I. 1983 Financial Review

As Marv has reported, the final results for 1983 will not be completely audited for another ten days or so. Nevertheless, it is clear that earnings will equal or exceed last year's result. In view of some difficult problems, 1983's results are deeply gratifying. Just to review quickly some of the challenges we faced: in the peripherals business -- pre-tax profit dropped to $59.6 million which is below budget and below 1982 -- $83.8 million (down from $147.7 million in 1981), in Commercial Credit -- pre-tax profit down to $23.9 million from a 1983 plan of $80.4 million and 1982 actual of $64.5 million, and in Data Services -- pre-tax profit of $10.0 million also below budget ($43.9 million) and 1982 ($31.5 million). In short, in these major segments of the business we were scrambling very hard all year long. With that kind of decrease in them, there was no way to make the original budget for 1983. But in spite of that, it has been a year of solid performance -- and I mean financially.
You can get some feel for that from the fact that we actually reduced debt during the year from $555 million at December 31, 1982 to $527 million at the end of 1983. That was accomplished in spite of the fact that we authorized a record amount (some $90 million) for plant and equipment for Peripheral Products -- some $22.5 million more than plans originally called for. The careful management of working capital not only allowed us to make the additional investment necessary to the peripherals business, the reduced debt contributed some $32 million in reduced interest costs from budget -- which was no small factor in achieving the satisfactory earnings. All in all, the computer business had a return on invested capital of about nine percent -- which is up 1.3 percentage points from 1982....so computer business profitability improved by over 16 percent.

The whole organization responded well to the problems as they surfaced during the year and the result is not only good current financial performance but a lot of fundamental work that will pay off in 1984 and beyond. There isn't time to review all the accomplishments this morning but I will cover a few major items.

II. 1983 - Major Issues and Accomplishments

Those of you on the Control Data Board will recall from the November Board review of the strategic plan that the planning
process began last year with the identification and analysis of 13 major issues -- an "issue" being either a problem or an opportunity but something both critical to future success and by its nature complex -- no obvious or simplistic answers. This chart [show chart] will refresh your memory with respect to the 13 issues. The process of attacking those issues resulted in the most meaningful strategic actions that I can remember in a span of 12 months -- actually it was more like nine months. I don't mean to imply we resolved all these issues -- in fact some of them remain on the critical strategic issues list for 1984 -- but the process resulted in top management spending their time on the right things -- the most highly leveraged areas for future success -- and progress -- was made in every area. Let me cover just a few examples.

Data Services and Microcomputers

Throughout the late 70's and early 80's, the increasing availability and capability of mini and microcomputers made it obvious that Data Services, as it had developed over the preceding 15 years, was changing away from the classic timesharing prescription to the use of microcomputer-based workstations. These workstations include hardware and software tailored to the needs of the particular category of work, be it engineering design, clerical work, business analysis or education. Workstations operate either as stand-alone units or connect to a central processor.
The strategic issues of 1982 and 1983 clearly identified the inadequacy of our response in this regard. Data Services needed a stronger focus on the applications aspect of its business and greater flexibility/innovation in its approach to the delivery of those applications. This has led to some major changes such as the formation of CIM, the Computer Integrated Manufacturing division. In short, CIM is a market focused division which makes use of all the products and services that the company provides to satisfy the needs of companies doing discrete manufacturing.

Like other market-focused divisions, such as Arbitron or Ticketron, CIM has its own technical and marketing salespeople. By understanding the market we will be able to provide better and faster solutions to our customers' rapidly changing needs.

Another services issue involved the technology and future needs of the Data Services network. During discussion of this issue, it became clear that technological cooperation was essential. As a result, we are in the process of negotiating a joint venture with United Telecommunications, Inc. in Kansas City. Since the transaction was formally reviewed at the November Board meeting, I won't go into detail today. I'll just note that agreement in principle was reached quickly and easily but detailed negotiations which have not been concluded have been
tortuous. Briefly the purpose of this joint venture is to define, develop and install a next generation data communications network. Over time, this will give our customers the features they require and lower our communications costs. Most important it will allow us to divert valuable technical effort dollars to developing more applications. In a parallel transaction, Control Data will acquire UTI's data services business which will add some $60 million to our Data Services revenues. In short, this approach allows each company to concentrate its efforts and better focus technical expenditures on its major strategic thrust.

