

ANNUAL REMARKS TO THE STOCKHOLDERS

May 4, 1988

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INTRODUCTION

I have already introduced the nominees for the Company's Board of Directors, but before anything else, this morning I want to express my sincere appreciation to the directors' many contributions. I look forward to working with them in the future. I also want to acknowledge the dedicated service of James Worthy who is retiring after nine years on the Control Data Board.

(PAUSE)

This is my third stockholders meeting as board chairman. Today for the first time I can stand before you and say: Control Data was profitable last year. I like that.

That profitability -- on an apples to apples basis, the Company's first since 1983 -- is a tribute to the efforts of Control Data people. It's also testimony of the loyal support the Company has received the past three years from customers, suppliers, employees and you, the shareholders. Thank you for sticking with us during those difficult times.

SYNOPSIS/OVERVIEW OF COMPANY PROGRESS

Yesterday the media raised -- one more time -- speculation as to a possible hostile bid for Control Data, and the potential for a raider to realize a quick profit through a bust up of the Company.

So let me start this morning by reviewing with you some thoughts I expressed at last year's annual meeting.

"There are, I believe, two important dimensions of the task of building shareholder value. These dimensions can be called creating wealth and realizing wealth.

"Creating wealth means building competitively advantaged businesses -- that is, businesses which contribute to the success of the customers they serve and, over time, generate superior financial performance that leads to a higher stock price.

"Realizing wealth means to restructure, or broker, a portfolio of businesses so that the underlying values become more immediately evident, thus also leading to a higher stock price. Unfortunately, in recent years we have witnessed a disturbing display of one-dimensional thinking in the face of the two-dimensional task.

"Carried to excess, single-mindedness and greed in human nature can result in pathological behavior. That's not news, but if we need a reminder, we only have to read the morning paper "

I went on last year to point out that the management of Control Data has demonstrated competence in both creating wealth and realizing wealth, and understands that both are necessary in a balanced approach to enhancing shareholder value. I might add this management team is far better at both tasks -- creating wealth and realizing wealth -- than any raider. And we would most assuredly fight to continue to demonstrate that competence and understanding.

In the financial restructuring of Control Data, we enhanced shareholder value by realizing wealth through judicious realignment of the Company's assets and the supporting capital structure.

Control Data's stock rose from a low of 16 5/8 in November 1985 to a high of 38 1/4 before last October 19th. In the past week it has been trading in the mid-twenties.

Realizing wealth has been a major focus of managing the business for the past three years. On the other hand we have demonstrated during those trying times, and we continue to demonstrate, that we also know how to build businesses with competitive advantage -- that is, to create wealth.

In 1987 there was demonstrable progress in this latter regard and that will be the focus of my comments this morning -- to describe for you the product momentum we have generated over the past 15 months.

Regaining product momentum involved considerable capital investment and period expenditures.

The financing of this investment and expenditure was achieved through cash flow from operations and the sale of assets, principally the remaining Commercial Credit stock.

Evidence of new momentum is seen in Business Services revenues which will increase on an annualized basis by approximately 34 percent. In Data Storage Products which has introduced 17 new products in and in Computer Systems and ETA where new computer introductions give the company essentially a totally new Computer product line. I will comment in more detail on these accomplishments in a moment.

The point I want to make now is that we accomplished what we set out to do in 1987. Both the developmental and financial tasks were achieved.

We are now positioned with new products and services that give us "product momentum." And because of this momentum, we expect to see a significant increase in revenues in 1988. Moreover, at year-end 1987 the Company's cash position and debt-to-equity ratio were even stronger than year-end 1986.

PRODUCT MOMENTUM

At its root, growth in shareholder value depends on products and services that give Control Data a competitive advantage in the marketplace. As I said, the Company gained considerable momentum in 1987 by introducing a variety of new products and services which do just that.

Let me give you a sampling of that momentum, along with some comments it has generated from securities analysts and media people.

The Computer Systems group recently introduced 13 new models to complete a major revitalization of the CYBER mainframe line. Among the new computers are six models that make up the CYBER 960 series, and the CYBER 990 and CYBER 930. Together, they provide Control Data customers a growth path where the top of the line is 30 times more powerful and all models are compatible.

ETA Systems introduced both the world's fastest supercomputer (the ETA-10-E) and the least expensive (the ETA-10-P).

The introduction of the ETA-10-P (the first true supercomputer to be priced under \$1 million) was promoted as the "supercomputer event of the year." The rave reviews it received equaled the advance billing.

After watching a demonstration of the new machine, one analyst said, and I quote: "I walked away impressed -- and I'm not easily impressed." Another analyst, obviously impressed, made this statement: "The investment community is so focused on Cray as the supercomputer company that there's a level of skepticism about anyone else. I see a potential here for people to wake up and say, 'Control Data has gotten competitive.'"

On top of those accolades, ETA was one of only two American firms to receive a Japanese newspaper syndicate's "Special International Award" for outstanding products marketed in Japan. ETA is the first and only company to ship an eight-processor supercomputer. The machine is now being installed at the Tokyo Institute of Technology. When the installation is completed later this month, ETA will have the only Class 7 supercomputer operating at a customer site.

ETA currently has 27 signed contracts or written letters of intent for its supercomputers.

