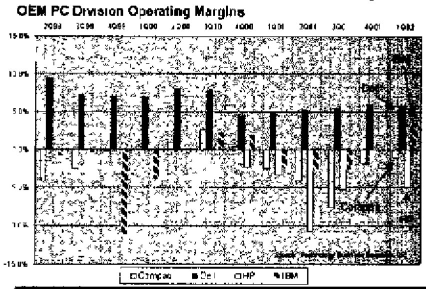
OEM & HW MANUFACTURERS

Appendix: 96-101

1. OEM Situation Analysis

- HW innovation creates short term profitability
- OEMs will not lead on bold HW innovation
- MS initiative is required to establish new Windows-centric segments

OEM PC Division Operating Margins



2. ODM Situation Analysis

- Continued forward vertical integration provides turnkey services
- ODM enables value chain disintermediation enabling new PC brands
- Design aggregation point for HW initiatives

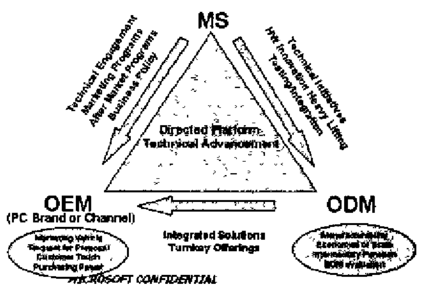
ODM Forward Vertical Integration

2002 Direct sales to end user
2001 Direct ship to OEM customer, configure to order, Preload Creation
2000 ODM created industrial design (thermals, case)
1999 Apply OPK image to system provided by OEM
1998 Low Price computer period coming. Case maker started the role of Desktop ODM
especially for case maker starting to do full system assembling ship to OEM
1997 TWN MB design with differentiated design
1996 Full system assembly, ship to OEM for OPK
1995 MB design companies combining with manufacturing capacity
1988 TWN MB design companies separated with MB manufacturing companies
MB design companies licensing AMI, Phoenix core BIOS and with little differentiated design on BIOS

Wistron Desktop Integration Roadmap

Year	Main Board Product	System Product	Preload	Direct ship to customer	Ship to OEM spec
2001	40%	60%	50%~60%	30%	20%
2002	50%	50%	+17%	30%	10%
2003	55%	45%	+10%	40%	10%
2004	60%	40%	+10%	50%	20%

3. Engagement Recommendation



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4. Strategies

- Drive unit volumes through bold HW innovations to create Windows-centric churn
  - ✓ Bring security solutions to corporate via Palladium/DRM
  - ✓ Targeted design points: ie. flagship knowledge worker, low cost
  - – Windows-based technology IP pooling opportunities
  - – Strong effort on data/storage/state migration
  - x NVRAM optimizations: 3GIO system decomposition
- Increase Windows criticality via quality initiatives
  - ✓ Use OCA to drive quality reduction in driver blue screens
  - ✓ Quality focused teams for core OS, video, audio
  - ✓ Community efforts relative to driver development
  - – MSR tools to enable quality-based testing
  - x Increased and improved DDK content and quality
- Address industry desires for post PC sale revenue streams
  - ✓ Shell brand exposure / promotional opportunities
  - ✓ Partner sockets
  - – Windows after market programs with better OEM / partner focus match
    - ie, home networking, IT services
- Increase operational value by reducing operational costs
  - ✓ OPK & deployment improvements for covered OEMs
    - Need to address system builders
  - – Reduce NRE costs
  - – Focus on ODMs for testing/integration

✓ = POR
– = Planning
x = Unfunded

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Key points to make
- Innovation part of step function to drive needed volume
- MS is the only one who cares about Windows-centricity
- To rally industry around needed bold innovation, we need to message roadmap *much* **earlier**
- While ODMs are a design aggregation point, we would prefer they not become a **licensing aggregation** point
- OEMs play a different role than in the past – they now consist of channel partners and other PC brands and fulfill the role of customer touch rather than that of the platform innovator, however, technical engagement is still required to create needed pull to ODMs.
- Drive innovation for PC churn/market expansion/penetration
- Investments in quality such as OCA increase Windows value proposition to partners, end users
- Invest in bold innovation to surf inflections
- After market should not be an after thought. In conjunction with innovation we need to address aftermarket/incremental revenue streams in product development process
- Make for frictionless Windows integration, increasing Windows criticality