Those are only examples. Everything we looked at -- dealing with marketing and market focus, the use of microcomputers in data services businesses, and accelerating product development network cycles -- highlighted the need for significant changes for our services businesses. In every case we were able to initiate the needed change before the end of the year. The result has been new organizations such as CIM internally, new cooperation such as that with UTI and ten actual or potential investments in new small company affiliates.

All in all, then, 1983 was a year of the most important new beginnings in Data Services since the early 1970's. But that's precisely what they were -- beginnings. In 1984, the organization will be intensely focused on implementation of these new plans.
Commercial Credit's Thrift and Banking Strategy

The financial services industry is changing faster than almost any segment of American business. Commercial Credit must not only forge and execute new business strategies in this highly competitive and uncertain environment, it must also make fundamental changes in the way it operates.

Almost all of its major competitors in the commercial and consumer finance have substantially out-performed it over the past several years. A key element of the problem is that operating expenses constitute a much higher percentage of revenues than is the case with its competitors. This was one of the factors recently cited by Moody's when they downgraded their rating of Commercial Credit's debt. So reduced operating expenses are essential if we are to reach an acceptable level of profitability.

But expense reduction is only half the story. The other half is revenue growth -- which entails not only more profitable employment of funds but improved sources of funds as well. These two subjects were tackled in the strategic issue process. With regard to the matter of sources, Commercial Credit will continue to reduce its dependence on borrowed funds as a source of money by increasing the use of thrift deposits.
Thrift deposits will enable the financial services business to be more highly leveraged which means more competitive rates and eventually improved profitability. Thrift deposits doubled to about $1.5 billion in 1983 and the plan calls for $2.5 billion in thrift deposits by the end of 1984.

The matter of more profitable use of these funds involves such things as the real estate strategy and services to small businesses. Work done in late 1983 on the strategy of small business services should lay the groundwork for improvement in this unit's performance in 1984. I should note here that it has been evident for several years that Commercial Credit has to move to become a significant provider of so-called non-cash services to small business if it is to succeed in the long-term. The Business Center strategy, which provides for the packaging of non-cash and cash services to selected small business markets, is the key to this evolution. Commercial Credit has made a substantial investment in the last three years in services to small business. Some of this was, unfortunately, misdirected effort, but the basic concept is fundamentally sound and the eventual pay-off will be enormous. Although there is much hard work and still some red ink ahead, the Business Services organization is turned on and looking to the future, not to the past.

**Slowly Developing/Unsatisfactory Businesses**

Included in this review were some 19 business units -- almost
all of them still small in terms of revenue. They covered a broad range of situations from ancillary businesses acquired as part of acquisitions years ago to fairly new start-ups. Collectively they represented a (budgeted) pre-tax loss of $37 million. The review of those businesses was one of the most important of all the issue teams. This particular team did an excellent job. In each case the team went back and tried to establish the original strategic purpose versus current plan and results. Time doesn't permit even a cursory review of all 19 situations but I can give you some overall outcomes. Of the total it was determined that five of them were no longer strategically important. These have all been or are in the process of being terminated. In almost every instance we were able to turn the business over to an interested employee or to another small business. Eight of the 19 businesses were judged to be on the right track and progressing at a satisfactory rate. The remaining six were all intensively examined -- and strategic changes recommended. These will be the subject of on-going monthly review by the Management Committee. In total, the 1984 pre-tax budget for these businesses shows a $22 million improvement.

Two businesses that were included in this category of slowly developing businesses deserve special mention because both of them made tremendous progress in 1983. Those two are Worldtech and the BTC's. Worldtech reduced its total costs by some 15 percent in 1983 while increasing revenue 300 percent.
More importantly, after years of struggle -- typical when you are working on an innovative service -- the basic concept began to materialize in the form of a describable, marketable service. As this basic articulation emerged, not surprisingly sales were easier to come by. New contracts in Leige, Belgium ($480,000), Sweden, Illinois, and South Carolina are evidence of this and Worldtech's replicable business portfolio grew 20. The net result was that the loss in Worldtech was reduced by nearly a million dollars and we can now see a profitable operation within a couple years.

