

**Worldwide Sales & Support
FY00 Review**

**OEM Sales
Joachim Kempin
June 2000**



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FY00 Market Conditions

- ◆ Q1: Advanced purchases
- ◆ R of FY: Price erosion for most products
 - Component shortages
 - Increase in piracy
 - Y2K lock-down more severe than anticipated
- ◆ Consumer PC shift to MNA and Named

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Expected Price Erosions

FY00		FY01	
DTOS	-\$260M	-\$75M	DTOS
Hardware	-\$68M	-\$27M	Hardware
Office	-\$16M	+\$9M	Office
HRD SW	-\$48M	-\$18M	HRD SW
Server	-\$16M	-\$3M	Server
TOTAL	-\$408M	-\$114M	TOTAL

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FY01 Market Conditions

- ◆ Price erosion to slow down
- ◆ Q2+ show return to normal supply
- ◆ Information appliances more visible, could erode PC units
- ◆ Consumer PC shift to MNA to continue
- ◆ Piracy could increase

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FY01 MNA Budget

- ◆ **Upside**
 - Compaq, HP, Dell PC units
 - Applications negotiations/sales efforts
 - Compaq, HP, IBM direct server business

- ◆ **Risks**
 - Commercial systems units below budget
 - NTW/Win2000 unit sales/EA impact
 - Dell stumbles/Applications/Server growth
 - IBM unit growth
 - DataCenter

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Budget Risks and Upside-ESG

- ◆ Upside
 - PocketPC beat Palm at XMas
 - More newly designed WinCE/NTE devices coming into production
 - Higher than expected demand for vertical client (MSTV, Mariner, Automotive)
- ◆ Risks
 - Dishonest reporting
 - Sega disengagement due to X-Box
 - MS PocketPC device alienates OEMs

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Named and SB Market Conditions

- ◆ Piracy
 - Counterfeit Target = MNA Gray Market
 - Blending Genuine with Counterfeit, ↑ Street Prices
- ◆ FY00 Customer Churn
 - Named Accounts: 22 of 84
 - System Builders: 19 of Top 40
 - SCCA reports record bankruptcies
- ◆ CPU Shortage Premiums \$ ~25%
 - Unit Reductions: SB: 10-50%, Named: 0-15%
 - Share Impact: Losing ~30 Tier 1 SBs per quarter
 - Intel Channel Management
- ◆ SB Defection from PC Desktop Market
 - VAP, Servers, Exits, Appliances

Example
NA

Budget Risks and Upside- SB/Named

- ◆ Upside
 - Higher Office attach
 - Increase in server volume
 - Higher Win 2000 adoption
- ◆ Risks:
 - Component shortages continue beyond Q1
 - MNA taking more consumer PC share than planned
 - More consolidation (SB and Named)

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FY01 OEM Summary

- ◆ Exceed \$8.5B in budgeted revenues
- ◆ Get paid for more BOS units shipped
 - Recover \$70-100M from under reporting
 - Get tough on SB piracy
- ◆ Focus sales and marketing engagements on Windows 2000 growth opportunities
- ◆ Improve Office and Server volume shipments through OEMs
- ◆ Grow ESG revenues >50%
- ◆ Keep key industry players in the PC-camp

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FY00 MNA Summary

Highlights

- ◆ Revenue grows \$661M to \$4.493B vs. \$4.510B plan
 - 17% growth, 99.6% plan
- ◆ Applications coverage/ revenue grows \$174M to \$639M
- ◆ Progress on DTOS price erosion factors
- ◆ MSN wins; Compaq, Dell
- ◆ Server Growth
- ◆ Embedded design wins
 - Embedded Servers / WBT / Mariner

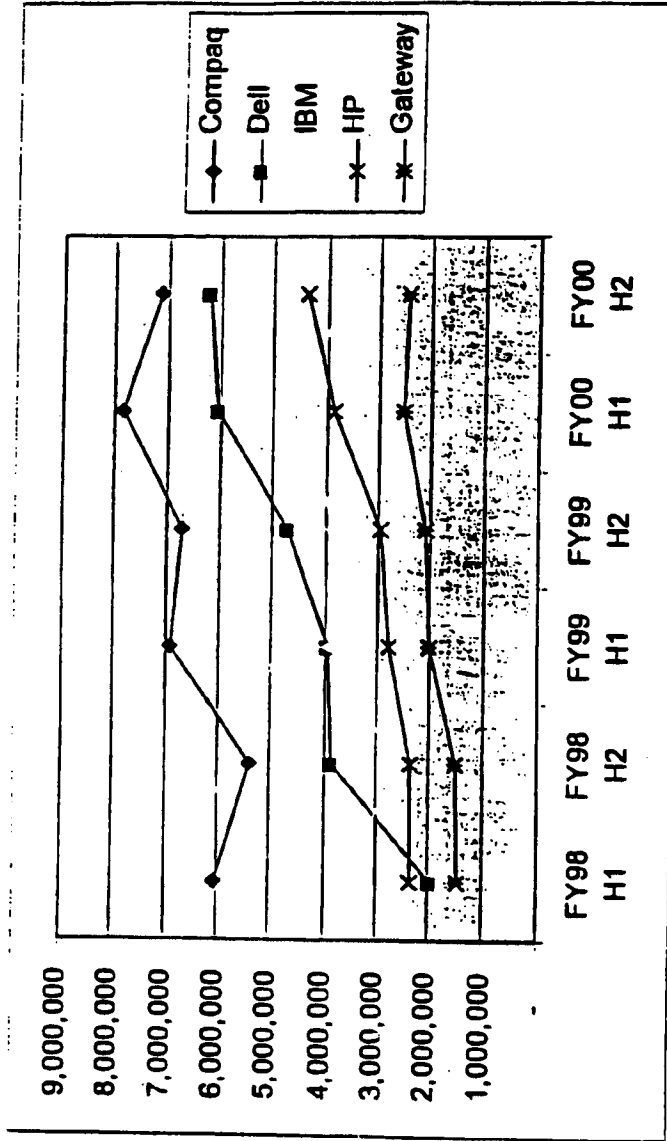
Lowlights

- ◆ Commercial PC shipments
- ◆ Flat NT Units/Win2000 Penetration
 - 2H FY00: 6.02M
 - 1H FY00: 6.7M
 - 2H FY99: 6.06M
- ◆ Applications license mix shift
- ◆ Increased Linux mindshare in marketing and product availability

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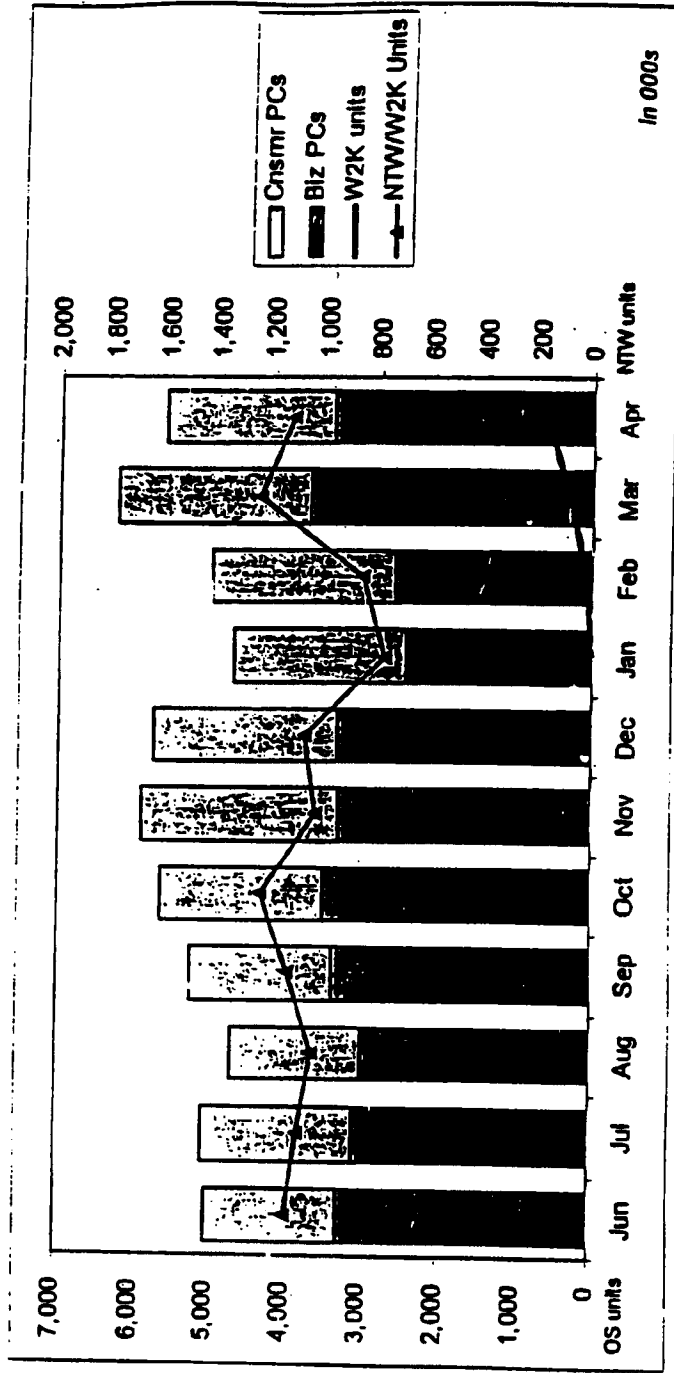
Top 5 OEMs PC Growth