Operating Margin chart
Compaq: O.M. as reported by Compaq for its Access Business Group (commercial and consumer PCs, workstations, and handhelds)
Dell: OM for commercial and consumer desktops, portables and workstations
HP: Figures reported by HP for its personal and embedded systems group
IBM: IBR estimates for IBM's PC business. we have removed the printing business from IBM's personal systems and printing group figures

Forward vertical integration
Smaller ODMs are going direct to end users in targeted regions like Taiwan, larger ODMs don't want to compete directly with their customers
Current turnkey or "no touch" ODMs: Wistron, Compal, Quanta, ECS

Progress on OCA
OCA crash fixes tracking at 26% (goal 33% by SP1)
From OCA crashes determined Dell was still shipping old nVidia image, causing 70k blue screens a month; working with Dell to fix

OPK improvements
On track for covered OEMs
- Componentization of the OS for ease of image creation, install and distribution
- Imagability of the OS (both online and offline configuration) for creation, modification, and testing of the image
- Full scriptability of the manufacturability tools suite complete with an SDK (Incl. WinPE, Storage mgr, and updated scripting tool WSH)
- Total OS hardware independence (1 image for all models)
- Reduction in the number of required SKU's/Images (HE/PRO become switches, Languages become optional components and hardware dependence goes away with HAL PnP)

Additional examples of a much-needed OPK improvement
- Automatic download of the latest QFEs which are seamlessly integrated into the preinstall process
- Potentially have web "offers" that the OEM can integrate into the preinstall from 3rd parties as well.

Security/data protection after market programs suggestions
- anti-virus packs
- Palladium-related services
- cross firewall management services

Home networking
- Upsell of remote management
- Management SW
- Physical needs (note that LH will make the OS networking aspect transparent)
- Demand marketing to push to high touch environments like Gateway stores, Best Buy etc.

Two ways to address IP Pooling.
1. Participate in industry pool where everyone pays to enter and then per unit cost. Not a good solution for Windows integration, but reasonable for a plus pack format. OEM channel would need to be set up to address integration of pack offerings.
2 We create the pool, offer TTM advantage, fee to enter for non-participants

Plaintiff's Exhibit
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SOFTWARE DEVELOPERS

Situation Analysis

- Lack of new investment in Windows client code
  - No killer Windows XP apps/solutions
  - Corporate trend away from client code
- Trending to "dumb clients" is slowing/reversing
- Competitors in rich client space growing
  - Macromedia Flash, Java
  - Unclear adoption trajectory
- Continued decline of retail SW, enterprise client deployments

FY '03 Strategy & Big Bets

- Short Term
  - Targeted efforts around Tablet and eHome
  - Continuing w/ NET FX evangelism
  - Enhancements to Windows Catalog
  - ISV portal close the quality feedback loop
- Longhorn Plan
  - LH API is 100% managed code (exposed)
  - Cohesive strategy built on NET to leapfrog competition reinvigorate client development
  - Need to attack both technology and business model issues for ISV market
  - Hardware acceleration requires quantum eap in IHV investment and stability
  - Growing from Corp/LOB to ISV and Web Apps

Taxonomy

	Pro ISV	Corp	Web	Content	Games & Ent
End-user	MGI, Corel, Adobe, Intuit, Symantec, Freeware and shareware	Schwab, Barnes & Nobles, Ford	Amazon, E-bay	Encarta, CNet Yahoo Lycos Google	Infogrames, Electronic Arts, Vivendi, Disney
Biz	Siebel, SAP, Reuters, ABB	Corp IT apps MSMARKET, etc	WEbMD, Boeing Edmund	Gartner, Dow Jones, Source One	