The BTC story is similar to Worldtech's. The first BTC opened in St. Paul in May of 1979. The need for something like a BTC was obvious. But a profitable formula has been elusive. One of the first problems tackled was just the magnitude of the capital investment required in a BTC -- some $7 to $10 million in facilities for the early ones. At that level, it was obvious that Control Data could not afford a rapid rate of expansion. Moreover, our real interest -- the computer-based services for BTC occupants -- seemingly couldn't reach a critical mass within the occupants of the BTC. But now, based on experience, we have developed a set of know-how and services that can be licensed to real estate developers which bring a market differentiation to them and highly profitable license fees to Control Data. The result of all this is that without
incurring huge losses we can now have much more rapid expansion and hundreds of BTC's can cover the U.S. within the next few years -- making operating reality out of what was just a concept five years ago.

**Technology Leveraging**

I've already referenced the subject of technological cooperation. Nothing is more essential to Control Data's future health. Over the years we have had some impressive accomplishments in that regard and 1983 was no exception. Still there is much, much more to do.

Technical effort expenditures will double in the next five years and yet we can be certain that those resources will not match our needs. Each successive advance in computer technology requires a greater commitment of capital resources and intellectual talent than did the last. As a result, **without** cooperation most companies -- and that includes Control Data -- are in position of being forced to pursue fewer and fewer technology alternatives -- and that brings with it high risk of becoming unable to compete in the long term.

Technological cooperation has many different flavors. It ranges from joint ventures such as MPI and the proposed new network joint venture with United Telecommunications to...
participation in the development of advanced technology. MCC (Microelectronics and Computer Technology Corporation) and SRC (the Semiconductor Research Corporation) are examples of the latter. Further, cooperation includes R&D limited partnerships such as the one launched in 1982 to build a new computer at the lower end of our product line -- the "super mini" as we dubbed it. Perhaps most importantly it includes technology cooperation with affiliated companies which Control Data is helping to spawn. The prime example of that last approach is ETA Systems. I'll give you a brief update on ETA in a moment.

III. 1984

Budget Status

Let me turn now to the budget and outlook for 1984. Although we took a lot of significant actions in 1983 that will help us in 1984 and the plan calls for earnings to reach an all-time high, it is going to be another very tough year. Commercial Credit's earnings are budgeted to improve considerably -- some $25 million on an operating basis ("operating" excludes: Gulf building $11.8 million, $8 million subsidy, and has zero versus $14.8 million capital gains). But Commercial Credit, we must remember, is still very much in the midst of a strategic redirection -- in real estate, in its thrift strategy, in
financial services for business. Just one statistic may serve to dramatize the situation. Cash employed in asset-based lending, the historic core of Commercial Credit's business, dropped by nearly half from 1979 to 1983 and resulted in a $16.6 million loss last year. So when I talk about change, I'm not referring to peanuts. That change doesn't occur overnight and, to say the least, 1984 is still very much an investment rather than a pay-off year at Commercial Credit.

The same comment is appropriate for the Computer Services businesses where Data Services, Education, and Healthcare Services will all show improvement in many areas. Education is particularly exciting with major opportunities for rapid growth. 1984 bodes well to be a watershed year for PLATO training and education in both profitability and revenue growth. For the total Computer Services business, however, with continuing and new investments profit will remain about at the 1983 level.

One part of Control Data that will see a pay-off from 1983 (and 1982) efforts is the OEM Peripherals business which will rebound to over $100 million in pre-tax profit. Even there, however, the improvement comes in the second half.

Our budgets are not final because of several major items which it will take another couple weeks to resolve. One of those is the IBM plug compatible large disk business and I will discuss
it separately in a few minutes. Another is the apparent requirement for $10-15 million more in technical expenditures than we had planned. And there is still some work to be done in the balance sheet -- and thus interest expense -- area.

The exact resolution and quantification of those items is not finished, but we will end up with a budget calling for earnings greater than $4.50 per share. While that might be characterized as somewhat modest improvement from 1983, it would, as I noted, be a record earnings level and set the stage for an even better 1985. So even though budgets aren't quite finished, we feel good about 1984 and the progress we can make both financially and strategically.

IV. 1984 - Major Issues

Let me move on, then, to a few topics of major importance relating not only to 1984 but the longer term future as well.

Last week we again had a top management review of major issues as suggested by the planning staff. That meeting resulted in the selection of the following issues [chart]. Those items marked with an [*] are extensions of a 1983 major issue. In addition, two major issues were delegated to the Peripheral Products Company to study on its own and the question of
unsatisfactory/slowly developing businesses will be handled by the Management Committee itself -- reviewing one or more of those businesses at its regular monthly meeting.