PC Unit Share		FY99	FY00
Top 5		49%	51%
Other MNA		17%	17%
Named/SB		34%	32%

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Business PC/NTW/Windows 2000



Trends: Consumer Segment

- ◆ **Prices stabilized – Direct OEMs still 1.5- 2x price premium**
 - “Beyond the box” add-ons / Upsells
 - Non PC devices (printers, camera, scanner, palm, MP3)
- ◆ **Application price pressure**
 - Pre-install products shrinking to bare minimum
 - Choice model broadening (indirects)
 - Threat: Online replaces core software offering
- ◆ **Services focus of investment**
 - ISP/Portal strategies, 2nd behind price performance
 - Consumer appliance (home gateway, sub PC)
 - Broadband waiting to happen, all see as paradigm shift

Small Business Trends

- ◆ Consolidation in consumer & small business
 - Channel small business models cannibalized by consumer systems
 - Reduced ASPs: added pressure on white box shippers
- ◆ Market scrambling to services strategy
 - Web (ASP, ISP, Portal), Gateway, Centerbeam
- ◆ Server appliance slow burn

Commercial (L/MORG) Trends

- ◆ Commercial PC prices decline, some relief in component scarcity
 - Windows 2000 wave has not kicked in
 - Sub-\$600: "Net PC II", iPAQ, HP eVectra, - "near legacy free"
 - All moving to direct: Compaq: "Custom Edge; HP & IBM struggle
- ◆ High-end (>8-way) server adoption slow, Sun success
 - DataCenter: Compaq, Unisys, NEC, Hitachi, Fujitsu, IBM, HP?
- ◆ Fixed function / high-performance appliances
 - Users are OS agnostic: Linux is the threat
 - Storage market hot; NAS, SAN
 - ISP optimized rack mounted servers

FY01 MNA Revenue Tactics

- ◆ Focused Up sell efforts for Windows 2000, Office SB/Pro
 - "Resell" value of Window 2000 PC - higher margin, customer sat
 - Quarterly training and incentive programs with direct OEMs
 - Use direct OEMs to stimulate up sell models for channel
 - Monthly scorecard with customer
- ◆ Keep Office SB price and attach including re launch of indirect OEM's small business models
- ◆ Increase \$/PC on consumer models sold through channel
 - Additional content, promotions, "non PC bundles"
 - Create or hire effective up sell / add on vehicles
- ◆ Server; capture direct server sales at HP, IBM, Compaq
 - Capture embedded server share and revenue
 - License, Launch and support DataCenter sales
 - Qualify and license ".Com in a box" bundles

OEM Appendix

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Appendix

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OEM Marketing

- ◆ "Direct OEM" Program
 - Formalized Named Accounts Marketing Machine
- ◆ Windows 2000 Professional
 - MDA Taglines – Endorsement/Recommendation in OEM Advertising
- ◆ Windows ME – "Which to Choose" Campaign
 - Drive Win2K through strong segment positioning
 - Rapid Adoption by SB Channel = Rev Gains from AP
- ◆ Windows 2000 Server
 - Server Basics, Road show cooperation with Intel
- ◆ DSP Retention
 - Restructuring rebates to reward customer ownership
- ◆ Anti-Piracy – "How to Tell" Campaign
 - Awareness for new AP Devices: COA, E2E
 - Product Requests: Registration, EULA Splash Screen in Whistler

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Satisfaction Survey Results

Survey	FY	N	VS	SS	SD	VD	Avg.
MNA	'99	42	20%	55%	25%	0%	3.0
	'00	74	12%	72%	15%	1%	3.0=
Named	'99	186	29%	54%	15%	2%	3.1
	'00	206	46%	44%	8%	2%	3.4 ↑
SB	'99	1,500	22%	68%	8%	2%	3.1
	'00	1633	26%	61%	10%	2%	3.1=

- Overall customer satisfaction with Microsoft is flat
- OEMs migrating to Somewhat Satisfied
- Highest satisfaction = account teams
- Lowest satisfaction = contract negotiations
- Initiative investments resulted in very positive verbatim comments regarding WHQL and MSLI

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FY00 Revenue Growth

<i>in \$millions</i>	Win 9X	NTW/W2K	DTOS	Desktop Apps	Server OS	Home and Retail	Hardware	Other	Grand Total
Dell	76	85	160	78	36	4	1	(2)	278
Compaq	66	25	91	36	(5)	14	1	4	141
IBM	(25)	(10)	(35)	(5)	(0)	(0)	0	6	(35)
Gateway	32	(1)	31	31	1	(10)	(2)	(2)	49
HP	100	(35)	64	8	1	10	0	0	83
Other	98	42	140	7	5	2	0	(6)	145
	345	106	451	155	38	19	(1)	(2)	661

◆ Total Growth	<u>FY00</u>	<u>FY99</u>
◆ DTOS	\$661M	\$1,009M
◆ Office / DAD	\$451M	\$963M
◆ NT Server	\$155M	\$8M
◆ Consumer Apps	\$38M	\$55M
	\$19M	\$21M

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FY01 MNA Budget

- ◆ Revenue: FY01 \$5.160B vs. FY00 \$4.493 - 14.8%
 - Positive factors
 - MNA PC growth of 15%, 73.5M units, +1.3% over total market
 - NT/W2K - FY00 12.8M, FY01 16.9M, 33% growth, +\$418M
 - Server - +\$108.8m to \$303M, W2K growth, DataCenter, Embedded
 - HRD revenue growth \$4.7M
 - Negative factors
 - Win 9x price erosion -1.33 p/unit, <\$63.8M>
 - <\$57M> HP / Dell, all others <\$6.8M>
 - Combined DAD/ HRD revenue shrinks \$15.8M
 - Licenses expiring in FY01
 - 6/30/00 Dell North America - Office / WS
 - 6/30/00 HP NEC CI - Office / WS
 - 7/31/00 HP EMEA - Word
 - 9/30/00 GW EMEA - Office, Word, Works, WS
 - 12/31/00 Compaq Presario - North Amer/ Latam/Asia
 - 12/31/00 FSC - Word, Works Consumer titles
 - 12/31/00 IBM EMEA - Office

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Known Product or Business Issues

- ◆ Windows 2000 Penetration including EA impact
- ◆ Office SB/Consumer applications relevance
- ◆ Linux on servers/appliances
- ◆ DataCenter value relative to Advance Server
- ◆ Whistler Personal/Pro pricing and feature split

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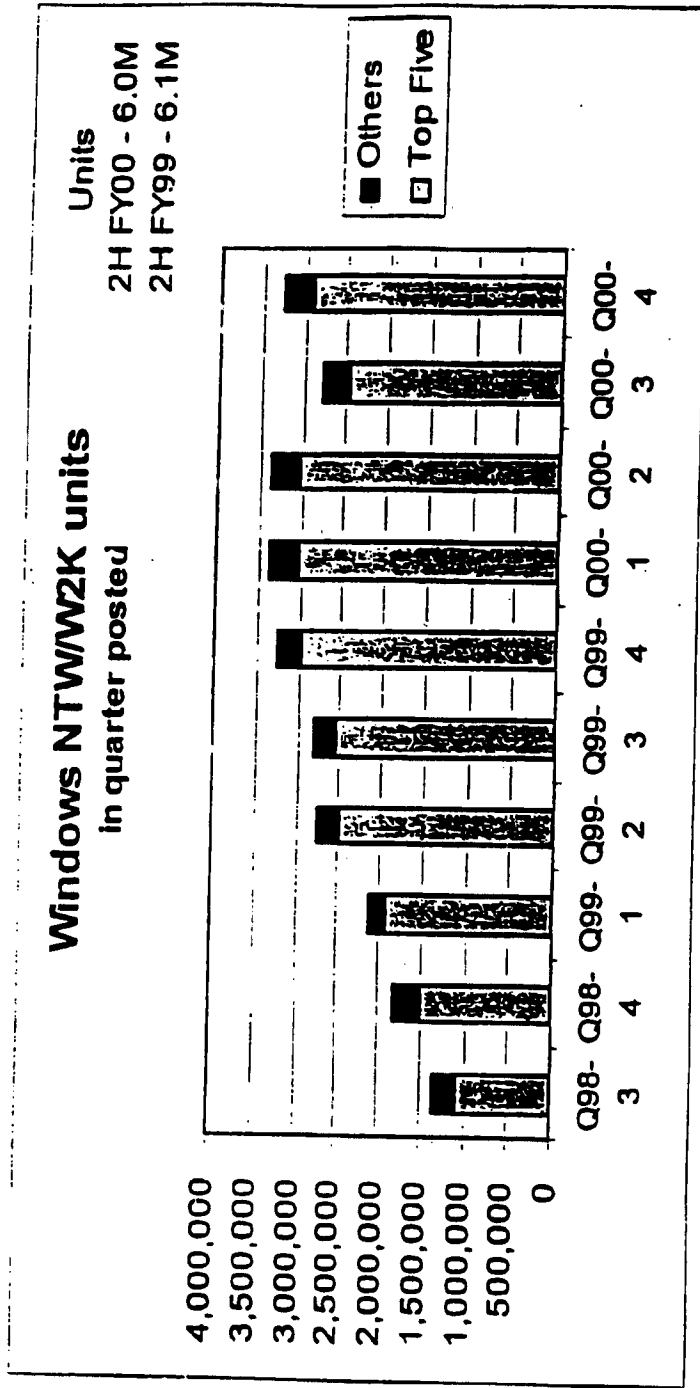
FY01 MNA OEM Objectives

