

I. INTRODUCTION

Good morning. I'm Bob Price and it's my privilege to welcome you to Control Data.

Control Data has experienced a great deal of change since we last held a securities analyst meeting in Minneapolis two years ago. Our purpose today is not to review that change, but rather to give you an in-depth review of the Company as it is today.

Suffice it to say, with regard to the change, that the restructuring achieved its basic purpose. More importantly we are on track toward achieving the objectives that we set for the business at the beginning of 1986.

Because of the recent announcement with regard to the FSD II disk drive, I know there is great interest in the Data Storage Products business. I realize also that a lot has happened since we treated the computer systems part of the business in any detail.

So following John Buckner's financial overview of the Company, Larry Perlman will discuss the Data Storage Products Group. Then Tom Roberts will cover Computer Systems and Services, and Carl Ledbetter will give you a current status report on ETA Systems.

I'll provide an overview of the Company's other businesses -- Training and Education, Government Systems, and Business Services -- plus make a few summary remarks.

By the way, Larry, Tom and Carl will answer questions after each of their presentations. We should still have time at the end of the session for other questions.

Now, let me introduce John Buckner, executive vice president and chief financial officer.

II. OVERVIEW AND REMAINING BUSINESS SEGMENTS

In my opening remarks, I said that we're on track toward meeting the objectives we set for ourselves in early 1986. Let's look at that by major business group. Business Services has achieved the restructuring outlined at that time and in fact is performing somewhat better financially than we anticipated. Government Systems is also very much on the track we laid out in early 1986. We did not really come to grips

with Training and Education Services until mid-year 1986. It is, in any event, behind where we thought it should be by this time. It was not a large factor in what had to be done to achieve the overall corporate financial goal.

Data Storage Products on the other hand certainly was a large factor in what we had to do, and the adaptation/restructuring to global competitiveness has gone faster and more effectively than we thought. Also, except for the warranty cost problem it has performed financially better than we thought it would over these two years of 1986-1987.

Computer Systems and Services was slow out of the gate in 1986 -- both in terms of restructuring its operations and meeting financial targets. In the last nine months however, it has come close to getting back on track.

You've already heard about Data Storage Products and Computer Systems and Services. Now, I want to briefly discuss the other three businesses, beginning with T&E.

TRAINING AND EDUCATION

The T&E group was formed in November 1986 to bring together several U.S. training units into a single business serving multiple markets, providing training and education solutions based on a core set of proprietary products. This grouping

brought together a mix of newer and older businesses. For example, Control Data has been applying technology to training and education for 25 years. Thousands of individuals have been trained through the Control Data Institutes, and many more in the military have been trained in Control Data-designed programs. Industrial firms and pre-college education are markets more recently addressed.

In 1986, this group had revenues of about \$90 million but was not profitable. It won't be profitable again in 1987. However, we remain convinced that T&E can become a viable and profitable business. This conviction is based on the belief that the problems in CDI, which in the past has been very profitable, can be corrected within the next year and that new products and better marketing will improve performance in the other training and education markets.

GOVERNMENT SYSTEMS

The next business segment I want to comment on is Government Systems.

A \$365 million business, Government Systems concentrates on specialized military applications such as computers used for fire-control, signal processing, navigation, mission command and control, and anti-submarine warfare.

Government Systems has been, and is, a consistent contributor of profits to the Company. It has had an average compound growth rate of 13% for the past 5 years and the outlook remains good for growth to continue.

BUSINESS SERVICES

The third and last business I'll discuss is the Business Services Group.

Business Services is more than \$500 million business and a leading supplier of marketing information services, business management services, and financial information services. These services include market research information services, payroll processing, litigation support and administrative applications for law firms, and general business data processing.

Business Services has excellent profitability. By mid-1985, the transition from a time-sharing dominated business was completed, and since then profits have increased steadily. Business Services offers some of the most profitable opportunities, and we will place increasing emphasis on expanding this business.

One area we'll be concentrating on is business management services, especially Control Data Business Centers.

The Business Centers provide payroll processing, human resources management systems and accounting services to 12,000 customers nationwide. Customer microcomputers linked to Control Data's network have expanded the marketplace and improved customers' access to information. This business is positioned to continue the 16 percent annual revenue growth achieved for the past two years.

Still another promising growth opportunity is the Arbitron Ratings Company that's part of the Business Services Group's marketing information services.

I featured Arbitron prominently in my remarks to stockholders at our annual meeting last month so I won't repeat myself, except to reiterate that Arbitron is a \$180 million business with a projected 1987 pre-tax return on invested capital of nearly 50 percent. It's precisely the type of business we're looking for to give us a sustained competitive advantage in the marketplace.

III. SUMMARY

Business Services is also an appropriate place to conclude this overview of the operating groups of Control Data, for it leads naturally to the statement that we use to describe the Company:

Control Data is in the business of strategically managing a diversified set of technically-oriented businesses serving specialized computer and computer-related markets.

So, the answer to the question, "Where are we taking the company?" can be found in the statements of the strategic thrust of each of those businesses. Let me give you those statements:

Computer Systems and Services specialized performance in the high end of the scientific and engineering marketplace, providing the total environment for an engineer in select industries.

Data Storage Products market share leader in the high end of the OEM disk drive market through low-cost production on a worldwide basis.

Business Services leadership position in marketing information, business management, financial information services and related markets through the application of information processing technologies.

Government Systems major supplier of technically advanced military computers and peripherals, software, and prime government contractor in electronic systems integration.

Training and Education market leader in providing technology-based training and education solutions that increase the productivity of customers in selected markets.

These, then are the strategies driving the Company. I realize that because of the origins of the Company the tendency is to label us as a manufacturer of mainframe computers. And, in fact, we're very proud of the Company's pioneering efforts in this area, including supercomputers. But, clearly, computer systems is only one of the businesses that we're in.

We intend to add value through strategic management of all those businesses. And we're equally determined to be very proactive in terms of adding and pruning businesses that help or hinder achieving the financial goal I set for us at the beginning of last year: An overall 15% return on equity in 1989.

To be successful in this endeavor, we must seize major opportunities and take the risks that often go with them.

Certainly, for example, ETA represents a big risk. But it's also a great opportunity with potentially big rewards. We aren't going to have the answer regarding ETA's potential for a couple of years. Meanwhile, we have to judge progress on the

basis of interim achievements. That progress over the past three years had to be measured basically in terms of technical achievement. It has been more than satisfactory. For the next two years progress will be measured more in marketing terms.

At the beginning of 1986 we judged that the remainder of the business -- systems, both commercial and military, disk drives, and services -- were well enough positioned that with pruning and new management they would provide a core of solid businesses which would allow Control Data to show steadily improving financial performance over the coming 3-4 years -- that is, through 1989 -- toward its basic financial goal.

Eighteen months later we see no reason to change that assessment. Pruning has allowed the company to more carefully concentrate its resources; the new management has produced considerably -- some would say dramatically -- improved results. More fundamentally they have made significant changes in the structure and mode of operation of their groups.

So, while it certainly is a pain to have a bigger warranty burden on the nine inch disk product than it was assessed to be a year ago -- or even a month ago -- that does not alter the basic quality/cost competitive capability of the restructured organization Larry has built.

Once again, we're in the business of managing a diversified set of technically oriented businesses serving specialized computer and computer-related markets. We are not looking back but rather forward with a very simple plan -- to keep improving the financial performance of the company until all its components are operating at attractive levels and our stockholders are achieving appropriate returns.