There also have been two problems that are not only critical but also so important to 1984 that they are being handled by special task teams whose work is to be done by the end of next week. Even though they are not quite finished we know in broad terms what must be done. The first of these is Microbit.

**Microbit**

Microbit has been in existence for 14 years. It started with the idea of using electron beams and solid state targets to create a mass memory product. The product never reached market as the developments in VLSI memories closed the window. In January 1980 Microbit changed direction to apply the basic technology to create an electron beam lithography machine to be used in the manufacture of VLSI chips.

Two different machines were envisioned -- one, a reticle generator -- would have no particular competitive advantage but could generate some revenue to help pay for the development of the second which would have a competitive advantage of five to one in terms of production throughput.
As you are well aware, Control Data is not in the business of manufacturing equipment to be used in semiconductor manufacturing. So for two years we have been seeking a partner. We talked to 30 different potential partners without success. Finally last September we reached an agreement with BMC to form a joint venture -- with them as majority partner. That proposal was reviewed with you at the September Board meeting. Since BMC is relatively small and struggling itself to change strategic direction, they could not afford to invest the $40 to $50 million necessary to go forward. An R&D limited partnership would have made that possible. Unfortunately, not only has that financing vehicle grown more difficult to use (due to STC, Trilogy, De Lorean, etc.), more crucially, Microbit missed a key feasibility demonstration in November. An R&D limited partnership is just not possible without that demonstration. The next date for it has been set for April 15 -- we have no assurance that it will be successful. Expenses are now running at $6.0 million per year and, of course, there is no revenue. It is difficult to justify that level of expenditure when there are so many areas of greater strategic importance which could use the money. As a result, we have had to make the unhappy decision to cease funding Microbit as of April 15. At that time the ownership of the company will be given to the employees with a residual royalty arrangement to Control Data should the technology ever result in marketable products.
We don't feel that they will be able to get financing so the most likely result will be to shut down the operation. We will have a formal social impact statement at the next board meeting but I wanted to give you this advance notice.

PSG

The second critical item concerns the end user or "IBM plug compatible" disk business as it is known.

- CDC strategy developed to provide 3380 subsystem for IBM plug compatible market, MPI owners, and OEM. Major technology/R&D effort ($40 million) with $35 million for production start-up.

- MPI product is late. IBM began deliveries in September 1981. We began in December. IBM aggressive — up to 50 percent discount to OEM's.

- IBM and Fujitsu will announce this year a new product of twice the capacity for delivery in 1985.

- We have missed the window for single density drive — total estimates for it including end user have been lowered some 33 percent for the total product life.
MPI owners see principal volume on double capacity drives -- thus, plug compatible program looking at limited production in 1984 with high start-up costs.

As a result, I have a special task team studying this problem and should be able to report to you as to possible courses of action at the March board meeting.

One thing we do know is that we will sell the current product only on a purchase on third party lease basis. This will minimize the future asset/remarketing problems, but will have a further negative effect on 1984 budgets.

ETA

I'll move on now to a more positive subject -- ETA. Things are moving along well at ETA.

During the past three months ETA has made progress on both the technology and marketing fronts. The architecture for the new system is now frozen -- issue of compatibility with and extension to the CYBER 205 are resolved. Through use of individual workstations, as well as a large system, the hardware and software designers have already improved their process and productivity. National Semiconductor has been established as the initial supplier of the basic logic chip.
ETA marketing efforts are being primarily directed toward gaining early commitments for the gf-10. Specifically, the Department of Energy and Department of Defense are considered the key customers for the first few units. Close working relationships have now been established with all three branches of the Federal government, including the Congressional Committee for Science and Technology, the Office of Science and Technology Policy (OSTP), the National Science Foundation (NSF), and the above referenced agencies. University activity has grown quite significantly over the past several months as 1) the NSF prepares to release 1984 funding to researchers for access to existing supercomputers, and 2) additional states are hastily trying to create a supercomputer environment that will attract the next MCC or ETA.

The support that we have experienced to date to retain U.S. leadership in supercomputers is most encouraging. Therefore, ETA is "cautiously optimistic" that during the first half of 1984 commitments for at least five ETA systems will happen. Some, if not all, of these will include a 205.

The main item to report with regard to ETA is the financing plan.