- ◆ **Exceed \$5.3B in revenue:**
 - Windows 2000 Units grow +33% to 16.9M
 - Applications – grow HRD+DAD 7% to \$672M
 - Server - total revenue grows 56% to \$303M
- ◆ **Focused Design Wins:**
 - Windows Me success, Win 95 ramp down
 - Applications breadth; Small business and Consumer
 - Indirect up sell, add on, and promotion models
 - Server business expansion
 - Successful DataCenter license, introduction, sales exceed 2,000 units
 - Server Appliance(s)
 - Qualify eCommerce / .Com opportunities (V2K, BizTalk/Commerce)
 - Internet Appliance / service terminal
 - Win CE / Embedded / Wireless
- ◆ **Significantly improve customer satisfaction**
 - .5% improvement in survey

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FY00 NT/Windows 2000 units



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FY00 Applications

Revenue in \$000s	FY00			FY00 Total			FY99			FY99 Total	
	Office SB/Pro	Word/WS/ Works	Other HRD				Office SB/Pro	Word/WS /Works	Other HRD		
Dell	242,209	21,875	5,625	269,710	166,375	16,067	5,063	187,505			
Gateway	144,114	27,808	9,470	181,392	107,759	28,901	23,499	160,159			
Compaq	33,720	34,799	6,752	75,271	12,254	6,537	6,497	25,288			
HP	13,237	10,519	13,075	36,830	3,014	8,284	7,682	18,980			
Other	13,586	42,192	6,951	62,729	22,731	26,596	11,009	60,335			
Subtotal	446,867	137,193	41,873	625,933	312,133	86,385	53,750	452,268			
Upgrades	13,322			13,322	1,780			1,780			
Total	460,188	137,193	41,873	639,254	313,913	86,385	53,750	454,048			
Licenses in 000s	FY00			FY99			FY99				
	Office SB/Pro	Word/WS/ Works	Other HRD	Desktop OS	Office SB/Pro	Word/WS /Works	Other HRD	Desktop OS			
Dell	2,155	2,053	1,404	12,034	1,509	747	1,013	8,427			
Gateway	1,222	2,501	1,168	4,864	1,077	1,658	2,682	3,964			
Compaq	300	12,924	9,649	15,130	87	4,347	7,821	13,186			
HP	98	3,951	7,754	7,989	21	1,908	3,975	5,591			
Other	117	7,677	3,095	24,016	148	6,904	9,582	22,059			
	3,891	29,105	23,071	64,034	2,842	15,562	25,073	53,239			

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FY99 / FY00 / FY01 Server

Data	OEM Product2	FY99	FY00	FY01
Rev	Windows NT/2K Server	131,768,941	164,648,656	249,471,886
	Win2K DataCenter	0	0	30,001,669
	Windows NT Server Embedded	0	0	13,393,489
	Small Business Server	15,815,203	10,399,637	10,973,372
	Windows NT Server - Ent	9,575,623	19,865,768	0
Lic	Windows NT/2K Server	209,145	269,984	423,795
	Win2K DataCenter	0	0	2,000
	Windows NT Server Embedded	0	0	69,087
	Small Business Server	13,169	10,237	11,208
	Windows NT Server - Ent	3,677	7,726	0
Rate	Windows NT/2K Server	630.04	609.85	588.66
	Win2K DataCenter	0.00	0.00	15,000.83
	Windows NT Server Embedded	0.00	0.00	193.86
	Small Business Server	1,200.94	1,015.89	979.07
	Windows NT Server - Ent	2,604.19	2,571.29	0.00
Total Rev		157,159,767	194,914,060	303,840,416
Total Lic		225,991	287,947	506,090
Total Rate		695.42	676.91	600.37

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Linux Update

- ◆ OEMs embracing to establish leadership
 - Appliance products strong; desktop waning
 - Position as play vs. Unix
 - Respond to competitors and market demand, don't "get left behind"
- ◆ Dell
 - Preinstallation across all product lines
 - 5K-10K client systems (edu, fed, developer)
 - 3-4% of server business
 - 7% in small business; driven by ISPs and small .com
 - Linux lead for DellHost.com
 - Leads business development & partnerships
 - RedHat, TurboLinux, LinuxCare

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Linux Update

- ◆ HP
 - Moving to multi-OS strategy
 - 5K desktops; 7% of workstations.
 - Channel installs; HP aware of growth
 - All appliance projects considering Linux
- ◆ Compaq
 - Commercial computing hype subsiding
 - Appliance market hype increasing
 - Alpha processor play
- ◆ IBM
 - Embracing Linux on high end servers vs. Sun; Netfinity focused on Windows 2000 Adv. Server
 - Legal concerns prevented IBM preinstall, but now preinstalled on two ThinkPad models

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Linux Market

Table 4
Worldwide Factory Revenue by Operating Systems, Q198 to Q499 (USM\$)

	Q198	Q298	Q398	Q498	Q199	Q299	Q399	Q499	YOY Growth
UNIX	\$5,667	\$5,958	\$6,263	\$6,733	\$5,959	\$6,346	\$6,165	\$7,214	7%
NT	\$1,847	\$1,771	\$1,884	\$2,501	\$2,616	\$2,669	\$2,722	\$2,927	17%
Other	\$2,588	\$2,027	\$2,388	\$2,261	\$2,541	\$1,500	\$1,757	\$1,461	(35%)
NetWare	\$1,242	\$1,117	\$1,133	\$1,439	\$1,191	\$1,259	\$1,234	\$1,175	(18%)
OS/390	\$1,517	\$1,666	\$2,021	\$1,608	\$1,340	\$1,372	\$1,167	\$1,002	(38%)
OS/400	\$622	\$690	\$827	\$1,126	\$593	\$609	\$570	\$621	(45%)
Linux	\$38	\$47	\$60	\$109	\$127	\$159	\$172	\$303	177%
OpenVMS	\$173	\$199	\$141	\$147	\$148	\$160	\$192	\$207	41%
Total	\$13,692	\$13,475	\$14,717	\$15,924	\$14,516	\$14,073	\$13,999	\$14,911	(6%)

Source: IDC, 1999

FY01 Revenue Drivers

- ◆ Business Windows growth
 - Units growth of 45%
 - Penetration from 12% to 16%
- ◆ Apps growth
 - Office penetration over BOS from 10.5% to 11.4%
- ◆ Servers
 - 28% unit growth, 25% revenue growth
- ◆ Hardware
 - Penetration over BOS from 49% to 56%

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Biz Plan Goals and Strategy

EMEA Objectives for FY01

1. Exceed \$1.5B in revenue in EMEA
2. Increase Win 2000/NT units by 25% over FY 00
3. Regain control of the Local business by returning it to a healthy growing BOS business
4. Enlarge focus for Named business by signing up new direct accounts in defined steps up to 60 accounts end of FY01
5. Improve customer satisfaction with OEM operations significantly

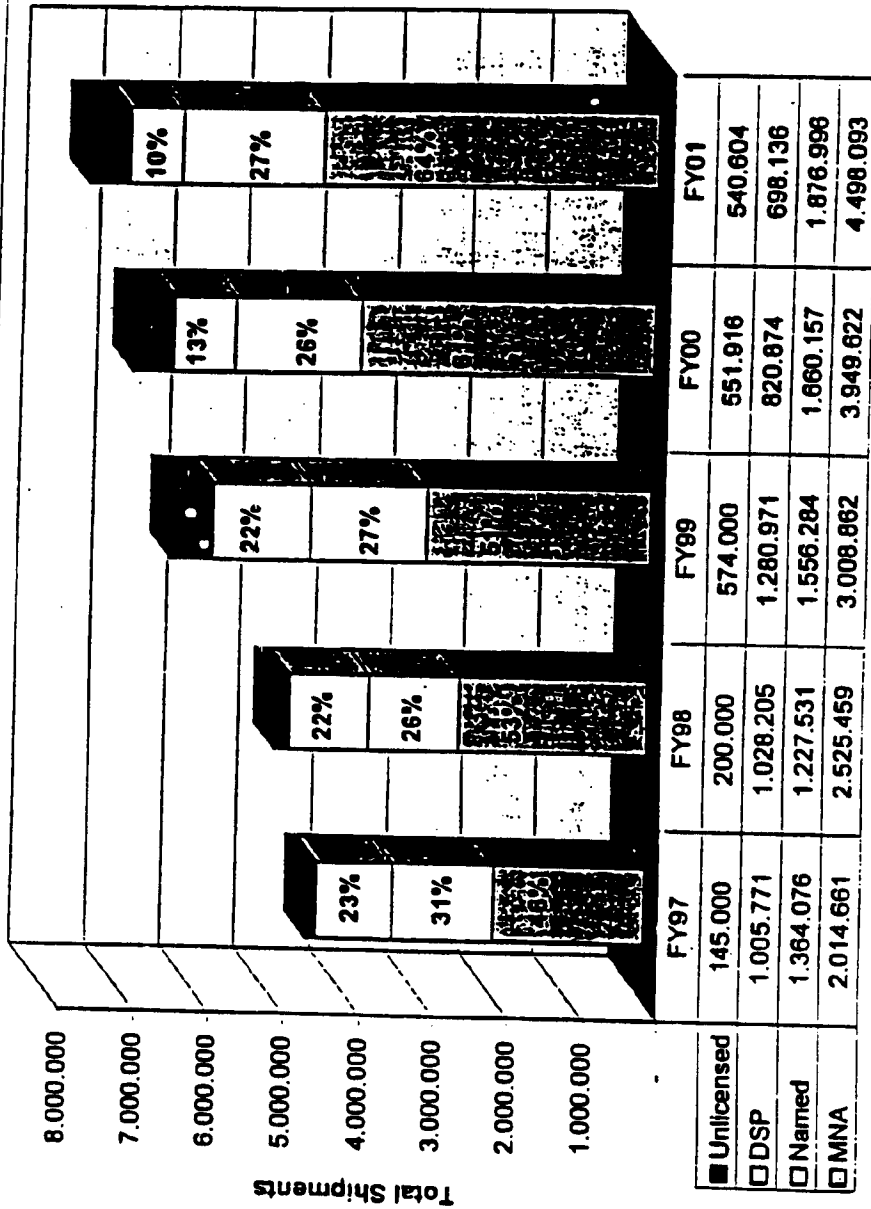
Strategic Decisions to be made:

1. Think about System Builder and Named Account as one integrated business
2. Clear focus on value selling for Named accounts – Named marketing / MDA
3. Crystal clear communication for the cooperation with other business units:
 - Have the ROEM Marketing budget under OEM control
 - Take WindowsNT/2000 out of the ROEM category
4. OEM specific Anti Piracy; own resource and more "Hands on Anti-Piracy"
5. Have a single WEB for OEM and a consistent marketing planning and execution
6. Streamline of the OEM EMEA organization (New Regional Structure and redeployment)

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Total PC-Shipments by Customer Type - Germany



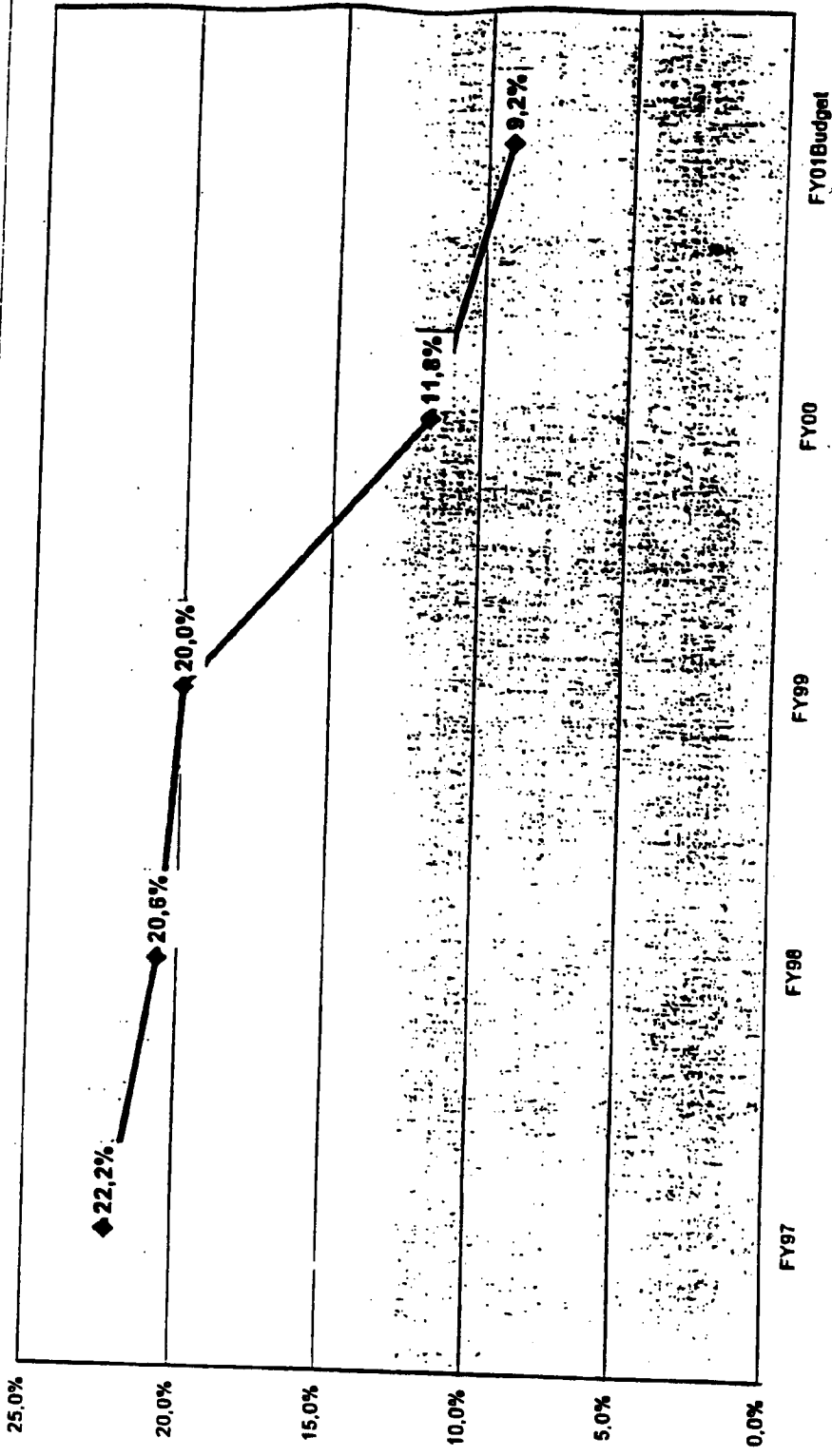
Unlicensed
 DSP
 Named
 MNA

Note - %age shares based on Shipments of preinstalled BOS (not including Unlicensed)

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SB Share in local German PC Market



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Revenue by Product FY00 & FY01

Product	FY00 Revenue			FY01 Revenue			FY00 Growth			FY01 Growth		
	Forecast	Budget	%	Forecast	Budget	%	%	Budget	%	Forecast	Budget	%
Windows NT	4,187.4	4,187.4	100%	4,187.4	4,187.4	100%	0%	0%	0%	4,187.4	4,187.4	100%
Windows NTW	1,897.9	1,799.3	95%	1,897.9	1,799.3	95%	-5%	-5%	1,897.9	1,799.3	95%	
Windows 95/98 Pro	191.3	191.3	100%	191.3	191.3	100%	0%	0%	191.3	191.3	100%	
21.5M Bus/eng OS Total	5,086.6	5,086.6	100%	5,086.6	5,086.6	100%	0%	0%	5,086.6	5,086.6	100%	
Windows/NTW	1.4	9.4	671%	1.4	9.4	671%	0%	0%	1.4	9.4	671%	
MS-DOS	18.6	15.7	84%	18.6	15.7	84%	-16%	-16%	18.6	15.7	84%	
Desktop OS Total	5,106.6	5,106.6	100%	5,106.6	5,106.6	100%	-16%	-16%	5,106.6	5,106.6	100%	
Win NT/95/98 Server	0.0	0.0	0%	0.0	0.0	0%	0%	0%	0.0	0.0	0%	
Win NT/95/98 Servr	101.1	121.4	120%	101.1	121.4	120%	20%	20%	101.1	121.4	120%	
Small Business Server	24.6	24.6	100%	24.6	24.6	100%	0%	0%	24.6	24.6	100%	
Office SBE	180.2	180.2	100%	180.2	180.2	100%	0%	0%	180.2	180.2	100%	
Office Pro	192.8	192.8	100%	192.8	192.8	100%	0%	0%	192.8	192.8	100%	
Office DAD	2.4	2.4	100%	2.4	2.4	100%	0%	0%	2.4	2.4	100%	
Single Office Apps	0.0	0.0	0%	0.0	0.0	0%	0%	0%	0.0	0.0	0%	
Building Apps Total	92.4	92.4	100%	92.4	92.4	100%	0%	0%	92.4	92.4	100%	
Mouse	177.4	177.4	100%	177.4	177.4	100%	0%	0%	177.4	177.4	100%	
Mouse/Keyboard	0.0	0.0	0%	0.0	0.0	0%	0%	0%	0.0	0.0	0%	
Keyboard	24.3	24.3	100%	24.3	24.3	100%	0%	0%	24.3	24.3	100%	
Cleaning Service	1.1	1.1	100%	1.1	1.1	100%	0%	0%	1.1	1.1	100%	
Other Hardware	0.0	0.0	0%	0.0	0.0	0%	0%	0%	0.0	0.0	0%	
Hardware Total	202.8	202.8	100%	202.8	202.8	100%	0%	0%	202.8	202.8	100%	
Home and Retail	100.1	100.1	100%	100.1	100.1	100%	0%	0%	100.1	100.1	100%	
Windows CE	16.3	16.3	100%	16.3	16.3	100%	0%	0%	16.3	16.3	100%	
Other Pcs and Bus Sys	111.1	111.1	100%	111.1	111.1	100%	0%	0%	111.1	111.1	100%	
Other	31.9	31.9	100%	31.9	31.9	100%	0%	0%	31.9	31.9	100%	
Unqualified Product (UPD)	0.0	0.0	0%	0.0	0.0	0%	0%	0%	0.0	0.0	0%	
Green Revenue	5,897.1	5,212.3	88%	5,897.1	5,212.3	88%	-12%	-12%	5,897.1	5,212.3	88%	
Revenue Adjustments	0.0	0.0	0%	0.0	0.0	0%	0%	0%	0.0	0.0	0%	
Total Revenue	7,461.9	7,461.9	100%	7,461.9	7,461.9	100%	-12%	-12%	7,461.9	7,461.9	100%	