Among the new products introduced by the Data Storage Products business in 1987 were the Swift family of 3-1/2-inch disk drives. The Swift drives were developed in less than a year by Rigidyne Corporation, a subsidiary Data Storage Products created specifically to meet the expected growth in the 3-1/2-inch market.

The result has been the development of the highest performance, highest capacity 3-1/2-inch drives in the industry. The drives prompted one newspaper reporter to write: "...they will keep the Company at the forefront of technology."

An analyst was quoted as saying that these new disk drives are right in line with the excellent job that has been done in turning the Data Storage Products business around. Incidentally, that comment came less than two years after another one wrote: "Even if you could somehow bring in a miracle worker, it would take Control Data three years to come up with a new generation of the kind of innovative data storage products it needs."

In 1986 Data Storage Products produced 318,000 disk drives. In 1987 that number reached 510,000. This year, 1988, we expect to produce more than one million drives -- a 100 percent increase over 1987.

Business Services got a big boost in the area of marketing information services with the Company's acquisition of the SAMI/Burke market research business. As one analyst described the marriage of Sami-Burke with ARB Ratings: "For the first time, you've got an integrated, automatic, real-time, accurate portrayal of what happens when an advertiser spends his bucks."

Well, that's only a sampling of the momentum in products and services Control Data gained in 1987, and has added to already this year. Before leaving this subject there is one final example that I want to describe.

It really is not a product at all. Rather it is strategy for addressing the customer's growing need to optimize the use of diverse computing resources from a variety of manufacturers. The concept on which this strategy is built we call the Transparent Computing Environment, or TCE for short.

In a nutshell, TCE brings together advanced software and communications links to join Control Data computers and other brands into networks. But it is much more than just another connectivity strategy. The aim is to provide the user at the workstation whatever computing or information resources are needed and to make it effortless for the user.

Words alone can't adequately describe TCE. You have to "see" TCE in action to better understand and appreciate it. So we've put together this slide show that captures the essence as well as the excitement of the Transparent Computing Environment...

(SHOW T.C.E. SLIDE PRESENTATION--LENGTH: 8 MINUTES, 27 SECONDS)

The product momentum Control Data now has is the result of strategies, such as TCE, that focus more intensely on helping customers effectively use computing in their own quest for competitive advantage and financial success.

And, as we say on the cover of the 1987 annual report, those strategies are the nucleus of the Company's action plans for renewed growth.

Now we're aware that all the new products in the world don't mean a thing if they're not sold. So achieving the objective of renewed revenue growth in 1988, means just that -- selling.

Any organization that goes through the kind of difficulty Control Data did will experience reduced effectiveness in its sales and marketing organizations. But while rebuilding financial stability and product momentum, we have worked steadily at rejuvenating Control Data's sales and marketing capability.

That's made easier of course by the new products themselves that have been introduced. There's something to get excited about; something to attract talented new people. And it's beginning to work. The best example I can give you of renewed sales vigor is that of Data Storage products. No organization could have gone through more trauma than that one did in '85, '86 and '87. But things began to turn in the second half of last year and for the first quarter of 1988 orders were up 48% over the 1st quarter of 1987.

We like that. And we're determined to see sales momentum restored -- not just in Data Storage Products, but in all Control Data's products and services.

Sales momentum is an integral part of the continued emphasis on the basic values of Marketing, Quality and People.

The word "marketing" means many things to many people. At Control Data, marketing is defined as understanding what you can do to make customers successful. By focusing on their success -- their needs and requirements to achieve success -- you, yourself, can gain competitive advantage and success.

Quality is closely related. In fact, it is best defined as "conformance to customer expectation." The drive for quality at Control Data is embodied in the concept called TQMP -- Total Quality Management Process -- of which I have spoken before.

The Company's commitment to "people" is based on the concept of empowerment -- enabling individuals to achieve their full potential and, at the same time, accept accountability. We work very hard at providing an environment in which every Control Data employee can look in the mirror and say: "What I think and do matters."

The values of Marketing, Quality and People essentially represent a set of management processes -- a method of managing the business.

Control Data has made good progress in each area. That progress is reflected in the product momentum we discussed in the annual report and again here today. And it has laid a foundation for renewed sales momentum, improved financial performance, and growth in shareholder value.

FUTURE OUTLOOK/CONCLUSION

For all of the progress of the last two years, we certainly are not yet where we want to be.

While the first quarter of 1988 showed slight improvement in revenues and earnings as compared with the first quarter of 1987, we can -- and will -- do better.

Looking at the full year of 1988, Control Data's new products and strengthened marketing programs should lead to its first significant consolidated revenue growth since 1983 and a considerable improvement in earnings. Given the Company's historical seasonal patterns and its aggressive investment strategy in ETA and other businesses, however, major improvement in profit growth probably will not occur until the latter half of 1988. But we have an unshakeable determination to realize the fruits of the great efforts of the past two years.

A recent Business Week article on the Company's Computer Systems group was headlined: Control Data Is Moving Forward By Looking Back.

I don't know about the "looking back" part, but I do know Control Data is moving forward. We will add sales momentum to existing product momentum to give us the impetus needed to keep moving and fulfill the Company's promise. That's our commitment to you, the shareholders.

Thank you.