Ozone-Depleting Substance Elimination Program

Digital's worldwide CFC/ODS elimination program has demonstrated remarkable success in eliminating the company's use of ozone-depleting compounds worldwide.

In 1989, Digital became a founding member of the International Cooperative for Ozone Layer Protection (ICOLP). Initially a joint venture between the US Environmental Protection Agency and major corporations, ICOLP now includes corporations and governments from all over the world. Digital played a pivotal role in ICOLP's mission to share non-ODS alternative technologies when the company made its CFC-alternative aqueous cleaning technology freely available worldwide.

Digital achieved total containment of CFCs by the end of 1991. The company then proceeded to eliminate all CFC Class 1/ODSs from its products, processes and services by May of 1993, well before its end-94 target date. Digital is now implementing plans to eliminate the use of Class 2 ODSs from all manufacturing processes by the end of 1996.

5. Battery and Accumulator Compliance

Legislation and eco-labels increasingly bring new restrictions for batteries and accumulators. In response, Digital tracks battery regulations through its membership in industry consortia and legal advisory services. The company also participates in groups such as the European Portable Battery Association and the International Standards Organization to seek industry-wide solutions to battery and accumulator issues.

Digital has instituted policies, procedures, specifications and technical standards to ensure compliance with marking, content, ease of removal and disposition requirements applicable to batteries and products containing batteries in all of Digital's markets.

Digital also provides removal and disposal instructions to the end user in its product user manuals and brochures, and participates in industry collection programs such as the Rechargeable Battery Recycling Corporation in the US and the STIBAT plan in The Netherlands.

6. Energy Efficient Projects

Studies indicate that a large percentage of computer and office automation users never turn off their equipment because of the inconvenience of rebooting, warm booting or opening applications.

A user-transparent, energy efficient feature integrated into the equipment can reduce power bills, decrease air pollution, and bring reductions in fan noise, the footprint of the equipment, and air conditioning.

In 1992, Digital joined with the US Environmental Protection Agency to support their newly-created ENERGY STAR Program. Digital committed itself to develop energy-efficient personal computers that conserve energy, last longer and are less expensive to operate. Digital currently offers a family of 40 personal computers that automatically return to a state of minimal energy consumption when left idle.

7. Waste Minimization in Manufacturing

Digital's hazardous waste management program ensures that waste is managed and disposed of safely, in compliance with all applicable laws. Among the company's waste minimization and pollution prevention initiatives are process redesign, chemical substitution, recycling, reuse, source reduction and outsourcing to achieve major reductions in hazardous waste volumes.

- From 1993-1994, Digital saw a 57% reduction in toxic chemicals sent off-site and a 7% drop off on-site chemical waste treatment.

- Digital opened a new semiconductor fabrication operation in 1994. The new building employs state-of-the-art chemical use minimization and waste treatment. Hazardous waste generation for new and existing operations fell by 50% in 1994, while production of semiconductors increased by 30% over 1993 volumes.

- In its module soldering operations, Digital's module manufacturing has eliminated the use of solvents.

Digital is committed to minimizing waste generated by its manufacturing operations through the use of efficient, new manufacturing technologies and innovative product designs.

8. Regulated Materials Management

Digital regularly monitors worldwide regulations and industry studies regarding dangerous and restricted materials. The company updates its technical material standards, specifications and design guides as required, to identify specific materials which are either banned or highly restricted.

Working with suppliers and participating in industry research, Digital seeks alternatives for regulated materials.

By its own corporate policy, Digital has banned numerous chemicals, materials and compounds for use in its products. While banned classifications are based on regulations, Digital responsibly monitors ongoing research on other materials which are not currently banned but which possess characteristics warranting concern.

9. Environmental Applications

Promoting the application of products and technology that help protect the global environment is another way Digital is making its Earth Vision policy a reality.

GIS, or Geographic Information Systems (sometimes called automated mapping or spatial databases) is one widely-used environmental application. GIS products consist of vital graphic applications which are the foundation of almost every environmental management solution. GIS products enable users to accurately visualize the environment, speeding up the decision-making process.