Other Pcs and Bus Sys	FY00	FY01
Unqualified Product (UPD)	0.0	0.0
Windows CE	16.3	16.3
Other Pcs and Bus Sys	111.1	111.1
Other	31.9	31.9
Hardware	202.8	202.8
Building Apps	92.4	92.4
Single Office Apps	0.0	0.0
Office DAD	2.4	2.4
Office Pro	192.8	192.8
Office SBE	180.2	180.2
Small Business Server	24.6	24.6
Win NT/95/98 Servr	101.1	121.4
Win NT/95/98 Server	0.0	0.0
Desktop OS Total	5,106.6	5,106.6
Windows/NTW	1.4	9.4
MS-DOS	18.6	15.7
Windows 95/98 Pro	191.3	191.3
Windows NTW	1,897.9	1,799.3
Windows NT	4,187.4	4,187.4

Other Pcs and Bus Sys	FY00	FY01
Unqualified Product (UPD)	0.0	0.0
Windows CE	16.3	16.3
Other Pcs and Bus Sys	111.1	111.1
Other	31.9	31.9
Hardware	202.8	202.8
Building Apps	92.4	92.4
Single Office Apps	0.0	0.0
Office DAD	2.4	2.4
Office Pro	192.8	192.8
Office SBE	180.2	180.2
Small Business Server	24.6	24.6
Win NT/95/98 Servr	101.1	121.4
Win NT/95/98 Server	0.0	0.0
Desktop OS Total	5,106.6	5,106.6
Windows/NTW	1.4	9.4
MS-DOS	18.6	15.7
Windows 95/98 Pro	191.3	191.3
Windows NTW	1,897.9	1,799.3
Windows NT	4,187.4	4,187.4

Other Pcs and Bus Sys	FY00	FY01
Unqualified Product (UPD)	0.0	0.0
Windows CE	16.3	16.3
Other Pcs and Bus Sys	111.1	111.1
Other	31.9	31.9
Hardware	202.8	202.8
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Windows/NTW	1.4	9.4
MS-DOS	18.6	15.7
Windows 95/98 Pro	191.3	191.3
Windows NTW	1,897.9	1,799.3
Windows NT	4,187.4	4,187.4

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FY00 P&L

	FY00 Forecast	%	FY00 Budget	%	Variance	Var. %
Rev/Sum Revenue	7,557,119	101.3%	7,222,277	101.4%	(165,130)	(2.1%)
Revenue Adjustments	(95,076)	(1.3%)	(104,765)	(1.4%)	9,689	9.2%
Net Revenues	7,462,043	100.0%	7,117,512	100.0%	(155,469)	(2.0%)
Cost of Revenue	152,242	1.9%	141,127	1.9%	(1,045)	(0.7%)
Gross Margin	7,319,801	98.1%	7,476,315	98.1%	(156,514)	(2.1%)
Sales Expenses:						
Regular Headcount Expense	71,814	1.0%	81,744	1.1%	9,930	12.1%
Other Headcount Expense	1,387	0.0%	1,015	0.0%	(372)	(36.6%)
Vendors	688	0.0%	657	0.0%	(31)	(4.8%)
Infrastructure Expense	13,149	0.2%	13,416	0.2%	267	2.0%
Other Misc Expenses	30,261	0.4%	34,908	0.5%	4,647	13.3%
Total Sales Expenses	117,299	1.6%	131,740	1.7%	14,441	11.0%
Marketing Spend	61,000	0.8%	67,000	0.9%	6,000	9.0%
Biz Investment	0	0.0%	0	0.0%	0	0.0%
Product Marketing	40,000	0.5%	51,300	0.7%	11,300	23.0%
Net PSS	101,000	1.4%	118,300	1.6%	17,300	14.6%
G&A Costs	7,008	0.1%	7,423	0.1%	(385)	(5.2%)
Total Operating Expenses	1,693	0.0%	2,104	0.0%	409	19.2%
Responsibility Margin	227,801	3.1%	259,367	3.4%	31,766	12.2%
	7,092,000	93.0%	7,216,748	94.7%	(124,748)	(1.7%)
Avg Headcount	428		467			

	FY00 People Cost/Avg HC			FY00 Infra Cost/Avg HC		
	Act	Bud	Var	Act	Bud	Var
WW	168	175	4.3%			
SPAR	196	211	7.6%			
EMEA	146	150	3.0%			
ASIA	124	120	-3.4%			
NA	200	235	11.7%			
				31	39	-5.0%
				31	39	-2.3%
				29	31	7.3%
				32	35	-23.0%
				31	30	-8.9%

◆ \$7.5B Net Revenue
 ◆ 14.3% Net Revenue Growth
 ◆ 1.9% below Plan
 ◆ Responsibility Margin = \$7.1B (95.0%)

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FY00 Gross Revenues by Region

	Percent	FY00 Revenue Budget	Var %	FY00/FY99 Growth %
MNA				
North America	3,403.6	3,555.4	(4%)	16%
Germany	263.0	258.3	2%	18%
UK	105.6	100.3	5%	(11%)
France	38.2	17.6	216%	191%
Japan	662.8	578.3	15%	24%
MNA	4,093.1	4,316.1	(6%)	17%
Named / SB				
North America	768.6	1,016.1	(24%)	1%
South Pacific	90.6	76.7	18%	11%
Latin America	111.1	103.5	7%	32%
SPAR	978.3	1,196.3	(19%)	5%
Germany	341.9	393.7	(13%)	(3%)
United Kingdom	193.9	236.3	(18%)	2%
France	141.8	152.8	(7%)	7%
Southern Europe	235.6	233.3	1%	12%
Nordic	78.9	123.9	(36%)	(27%)
Eastern Europe	93.8	108.2	(13%)	13%
Benelux	81.1	89.6	(9%)	7%
MENA	59.7	46.2	29%	74%
Alps	37.2	45.4	(20%)	46%
EMEA	1,283.8	1,438.5	(10%)	5%
Japan	147.3	101.4	45%	31%
Greater China	266.7	229.7	16%	13%
Korea	227.7	104.4	118%	40%
South Asia	47.7	42.4	13%	18%
Asia	689.4	477.9	44%	31%
WW/Named /SB	2,943.6	3,103.6	(5%)	10%
ESG WW	128.4	108.5	11%	23%
WW Great Revenue	7,557.1	7,722.3	(2%)	15%
Revenue Adjustments	(93.1)	(104.8)	9%	41%
WW Net Revenue	7,464.0	7,617.5	(2%)	14%

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FY00 ROEM Revenue

Revenue in M\$ Rev by Product	FY00		FY99		Growth%
	Forecast	Budget	Var%	Actual	
Office SBE	211.1	216.4	-2%	162.2	30%
Office Pro	101.6	32.0	218%	16.4	521%
Single Office Apps	10.5	8.8	19%	12.0	-13%
Works Suite/Home Essentials	13.9	25.1	-45%	17.9	-22%
DAD Total	337.0	282.3	19%	208.4	62%
NTW/Windows 2000 Pro	204.7	248.1	(-17%)	157.2	30%
NTS/Windows 2000 Server	102.4	95.6	4%	67.3	52%
BackOffice SDS	12.6	8.1	54%	7.4	71%
Worldwide Total	656.7	637.2	3%	440.2	49%

Rev by Region	FY00		FY99		Growth%
	Forecast	Budget	Var%	Actual	
EMEA	160.3	143.3	12%	121.0	32%
Europe & Africa*	94.9	107.1	-11%	83.8	13%
Germany	48.2	67.8	(-29%)	31.5	53%
United Kingdom	49.3	50.4	-2%	39.4	25%
France	27.2	26.6	3%	16.3	67%
Eastern Europe	13.6	7.1	91%	4.5	204%
MENA	393.5	402.2	-2%	296.5	33%
EMEA Total	154.1	163.7	-6%	94.1	64%
SPAR	30.6	17.7	73%	12.6	143%
North America	30.1	16.3	85%	12.5	140%
Latin America	214.7	197.7	9%	119.1	80%
South Pacific	4.6	2.7	71%	1.5	210%
Asia	17.7	12.4	43%	9.5	88%
Korea	11.3	10.4	8%	3.9	189%
Greater China	14.8	11.8	26%	9.8	51%
Japan	48.5	37.4	30%	24.6	97%
South Asia	656.7	637.2	3%	440.2	49%
Worldwide Total	656.7	637.2	3%	440.2	49%