Next Steps

- Events
  - LH API Owners Offsite May 23/24 (brada)
  - LH API Design preview end-September (lennp)
  - PDC in April '03 (mcg/charleef)
- Risks
  - Align CLR drops with major LH dates (ericr)
  - Align storage integration/deliverables given recent reorganization/refocus (pcelis)
  - Set strong date/priority message across teams (jmall)
- Investments not being made
  - New Win32 or Trident work

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Top 3 takeaways for bpr

1. Work in short term is minimal and not about new api's – more about marketing/positioning. Even w/tablet and ehome, these are niche efforts for small segment of developers.
2. Longhorn API effort is all about managed code exposure. This creates conflict w/the "legacy" teams such as office, who want an unmanaged (exposed) solution, and solutions for issues like management/delivery for unmanaged code as well.
3. The CLR focus must move from LOB/Corp to also include Pro-ISV (ms internal as well as external consumer ISV) – this is a change and a challenge

NETWORKING & INFRASTRUCTURE

Situation Analysis

Always-on wireless and broadband networking
Paradigm shift to wide band wireless packet data
Connectivity hampered by complexity, security, address shortage
Optical technology leading to gigabit networking
Broadband deployment stalled, blocked by lack of demand due to cost and lack of compelling scenarios
Home networks still very difficult
IM pervasive
IP becoming signaling backbone - Carriers shifting to VoIP
P2P applications spreading fast
Enterprise Conferencing growing rapidly

Key Ecosystem Metrics

Key Ecosystem Metrics	ISV	ISP	IHV	NEP	OEM
Secure end-to-end transparent communications					
•Easy to deploy end to-end security w/no Firewall/NAT issues	X	X	X	X	
•Get adoption of MS Client technologies IPv6 VPN DFW	X	X		X	
Wireless					
•All Laptops enabled for dual-band Wi-Fi,			X		X
•90% of enterprises deploying Wi-Fi use 802 1X			X	X	X
•Wi-Fi/WAN offering from a carrier in every continent		X	X	X	X
Communication and Collaboration					
•Every PC ships with usable microphone & optional camera			X		X
•Every PC can have a phone number;		X			X
•80% of collab apps. use Windows RTC/P2P APIs	X				
Ease of use and diagnostic enhancements					
•Reduce device related ODH issues by 50%		X	X		
•Eliminate PSS calls w/r/t ICS & File sharing scenarios		X	X	X	X
•Windows Diagnoses 80% of network related failures	X	X	X	X	

Big Bets

Secure end-to-end transparent communications
- Authenticated, authorized, private and tamper proof communications between windows systems
- Implement Dist. FWs & IPv6 in end systems, Solve FW traversal

Wireless
- Always-on Nomadic (Wi-Fi, WAN, Wired) networking Roaming, Location, QoS, Power Management, soft Wi-Fi
- Monitor & stimulate Wi-Fi hotspots everywhere: Public, Guest

Communication and Collaboration
- Establish Windows as the infrastructure platform for RTC
- Enable presence-based multi-party multi-modal data conf
- Telephony integration using SIP
- Improved audio/video quality

Ease of use and diagnostic enhancements
- Reduce support calls and enhance user satisfaction by diagnosing & giving directed, actionable feedback to the user
- Simplify Broadband Deployment; Painless internet connection, file sharing in the home

Risks/Issues

- **Blocked scenarios due to no clean short term firewall traversal solution**
- **Down-level platform support to drive adoption of new protocol initiatives.**
- **Resource shortage to pursue full plan given industry/technology trends. Particular concerns in Wireless, Networking ease of use, diagnostics**
- **Wi-Fi HotSpot efforts fragmented**
- **Lotus SameTime, WebEx reach critical mass before MSFT is competitive**

Ecosystem Investigation

- Driving Enhanced distributed Service Provisioning on MSFT platforms

DIGITAL MEDIA ECOSYSTEM

Appendix 110-113

Overall objective – Make Windows the most valuable platform for creating, distributing and consuming digital media
- Deliver content seamlessly across devices
- Content management, editing and creation

←PC strengths/core competencies

Ecosystem Partners: Content, Infrastructure, ISV/IHV and Consumer Electronics

Key ecosystem levers – DRM, Format Adoption, Interoperability, Policy & Standards