Digital's GIS and Environment Business Group supports environmentally beneficial initiatives including regulatory compliance, risk and resource management, and research and planning. GIS tools running on Digital's high-performance Alpha computing have enabled many organizations to work on larger environmental problems and get faster, more accurate results.

A few of the applications that require the power of 64-bit Alpha computing include:

* satellite image processing
* real-time monitoring
* 3-D "fly through" simulations
* environmental impact assessments
* land use classification analysis
* artificial intelligence for faster permitting decisions
* time sequence analysis of environmental change
* time-critical emergency assessments

10. Employee EHS Programs

In most manufacturing and some non-manufacturing sites, Digital has established H & S committees, with both management and employees working together to address Health and Safety risks. At other locations, suggestion boxes encourage employee participation.

At Digital's site in Nijmegen, a two-year campaign spurred on by employee suggestions in 1989 resulted in CFC elimination, a major reduction in paper usage, a 50% reuse of all incoming packaging, energy-saving transportation programs, and a drop in disposable items such as office supplies and cafeteria utensils. There are plans to replicate the Nijmegen approach at other Digital sites through an EHS employee involvement campaign kit.

11. Environmental Health and Safety Audits

While line management is responsible and accountable for EHS performance, Digital manages several EHS programs at the corporate level. These programs, including liability and remediation management, performance measurement and auditing across all business divisions are managed centrally.

For over than a decade, Digital has used a multimedia EHS compliance and auditing program to verify compliance with EHS laws and regulations, best management practices and Digital policies. Audit findings are used to measure performance, adjust programs and policies, assess and revise performance goals, and demonstrate progress.

Digital's global auditing program has recently been redesigned to go beyond regulatory compliance, to include management systems assessment and unregulated risk identification. This year Digital will audit all of its major suppliers.

Audits include environmental affairs (pollution control), health services (medical), hazardous materials transportation, industrial hygiene (exposure monitoring and control), occupational safety and waste management.

12. Digital's EHS Leadership

The company takes its reputation and responsibility for EHS leadership seriously. Digital pursues opportunities to participate in and lead initiative and organizations that are creating solutions and charting the course for EHS in the future.

Digital endorses the International Chamber of Commerce's Business Charter of Sustainable Development, reflected in the Earth Vision's structure and goals.

Digital is represented in most relevant US and European trade federations, at both the European Union and country levels. Participation in these trade federations provides the company with an important source of information as well as a channel for positively influencing national and European legislative and regulatory developments.

Environmental Health and Safety Awards and Recognitions

Digital has been honoured worldwide for its commitment to environmental, health and safety protection and sustainable development. Among these awards are:

1990:

- The US EPA's Stratospheric Ozone Protection Award
- The Gelderland Environmental Award (Netherlands) for Digital's European Services and Supply Center's environmentally protective initiatives.

1991:

- Special Award of Merit from the Associated Industries of Massachusetts for developing and sharing aqueous cleaning technology.
- The Singapore Environmental Agency's Waste Management Excellence Award for model plant-wide environmental programs at Digital Singapore.

1992:

- The World Wildlife Fund, Japan Industrial Journal and Sankei Group's Award for Earth Environment.

1993:

- FORTUNE's list of top ten environmental leaders, recognizing the company's CFC elimination, reduction of toxic releases, waste reduction accomplishments and product take-back programs.
- British Telecom's Environmental Supplier Award
- The Council on Economic Priorities' America's Corporate Conscience Award for Environmental Stewardship
- Renew America's Certificate of Environmental Achievement

- The New Mexico Department of the Environment's Environmental Leadership Award
- The National Association of Professional Environmental Communicators' Merit Award honoring achievement in video and environmental achievement.

1994:

- The Pollution Prevention award from the Department of the Environment in the State of Maine
- The Swiss Information Center Management Forum's eco-award for the most environmentally sound product: the DEC PCs Celebris 466 PC.
- Mars Berkshire Wokingham District Award for manufacturing at Digital Winnersh.
- Certificate of Excellence in the office category for DECpark, Reading, UK.

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