*Nordic, Benelux and Southern Europe

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FY01 Budget

	FY00 Actual	%	FY01 Budget	%	FY00 Actual	%
Rev-Sem Revenue	7,577,119	101.3%	8,310,000	101.3%	953,401	12.6%
Revenue Adjustments	(93,076)	(1.3%)	(103,397)	(1.3%)	(10,321)	10.9%
Net Revenues	7,484,043	100.0%	8,206,603	100.0%	943,080	12.6%
Cost of Revenue	142,242	1.9%	157,059	1.5%	9,337	6.9%
Gross Margin	7,341,801	98.1%	8,049,544	98.2%	933,743	12.8%
Sales Expenses:						
Regular Headcount Expense	52,943	0.7%	64,936	0.8%	(11,993)	22.7%
Other Headcount Expense	1,387	0.0%	1,402	0.0%	15	1.1%
Fridays	688	0.0%	363	0.0%	(326)	(47.3%)
Infrastructure Expense	13,149	0.2%	15,445	0.2%	2,296	17.5%
Other Alloc Expenses	30,261	0.4%	48,333	0.6%	18,072	59.1%
Total Sales Expenses	98,427	1.3%	138,483	1.5%	31,856	32.4%
Bit development	61,000	0.8%	98,000	1.2%	37,000	60.7%
PSS Overhead	0	0.0%	337	0.0%	337	100.0%
Net PSS	2,324	0.1%	8,032	0.1%	5,708	246.4%
G&A Costs	7,008	0.1%	8,336	0.1%	1,328	19.0%
Total Operating Expenses	148,928	2.0%	210,639	2.6%	61,711	41.5%
Responsibility Margin	7,192,873	95.8%	8,015,964	93.4%	861,428	12.1%
Avg Headcount	426		479		12%	

	FY00 Act	FY01 Bud	Growth
WW	124	136	9.6%
SPAR	144	160	10.9%
EMEA	107	113	5.5%
ASIA	91	99	8.9%
NA	147	165	11.6%

	FY00 Act	FY01 Bud	Growth
WW	31	32	3.0%
SPAR	31	32	2.9%
EMEA	29	33	13.8%
ASIA	32	37	16.9%
NA	31	32	3.2%

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FY01 Budget by Region

	Revenue		FY00/FY01
	FY00 Fact	FY01 Bud	Growth %
MNA			
North America	3,403.6	3,836.8	11%
Germany	263.0	297.1	11%
UK	103.6	110.0	4%
France	58.2	133.6	130%
Japan	662.8	784.2	18%
N/A	4,493.1	5,161.7	15%
Named / SB			
North America	768.6	837.0	9%
South Pacific	90.6	101.4	12%
Latin America	111.1	136.4	23%
SPAR	970.3	1,074.7	11%
Germany	341.9	364.3	7%
United Kingdom	193.9	211.4	9%
France	141.8	125.6	(11%)
Southern Europe	235.6	249.7	6%
Nordic	78.9	81.8	4%
Eastern Europe	93.8	109.2	16%
Benelux	81.1	88.6	9%
MENA	59.7	63.7	7%
Alps	57.2	56.4	(1%)
EMEA	1,283.8	1,359.7	5%
Japan	147.3	175.3	19%
Greater China	266.7	286.1	7%
Korea	227.7	232.2	2%
South Asia	47.7	60.8	28%
Asia	689.4	756.5	9%
WW Named / SB	2,943.6	3,179.8	8%
ESG WW	120.4	169.1	40%
WW Gross Revenue	7,557.8	8,510.6	11%
Revenue Adjustments	(93.1)	(103.4)	11%
WW Net Revenue	7,464.8	8,407.2	13%

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FY01 COEM Revenue

Revenue in M\$		FY00	FY01	
Rev by Type and Product	Forecast	Budget	Growth%	
Multi-national	Windows 2000 Datacenter	8.0	30.8	NA
	Office SBE	54.4	66.3	21%
	Office Pro	26.8	10.3	-62%
Named Total		81.1	76.8	-4%
SB	Windows 9X	747.2	742.5	-1%
	NEW/Windows 2000 Pro	205.4	219.5	7%
	Desktop OS Total	952.6	962.0	1%
	Office SBE	211.1	223.3	6%
	Office Pro	101.6	118.5	17%
	Single Office Apps	10.5	5.6	-46%
	DAD Total	323.0	347.5	8%
	Windows 2000 Server/NTS	102.3	127.9	25%
	BackOffice SBS	13.1	12.2	-7%
	Server Total	115.6	140.1	21%
	Other SB COEM Total	15.0	7.3	-52%
SB Total		1,485.4	1,455.0	4%
Worldwide Total		1,497.5	1,563.4	5%

Rev by Region		FY00	FY01	
Forecast	Budget	Growth%		
EMEA	Europe & Africa *	308.9	312.8	1%
	Germany	161.6	172.5	7%
	United Kingdom	95.7	93.2	-1%
	France	88.4	87.1	-1%
	Eastern Europe	60.3	71.4	22%
	MENA	32.2	39.2	11%
EMEA Total		750.3	780.3	4%
SPAR	North America	404.3	419.9	5%
	Latin America	81.0	76.8	-5%
	South Pacific	69.1	94.5	41%
SPAR Total		554.3	613.3	11%
Asia	Korea	53.5	37.7	-31%
	Greater China	52.6	41.5	-21%
	Japan	43.0	47.5	11%
	South Asia	31.9	41.3	29%
Asia Total		183.0	168.0	-8%
Worldwide Total		1,497.5	1,563.4	5%

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FY01 Marketing Budget

	FY01 Forecast	FY01 Budget	FY01 Growth
MNA			
Compaq Engineering	-	12,000	12,000
Compaq	14,000	6,000	(8,000)
Del. Partner Program	7,000	5,000	(2,000)
Del WZK Corp. migration	-	5,000	5,000
Del UNIX Program	-	6,000	6,000
Others	3,500	10,000	12,500
Management buffer	1,500	2,000	500
MNA total	26,000	54,000	28,000
World Wide			
Segment	5,500	-	(5,500)
Training	2,000	2,000	-
Management buffer briefings	2,000	-	(2,000)
World wide Total	9,500	2,000	(7,500)
Central System Builders			
Central Named	3,250	3,250	-
Management Buffer	-	1,000	1,000
EMEA	9,000	3,000	(3,000)
SPAR	7,000	13,750	4,750
Asia	4,250	11,250	4,250
		7,250	3,000
COEM total	23,500	38,500	18,000
ESG	2,000	2,500	500
Total	61,000	98,000	37,000
Growth others:			
COEM	18,000		18,000
Compaq Engineering	12,000		12,000
Del Server Mkt	11,000		11,000
Subtotal	39,000		39,000

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Headcount by Region

Region	7/1/1999 Actual	FY00 YTD Forecast	6/30/2000		6/30/2001		FY00 Growth		Averages	
			Plan	Approved	Plan	Unfilled	01/00 Growth	%	FY00 YTD	FY00 YTD
North America	198	202	226	227	219	11%	-8	-4%	197	219
South Pacific	7	7	7	7	8	0%	1	14%	7	7
Latin America	16	16	16	17	25	6%	8	47%	16	17
SPAR	221	225	249	251	252	10%	1	0%	220	242
Germany	24	23	27	27	27	15%	0	0%	24	27
United Kingdom	13	14	14	14	13	0%	-1	-7%	14	14
France	13	12	14	14	14	14%	0	0%	14	14
Europe & Africa	45	48	48	48	48	0%	0	0%	19	21
Eastern Europe	21	20	21	22	22	9%	0	0%	46	48
MENA	13	15	16	16	16	6%	0	0%	15	16
EMEA	129	132	140	141	140	6%	-1	-1%	133	140
Japan	33	30	35	35	36	14%	1	3%	30	34
Korea	9	9	10	10	10	10%	0	0%	9	10
South Asia	14	14	15	15	15	7%	0	0%	14	15
Greater China	22	22	26	27	26	19%	-1	-4%	23	26
Asia	78	75	85	87	87	14%	0	0%	75	85
Total OEM Headcount	428	432	474	479	479	10%	0	0%	428	467

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Executive P&L

	Commercial	OEM	Embedded	Prod	Hardware	Wireless	MISH Network	XBox & Games	Total
Rev-Sum Revenue	1,563,397	6,386,900	187,775	179,737	148,886	22,866	10,445	11,374	8,518,800
Revenue Adjustments		(185,397)							(185,397)
Net Revenue	1,563,397	6,201,503	187,775	179,737	148,886	22,866	10,445	11,374	8,405,201
Cost of Revenue		38,945	110,320					2,800	152,069
Gross Margin	1,563,397	6,242,558	107,775	179,737	37,166	22,866	10,445	8,570	8,253,131
Regular Headcount Expense		55,403	9,533						64,936
Other Headcount Expense		1,306	56						1,402
Vendors		265	97						363
Infrastructure Expense		13,325	2,170						15,495
Other Misc Expenses		48,123	0						48,123
Total Sales Expenses		118,464	11,814						130,278
Marketing Spend		98,000	0						98,000
R&D		327	0						327
PSS Overhead		2,872	185						3,057
Net PSS		8,199	157						8,356
G&A Costs		1,728	277						2,005
Total Operating Expenses		226,392	12,247						238,639
Responsibility Margin	1,563,397	6,016,167	175,537	179,737	37,166	22,866	10,445	8,570	8,014,495