Opportunities

DRM
- Capitalize on our lead position in DRM
- Deliver best DRM for entertainment content and services
- Secure portable media

Format Reach
- Engage deeply with consumer electronics manufacturers
- Consumer awareness vs alternatives (MP3 etc)

Interoperability
- PC-driven home networking standards
- DRM bridge to legacy conditional access systems

Policy & Standards
- Worldwide Windows-friendly rights language (XrML 2 0)
- Worldwide Windows–friendly media production interchange & authoring (AAF, SMPTE-DDE-2)

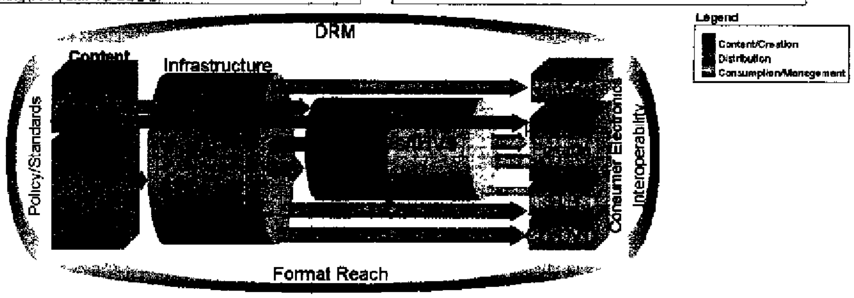
Challenges

DRM
- No DRM innovation until Longhorn for entertainment content
- Expensive to sustain/defend released DRM technologies
- IP Battles

Format Reach
- Entrenched and emerging standards (MPEG-2, MP3 MPEG-4)
- ABM pervades wireless telco carrier community

Interoperability
- CA closed gardens extend to home nets
- Closed CE ecosystems (e.g. Sony)

Policy & Standards
- Technical & industry mandates (DVB-MHP, Hollings, MPEG-4)
- Home media/network inhibitors (4C, 5C, DVD-CCA, BPDG)



DIGITAL MEDIA ECOSYSTEM SUMMARIES

Content

Situation
- $60B Industry threatened by file sharing / piracy
- **Legislation & Copy protection drive content away from PCs**
- Exponential growth in DM fueled by music
- Explosive DVD player & media sales
- Challenging business model for streaming media
- RealOne projected to hit 1M subscribers at CY02

FY03 Strategy & Big Bets
- **Ensure Windows is central and valuable for content owners**
- Develop and promote subscription services based on WM
- Corona, Palladium
- Engagement in policy efforts short term, standards long term

Investments not being made
- **Improved/competitive DRM for entertainment pre-longhorn**
- Exclusive content rights and/or aggressive subscription offering

Infrastructure

Situation
- Broadband subs forecasted to grow >1000% to 130M by 05
- **Entrenched players and standards**
- Global consolidation, commoditization and heavy debt

FY03 Strategy & Big Bets
- **Win reference accounts in DSL, cable VOD**
- Move CDNs caching vendors from xNIX to Windows
- Partner with outsourcing providers on NET services

Investments not being made
- **Not building a VOD solution**
- Not building a content management/CDN solution

Pro/Media ISVs/IHVs

Situation
- **$8B Industry migrating to more affordable, PC-based systems**
- Expanded opportunity for Windows partnerships in response to competition from Apple
- Standards, Gov mandates & non-MS DRM and CA

FY03 Strategy & Big Bets
- **Grow the beachhead with Corona**
- Hardware assisted encoding for real-time broadcast
- Continue to move upstream in content creation
- Investigate format alternatives for professional editing, interchange and archive (AVI, WAV, AAF)

Investments not being made
- Professional mastering

Consumer Electronics

Situation
- CE industry projected up 3% to $95 7B for CY02
- **Entrenched and emerging standards – not PC friendly**
- DVD upsurge
- ABM partnerships (Sony/Nokia/Real/AOL)
- Immature business models in VOD / Wireless Media
- CE Industry driving for home network control
- Commoditization / loss of IP control by CE companies (e g Philips)