ETA's financing needs to the point where initial product deliveries are scheduled approximate $100 million. Through the first quarter of this year those needs are being met by Control
Data's initial capital contribution to ETA -- and the P&L charge which will be absorbed by Control Data will be about $5 million pre-tax. By about the end of the first quarter we expect to have an R&D limited partnership in place to fund at least another year's R&D requirements. Beyond that, a combination of additional limited partnerships, equity funding, and customer advance payments (including from Control Data) are planned. But the first priority is the initial limited partnership to provide at least partial funding and most importantly, to relieve Control Data's P&L of the burden of those R&D charges.

1984 - Summary Outlook

In a half century of rapid change this particular decade has thus far been the most turbulent of all. The economic swings since January 1980 have been the largest in a half century. Moreover, they have served to accelerate and reinforce an already awesome rate of technological change. Just stop for a moment and reflect on any aspect of the business -- technology, competition, whatever -- or any area of the business -- peripherals, financial services, computer services and computer systems -- anywhere you look and anyway you look at it the changes since 1979 have been enormous.
We have had to run harder and harder during the past four years in the face of economic adversity, technological change and increasing competition. So, once again, in that light, the results for 1983 and the plan for 1984 looks very good.

And numbers really don't tell the whole story. For not only have we endured, so to speak, we have made great progress in implementing our basic business strategies and adapting them to the change which swirls around us. So in more than a chronological sense, 1984 must be a watershed year for this decade. Our plan calls for a year of high growth -- some 15 percent -- and record earnings. But beyond that it calls for us to establish a platform of performance which will assure continued growth in profitability throughout the remainder of the decade.
1983 STRATEGIC ISSUES

PRODUCT & TECHNOLOGY FOCUSED ISSUES

- COMMERCIAL CREDIT'S THRIFT AND BANKING STRATEGY
- PRODUCT AND SERVICES DEVELOPMENT PROCESS
- EXTERNAL TECHNOLOGY LEVERAGING
- TELECOMMUNICATIONS AND NETWORKING
- PLATO AS A PRODUCT FEATURE

MARKET FOCUSED ISSUES

- SMALL BUSINESS SERVICES
- PERIPHERAL PRODUCTS STRATEGIC RESOURCE REQUIREMENTS
- INTERNATIONAL SERVICES
- DATA SERVICES AND MICRO-COMPUTER OPPORTUNITIES FOR GREATER GROWTH
- UNSATISFACTORY/SLOWLY DEVELOPING BUSINESSES
- CONVERTING "NEEDS" INTO "MARKETS"
- SOLUTIONS ORIENTATION

INTERNAL ISSUE

- FAIR EXCHANGE IMPLEMENTATION

1/11/84
CORPORATE CRITICAL ISSUES

STRATEGIC ISSUES

- CCC CONSUMER SERVICES MARKET SEGMENT STRATEGY
- CCC BUSINESS SERVICES MARKET SEGMENT STRATEGY
- DATA SERVICES MARKET SEGMENT STRATEGY
- PERIPHERAL SYSTEMS LONG-TERM VIABILITY
- CDC PRINTER & CENTRONICS STRATEGY
- MANAGEMENT OF THE HYBRID CONTROL DATA ORGANIZATION

OPERATIONS ISSUES

- HIGH VOLUME/LOW UNIT REVENUE BUSINESS PROCESSES
- ADVERTISING EFFECTIVENESS
- MANAGING TO HIGH EXPECTATIONS
- INTERNAL TECHNOLOGY LEVERAGING

1/11/84
PERIPHERAL SYSTEMS GROUP
3380 UNITS/REVENUE

<table>
<thead>
<tr>
<th>3380 UNITS (QTY)</th>
<th>1984</th>
<th>1985</th>
<th>1986</th>
<th>1987</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>SINGLE DENSITY</td>
<td>1,972</td>
<td>3,000</td>
<td>1,200</td>
<td>-0-</td>
<td>6,172</td>
</tr>
<tr>
<td>DUAL DENSITY</td>
<td>-0-</td>
<td>-0-</td>
<td>2,550</td>
<td>3,650</td>
<td>6,200</td>
</tr>
<tr>
<td></td>
<td>1,972</td>
<td>3,000</td>
<td>3,750</td>
<td>3,650</td>
<td>12,372</td>
</tr>
</tbody>
</table>

REVENUE (MILLIONS) | $74  | $150 | $231 | $249 | $705 |