FY99 to FY00 Variances

FY99 to FY00 Growth Analysis

Type	Product Family	Rev		L/c		Rate		L/c Mix	
		FY99	FY00F	FY99	FY00F	FY99	FY00F	FY99	FY00F
Mult	Win9X	2,022,089,680	2,367,391,423	42,317,927	51,251,028	47.78	48.19	52.8%	54.5%
	NTW/WIn2K	1,071,137,013	1,177,243,099	10,920,334	12,782,861	88.09	92.10	13.6%	13.6%
Multi Total		3,093,226,693	3,544,634,522	53,238,261	64,033,890	58.10	55.38	66.5%	68.2%
Named	Win9X	886,791,246	1,070,314,363	14,716,972	17,920,368	80.39	59.73	16.4%	19.1%
	NTW/WIn2K	120,022,368	128,641,018	971,458	1,080,941	123.55	117.86	1.2%	1.2%
Named Total		1,006,813,612	1,198,955,379	15,688,430	19,019,229	84.30	63.09	19.6%	20.2%
DSP	Win9X	621,841,890	750,457,137	10,150,951	9,436,367	60.94	78.51	12.7%	10.0%
	NTW/WIn2K	154,247,569	199,598,630	948,879	1,482,811	182.90	138.48	1.2%	1.6%
DSP Total		775,889,460	950,055,767	11,099,830	10,900,898	87.94	87.15	13.9%	11.6%
Grand Total		5,077,928,764	5,884,845,668	80,024,521	93,953,017	63.45	60.61	100.0%	100.0%

	BOS Rev	BOS Units
FY99 End	5,077,928,764	86,024,521
FY00 Forecast End	5,694,645,668	93,953,017
Forecast Growth	12.1%	17.4%
FY00 Rev at 17.4% growth	5,961,808,678	17.4%
Delta of Revenue Growth vs. unit growth	(287,183,010)	
Price Impact	(158,114,235)	
MNA Price Decrease Impact	(18,057,778)	
DSP Price Decrease Impact	(92,154,078)	
Total Impact of Price Decrease	(228,326,093)	
Customer Mix Impact	84,818,259	
MNA Mix Increase Impact	37,856,670	
DSP Mix Decrease Impact	(185,520,313)	
Total Mix Impact	(63,045,384)	
Product Mix Impact		
MNA NTW/WIn2K Pen Decrease Impact	(16,160,876)	
Named NTW/WIn2K Pen Decrease Impact	(4,594,268)	
DSP NTW/WIn2K Pen Increase Impact	30,330,398	
Total Product Mix Impact	9,575,252	
Other Variances	14,633,204	
Total Price/Mix Impact	(287,183,010)	

- MNA Price decrease is made up of:
 - Price decrease to two MNA, \$71M
 - Higher earned MDA, \$32
 - NTW discount, \$26

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FY00 to FY01 Variances

FY00 to FY01 Growth Analysis

Type	Product Family	Rev		Lk		Rate		Lk-Mix	
		FY00F	FY01B	FY00F	FY01B	FY00F	FY01B	FY00F	FY01B
Multi	Win9X	2,367,391,423	2,540,563,124	51,251,029	56,625,347	46.18	44.67	54.5%	53.2%
	NTW/Win2K	1,177,243,099	1,595,512,693	12,782,661	16,943,014	92.10	94.17	13.6%	15.9%
Named	Win9X	3,544,834,522	4,138,098,017	64,033,690	73,596,381	55.38	56.22	68.2%	69.1%
	NTW/Win2K	1,070,314,383	1,184,264,268	17,920,366	19,667,547	59.73	59.61	19.1%	18.6%
Named Total	Win9X	129,641,016	228,768,695	1,098,641	1,999,332	117.99	113.42	1.2%	1.9%
DSP	Win9X	1,189,955,379	1,421,050,963	18,019,228	21,966,679	63.09	64.69	20.2%	20.6%
	NTW/Win2K	750,457,137	742,509,029	8,436,367	9,106,004	79.51	81.54	10.0%	8.6%
DSP Total	Win9X	189,596,630	219,478,014	1,462,511	1,767,147	136.48	124.20	1.8%	1.7%
Grand Total	Win9X	950,055,787	981,987,043	10,600,888	10,873,151	87.15	86.47	11.6%	10.2%
	NTW/Win2K	5,894,645,666	6,518,134,023	93,953,817	106,406,391	60.61	61.27	100.0%	100.0%

	BOS Rev	BOS Units
FY00 Forecast	5,694,645,666	93,953,817
FY01 Budget	6,519,134,023	106,406,391
Forecast Growth	14.5%	13.3%
FY00 Rev at 13.3% growth	6,449,531,293	13.3%
Delta of Revenue Growth vs. unit growth	69,602,730	
Price Impact		
MNA Price Decrease Impact	(39,944,910)	
Named Price Decrease Impact	(7,412,907)	
DSP Price Decrease Impact	(3,216,271)	
Total Impact of Price Decrease	(50,574,086)	
Customer Mix Impact		
MNA Mix Increase Impact	56,625,674	
Named Mix Increase Impact	27,567,262	
DSP Mix Decrease Impact	(130,301,674)	
Total Mix Impact	(43,668,606)	
Product Mix Impact		
MNA NTW/Win2K Pen Increase Impact	111,276,662	
Named NTW/Win2K Pen Increase Impact	39,145,446	
DSP NTW/Win2K Pen Increase Impact	(13,154,106)	
Total Product Mix Impact	163,576,236	
Other Variances	489,469	
Total Price/Mix Impact	69,602,730	

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FY00 ESG Summary

◆ Highlights

- Design wins very strong, 2,230 in FY00
 - Several strategic wins
- Revenue growth at 42%, 11% above budget
- Creation of EAPG and new embedded strategy very well received by channel and customers

◆ Lowlights

- Ramp of WinCE run time shipments slow
- PocketPC OEM strategy less than optimal
- Direct Design Win cycles still long

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FY01 Mobile and Wireless Strategy

Market Trends and Observations

- ◆ Proprietary designs fading, i.e. Sharp Zaurus
- ◆ Palm achieving success in Japan retail market
- ◆ PocketPC strategy with few OEM partners is slowing technology innovation, geographical expansion
- ◆ Key PocketPC Design Wins: Siemens (Casio device), Samsung (Slinger), HiTech Wealthi (PB based PDA), Sharp, Masushita (wireless project with DoCoMo)
- ◆ Taiwan: Linux activities abundant. Wireless ODM market emerging
- ◆ Microbrowser Design Wins: Ericsson, Sony, Samsung

FY01 Strategies

- ◆ Two offerings for PDA space:
 - ▶ PocketPC if OEM adds value in terms of technology, channel, geography, or "political"
 - ▶ WinCE 3.0 Platform Builder based (primary anti-Linux activities in Taiwan)
- ◆ Vertical PocketPC and H/PC opportunities exceed 1m units per year. Develop a partner-based strategy?
- ◆ Slinger: Focus on winning three tier one customers like Siemens, Sony, Samsung
- ◆ Maintain HP/C OEMs. Ship around 350k/year
- ◆ Microbrowser: Broad OEM strategy with v2.0

P/PC			
UNITS SHIPPED	FY99	FY00*	COMMENT
CASIO	178,590	153,055	(PocketPC ships next week)
Compaq		130,248	
Hewlett Packard		62,060	
FIC	60,181	46,284	Only 20k PocketPC built
Philips	131,255	21,393	Dropping PocketPC line
LEGEND	1,850	18,978	Dropping PocketPC line
BCOM	3,024	11,243	Orion
Uniden	5,860	7,704	Orion
Symbol	-	5,897	Orion
SAMSUNG	46	3,412	Vertical Pocket PC
Other	3,962	6,232	Orion
TOTAL	382,788	489,766	

* through May

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FY01 MSTV Strategy

Market Trends and Observations

- ◆ Explosive growth in current generation digital set-top home deployments; Motorola 50K/wk, SA 45K/wk
- ◆ OEMs hedging their bets. Working closely with all MS competitors (Liberate, OpenTV)
- ◆ NetOps hedging their bets
- ◆ MS STB OEM's concerned about MSTV delivery dates and quality
- ◆ MSTV's business scalability and support commitment weak
- ◆ International release vague
- ◆ OAK needs work

Operator	OEM	FY01	FY02	Total (thru FY05)
AT&T	Motorola, MEI, Philips	225K	1M	10M
Comcast	SA, Motorola	80K	400K	1M
Rogers	SA	25K	170K	1M
Charter	Motorola, SA	125K	360K	2M
Webby Corp	Vestel	143K	143K	800K
UPC	Philips, Motorola	235K	935K	500K (Hard Commit)
TVCabo	Octal, Paca	40K	110K	800K
NTL	Acer	20K	280K	500K
Telenor	TBD (MSTV BD)	50K	175K	?
TownGas	ICare.com/Shedelo	40K	160K	200K-1.3M
TOTAL		963K	3,833K	16,600K

FY01 Strategies

- ◆ Co-development with Motorola, SA, Thomson (US), Pace, Philips and Vestel (EMEA), Matsushita (Japan)
- ◆ License top five WW STB OEMs doing showcase deployments
- ◆ Cultivate second tier partners and ensure additional MSTV Design Wins
- ◆ Leverage great cooperation between ESG (acct mgmt) and PG (program mgmt)
- ◆ Enable OEMs to deliver NetOp licensed STB clients (hardware only)

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FY01 Automotive Strategy

Market Trends and Observations

- ◆ Increasing activity level in industry
 - Telematics is "hot"
 - Mid/low segment suppliers planning for onboard computing
- ◆ OEMs are driving force, marketplace is global
- ◆ OEMs and Automakers have low SW competency
 - VxWorks/Java competes for BMW 500 series
- ◆ Speech technology not ready for prime time?