FY03 Strategy & Big Bets
- **Ensure PC is central component in managing digital media on CE devices**
- Ensure Windows provides enhanced DM experience for all connected devices
- Drive format and DRM adoption

Investments not being made
- **Wireless Media Business Models & Standards Participation**
- Media DRM stalled, No CA interop story yet
- Windows Media Brand development/broad WMA awareness
- PPC / Stinger Media Player

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WW Sales of recorded music fell 6.8% last year

1.6B consumer spend on burners, blank CDs & digital media players

Content sourced through file sharing and ripping v. subscription

- Downloading music is number 1 digital media activity
- Morpheus/Kazaa users >7M v. RealOne ~600K

FY03 NON-FINANCIAL TARGETS

THOUGHT LEADERSHIP/PERCEPTION

- Maximize impact of Tablet PC, Freestyle, and Mira in FY 03
- Knowledge workers (reading, annotations, collaboration)
- Consumers (digital media, home network)
- Developers (managed code, storage, presentation, programming model)
- Communications (wireless, RTC, peer to peer)
- DRM (software, content)
- PC Hardware (quality, innovation, low cost)

KEY PRODUCT DELIVERABLES

- Windows 2000 SP 3 Q2 2002
- Windows XP Refresh Q3 2002
  - Windows XP SP 1, Freestyle, Tablet PC, Mira, Embedded SP 1
- MSN 8 Q3 2002
- Corona Q4 2002
- Windows .NET Server Q4 2002
- Longhorn PDC Q2 2003
- Windows XP SP 2 Q2 2003

SHARED BETS

- MSN 8 (MSN)
- Longhorn (Office, Server, MSN)
- Developer Platform (Visual Studio)
- Terminal Server/Projection (Xbox, Mira)
- Devices (Windows CE, MPD)
- Feedback Loop (Watson/OCA) for Microsoft, industry
- Microsoft Update (Office)
- PRD for tools, education (Product teams)

COMPETITION

- Linux: Win in edu/gov't/emerging, prove lower TCO
- Apple. Partner w/ ISVs/IHVs on scenarios, win digital media reviews/leadership
- Real: Maintain lead, broader/profitable ecosystem

ORGANIZATION

- Single vision/priorites for Windows Client, make WinBLT an effective decision making body
- Fill critical positions
- OHI + 5% in communication, x-group, & connection
- Progress on org span by October people review

CUSTOMER

- Methodical customer connection process by end FY03
- Fix 33% of OCA/Watson issues by SP 2
- Fix all MSRC & major P1 security bugs by SP 1, SP 2
- Drive customer satisfaction to 60% with XP
- Windows XP IPU to .28, MPI to 70
- Days to Solution (<7 Days) = 90% (80%)
- QFE Days to Hotfix – P1 = 14 days (43)

ECOSYSTEM

- All XP ingredients: >50% of market leading products DFW
- % of Pro Devs. targeting Win XP: 75%
- % DFW drivers redist on WU 50%
- % of DFW partners in OCA program: 60%
- WM format on Top 100 sites 40%
- Top 4 NAT vendors support 6to4 (achieves 80% coverage)

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Guidelines

Purpose: Highlight the non-financial performance metrics/goals your business will be measuring in FY03. Assume that these metrics will be reviewed at the mid-year Scorecard Review next year.

Instructions:

- Here are some ideas of things to include:
  - ❑ Thought Leadership
    - – What actions will you take that will alter the market perceptions of Microsoft?
  - ❑ Shared Bets
    - – What investments are you making in support of key cross-company initiatives?
    - – What will you deliver in the current fiscal year?
  - ❑ Key Product Deliverables
    - – Major product milestones/launches/important feature/product deliverables in FY03
    - – Product shipment dates
    - – PSS/QFE response/service level commitments
    - – Key trustworthy metrics (security, availability, privacy)
    - – If acquisitions are a part of this process please discuss
  - ❑ Customer Goals
    - – Customer/product satisfaction goals
    - – Support for communities
    - – Important flagship customer situations
  - ❑ Organizational Goals
    - – OHI, People goals and initiatives