Manufacturer	OEM	Model	Intro date	Volume	Configuration
BMW	VDO	600 series	Sep-03	300,000	standard
PSA	Clarion	X4, N7	Q3/2002	200,000	standard
Cadillac	Delphi	Catera	Sep-01	50,000	standard
PSA	Clarion	Xaara	Q3/2000	500	standard
Mercedes-Benz	Siemens AT	E-class	Sep-01	275,000	option
Mercedes-Benz	Bosch	S-class	Sep-02	60,000	option
Chevrolet	Visteon	Light trucks	Sep-02	50,000	option
PSA	Clarion	N7	Q3/2001	50,000	option
Mercedes-Benz	Bosch	SLR	Sep-02	50,000	option
BMW	VDO	700 series	Sep-01	50,000	option
Cadillac	Delphi	Deville, Seville	Sep-00	10,000	option
Freightliner	Delphi	Truck PC '01	Q4/2000	10,000	option
Various	Metco	various	Mar-00	80,000	after market
Toyota	Denso	?	?	?	Auto Tablet
				TOTAL	1,188,500

FY01 Strategies

- ◆ Establish strategic relationships with Automotive OEMs: Siemens, Bosch, Visteon, Denso
- ◆ Establish a direct relationship with GM, Ford, VW, Fiat, Toyota, Honda. Secure first Design Win.
- ◆ Develop a business model for mid/low end manufacturers
- ◆ Telematics
 - Identify and develop one OEM in Germany, US, Japan
 - Identify and develop one Automotive manufacturer in Germany, US, Japan

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FY01 General Embedded Strategy

Market Trends and Observations

- ◆ WinCE 3.0 program well received
- ◆ Linux and VxWorks (with JavaVM) increasingly visible. Many customers still in tire-kicking mode (exception: server appliances).
- ◆ WinCE runtime sales slow

General Embedded Design Wins				
	FY99	FY00 (f)	FY01 (b)	% growth
WinCE	190	750	2,210	195%
WinNTE	n/a	1,480	1,500	1%
TOTAL	190	2,230	3,710	66%

FY01 Strategies

- ◆ Remove obstacles to OS adoption
 - Simplify operational model and relax legal T&Cs
 - Flatten pricing curve to make WinCE more attractive in low volumes
 - Broadly distribute WinCE evaluation copies. Goal is to exceed 10k.
 - Build a Lead-to-Production-Start tracking program
- ◆ Increase Design Wins via focused partnership efforts
 - Depth: Identify and develop 25 strategic embedded OEMs
 - Breadth: Engage distribution channel, system integrators, silicon vendors, in Design Win crusade built around WinCE and WinNTE eval kits, Web site
- ◆ Expand number of partners that can provide "bSquare" level of WinCE expertise
 - Expertise in WinCE OS architecture, tools, and source code
- ◆ Continue close cooperation with EAPG

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FY00 Asia Summary

Highlights

- ◆ Healthy Business
 - Revenue* 37% ↑
 - ROEM 97% ↑
- ◆ Steady Breadth growth
 - 14K active SBs
- ◆ Good Sub AP teamwork
 - Strong engagement
 - Co-funding AP activities
- ◆ Acer relationship
 - Stan Shi keynote at Asian W2K launch
 - IA Consortium support

Lowlights

- ◆ Slow adoption of Win 2000 despite solid channel prep
 - Compatibility issues
 - Few localized 3rd party apps
- ◆ Terminated 2nd largest OEM in Taiwan
- ◆ Mouse failures at Epson

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*normalized for eMachines

Asia Market Conditions

- ◆ Piracy
 - 25% penetrated on SB systems
 - Korean government AP reinforcement activity stopped
 - Put on USTR watch list for IP protection, expect activities to increase
 - PRC government offers little help
 - India poor enforcement
- ◆ Optimistic economic outlook driving technology investment
- ◆ Taiwan Information Appliance Consortium
 - SIGs: WinCE, Palm OS, Linux, EPOC, Game Console, WAP, Screen Phone, AVIS (III Linux)
 - Windows CE category Chaired by Simon Lin, Acer Pres.

FY01 Asia Risks/Upside

Risks

◆ Shortages

- Peripherals shortage impact on non-PC biz

◆ Linux

- Govt support in China/Korea
- Legend evals desktop/home
- DSPs/Intel push RedHat on servers

◆ Low Win2000 demand

Upside

◆ SB Conversions

- 22 Accounts
- Local currency Licensing Model in PRC
- Better penetration against naked systems

◆ Increased AP spend

- Focus with subs on SORG
- Co-marketing with NA to drive AP awareness

◆ Acer PRC focus

- Driving legit software

FY00 EMEA Summary

Highlights

- ◆ **Increased penetration**
 - Business Windows +100% → from 6% to 12%
 - Office +37% → from 8% to 11%
- ◆ **Emerging markets**
 - MENA +70%, EE +15% Y/Y
- ◆ **Best Sales Practices**
 - German new PC program, Italy AP-program, Nordic expander

Lowlights

- ◆ **FY00 overall results**
 - \$ revenue -10% vs. budget, + 4.9% vs. FY99
 - DTOS shipments decline with -2.4% → 10,800k to 10,500k units
- ◆ **\$/Euro High dollar**
 - Increased purchases through gray market
- ◆ **Piracy**
 - Increasing channel piracy and naked system shipments
 - Limited local resources for implementation

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FY01 EMEA Opportunities/Risks

- ◆ **Better control of local business and healthy BOS growth**
 - Sign top SBs to Named (EMEA 60 accounts)
 - OEM price lead for BOS and servers
 - ME upgrade pricing issue → Risk of losing 10-15% of local units
- ◆ **Financial instability of partners put us at risk**
 - France, Nordic examples
- ◆ **Build value proposition for Named accounts**
 - Increased Named marketing spending
 - Named web and support program
- ◆ **OEM budget dependent on the Win2000 demand generation**
 - Budgeted Biz Windows growth of 45%, total budget of 1.850k units
 - NTW/W2K Attachment already very high → from 12% to 16%

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FY00/01 EMEA Specifics

- ◆ **Changes in SB model**
 - Stop building PC's, act more as reseller of A/B brands
 - Pressure towards the high end segment, installing servers → Linux competition
- ◆ **SB under strong pressure**
 - SB share in countries down from approx. 25% to 10% (German example)
 - System builders in EMEA mainly CNS focused, losing to MNA
 - Retail infra acts as barrier to entry
- ◆ **Cross boarder and VAT**
 - Devalues average selling price
 - Piracy and gray-product confusion
- ◆ **EMEA trends**
 - Desk/Phone phenomena and other form factor devices
 - Increased amount of desk, chair or mobile phone bundling with consumer PCs. Taking available \$'s ordinarily allocated to software
 - OEM/End User apathy with regard to software
 - Recent survey indicates decreasing value associated with buying applications pre-installed on a PC (UK research)

	SB's	
	Home	Bliz
GSA	15%	85%
UK	45%	55%
France	34%	66%
SE/SA	35%	65%
Nordic	42%	58%
Netherlands	49%	51%
EE	41%	59%

FY00 SPAR Summary

Highlights

- ◆ Latam Revenue: 32% ↑
- ◆ SPR Revenue 11% ↑
- ◆ SPAR ROEM Rev: 80% ↑
 - ▶ Cooperation with SME
 - ▶ N. America Office 71.5% ↑
 - ▶ Introduction of Office Pro
- ◆ Windows 2000 Channel Readiness
- ◆ AP Coordination with LCA
- ◆ SPAR Team Morale

Lowlights

- ◆ SPAR Revenue: 5% ↑
 - ▶ N.America Revenue: 1% ↑
- ◆ NA BOS Units: 10.7%* ↓
 - ▶ 2 Year negative trend
 - ▶ Market Conditions/Shifts
- ◆ Named Office Units: 51% ↓
 - ▶ N. America Office 50% ↓
 - ▶ Consumer DT ~ 65%
- ◆ Hardware Quality and Delivery

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* Without eMachines 1.65M Units, Q3-Q4 12% ↓

SPAR FY01

Investments

- ◆ SB Conversions (40) = \$42M
- ◆ Recycled Heads
 - Latam: Breadth, Embedded
 - SPR: Full time AP Focus
- ◆ Named Marketing Investments
- ◆ Data Mining Tool
- ◆ Retention Rebates

Risks

- ◆ Semiconductor Shortages
 - ◆ SB Desktop PC Defections
 - ◆ Red Hat
- ## Upside
- ◆ Windows ME
 - ◆ Latam Consumer Growth
 - ◆ New AP Devices

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