FY01- FY05 WINDOWS CLIENT P&L

($ millions)	[redacted]	[redacted]		[redacted]		[redacted]		[redacted]		[redacted]
Billed Revenue	8,583	9,798	14%	10,474	7%	11,411	9%	13,008	14%	11%
Finished Goods	1,963	2,399	21%	2,488	4%	2,698	9%	400	26%	15%
COEM	969	1,081	11%	1,152	7%	1,234	7%	1,315	7%	8%
Commercial Revenue	2,933	3,480	15%	3,640	5%	3,932	0%	4,715	20%	13%
Royalty OEM	5,304	5,873	1%	6,332	8%	7,045	11%	7,823	11%	10%
Total Desktop Revenue	8,236	9,353	14%	9,972	7%	10,966	10%	12,539	14%	11%
Embedded	27	134	6%	140	5%	149	6%	156	6%	5%
Total Adjusted Gross Revenue	8,363	9,486	13%	10,112	7%	11,115	10%	12,695	14%	11%
Revenue Adjustments	(92)	(84)	9%	(84)	0%	(91)	9%	(113)	24%	5%
Rev. Adjustments as a % of revs	1.1%	0.9%		0.8%		0.8%		0.9%		5%
Net Revenue	8,271	9,402	14%	10,028	7%	11,023	10%	12,582	14%	11%
CoGS	100	125	24%	110	-12%	123	12%	163	32%	13%
COGS as a % of revs	1.2%	1.3%		1.1%		1.1%		1.3%		2%
Gross Margin	8,171	9,278	14%	9,919	7%	10,900	10%	12,420	14%	11%
R&D	884	937	6%	1,086	16%	1,120	8%	1,214	8%	8%
Net Services	98	103	6%	120	16%	132	10%	150	14%	11%
Sales & Marketing Expenses	336	388	5%	361	-7%	407	13%	464	15%	9%
Total Operating Expenses	1,318	1,428	8%	1,516	6%	1,659	9%	1,833	11%	9%
Net Commissions	241	302	25%	291	4%	316	9%	418	31%	15%
Contribution Margin	6,611	7,547	14%	8,112	7%	8,923	10%	10,168	14%	11%
CMarg % of Net Rev	79.9%	80.3%		80.9%		80.9%		80.8%		
Contribution Margin Growth in $s		935		565		811		1,245		
Incremental Headcount (Regular				186		100		100		
CPH % increase				4%		5%		6%		
Non-HC incremental spend ($M)				$ 160		$ 50		$ 75		
Launch cost investment				$ (100)						

Key Assumptions:

- Grow revenues while maintaining at least an 80+% contribution margin
- Existing headcount will be evaluated and redeployed where appropriate to align with strategic priorities
- No acquisition buffer
- Risks include Longhorn release by June 04, PC growth rates, Mix shift to premium SKU's Piracy/Linux, & Quality/Security issues

FY 03 IMPERATIVES

- Drive Revenue & XP Excitement
  - Promote XP Software, Establish Products, Push to Professional+, Win Emerging
- Turn the Corner on Longhorn
  - Builds, alignment, execution
- Earn the Trust of Our Customers, Partners, & Government
  - Community, closing the loop, compliance with SRPFJ
- Win Against Linux
  - Government, education, emerging
- Invest in the Ecosystem
  - Metrics, roadmap, leadership
- Develop People & Organization
  - Hires, communication, cross group, manager span, training

Challenges & Discussion

- Winning Against Linux: government, education, enterprise, embedded
- SRPFJ: OEMs hiding our innovations; Work to deliver, & comply
- Dry spell coming in FY04 – revenue, annuity, competition
- Emerging markets plan – Linux, other OSs, and piracy: ideas welcome
- Improving sick ecosystem – quality, innovation, profit
- Product segmentation – how many "premiums"?
- Finding the right balance on legacy support
- Making customer trust/connection a part of the culture
- Piracy: How to make progress (and yet balance with Linux)