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M I C R O S O F T M E M O

TO: WWRDM Attendees
FROM: Cameron Myhrvold
DATE: 13 February 1996
CC: Steve Ballmer, Mike Delman, Russ Siegelman, Dan Rosen, Anthony Bay

Public Network Sales and Business Development

Public Network Sales & Business Development is the new name for the Advanced Technology Sales group (AT Sales). It's been renamed to reflect a new focus on MSN and our Internet products versus the interactive TV opportunities which we focused on last year. Historically AT Sales had been associated with Craig Mundie's ACT division and its products. Public Network Sales is a customer facing group and works solely with network operators and represents Microsoft's entire product line for use in their commercial network services. While we will still work with many ACT products (such the Merchant server) we will work just as much with BSD, MSN and PSD products. Within network operator accounts we do not call on the IS directors or sell products for internal use (this is the job of the field sales force), instead we focus on selling to commercial business people charged with creating new value add services in their networks. Our mission is to: ***Establish and entrench Microsoft products and technologies in public networks worldwide.***

This is a key opportunity for MS since as these network operators build out new network services for the Internet or advanced multimedia applications we have the opportunity to build a new channel for distributing our products. Despite our increasing success in selling Windows NTS to large and medium organizations many people will never use NTS or BackOffice (consumers, academics, hobbyists, etc.). Yet, if we get network operators to build value add services in their networks that require NTS and BackOffice, than many of these user might end up using our servers and indirectly (through the netop) paying us for MS server CAL. The significance of this is that netops are a way for us to reach new customers and also an important potential asset in the battle for the Internet.

Our customers are network operators and the partners who serve them, these are:

- Telephone Companies (PTTs, RBOCs, IXCs, etc.)
- Cable Companies
- Internet Access Providers (IAP's)
- Private network operators (VANs, such as the IBM Global Network of GEIS)
- Smaller netops (competitive and alternative access providers)
- Online service providers (CIS, etc.)
- OEMs, Network equipment vendors & System Integrators who serve these Netops

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Strategy

A strength of Microsoft in competing for the Netops' business ought to be the breadth and scope of our products and services. Yet, in many ways we are far behind companies like NetScape and even Novell and Lotus in this market. To date we have engaged many of these companies on a product-by-product basis - pitching IE against Navigator, Exchange against Notes, NTS against UNIX and ANCS. In this kind of fight we have not fared well since many of our products are not shipping and lag competitors. What we are trying to do now is build a comprehensive plan for working with netops across our entire product line and to engage in building strong relationships with the business decision makers in these companies around the world. It is only by looking at everything we have to offer - MSN, Internet products, NTS, Windows 95 that we will win with these customers. So first and foremost Public Network

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Sales is responsible for: *Building a successful business relationship with the top network operators WW*; and, *building a strategy and plan for working with network operators as a channel for MSN and out Interne: products.*

Key Products and Offers, Calendar '96

There are two key things we will be evangelizing and selling in calendar 1996 – MSN "Access Partnerships" and Microsoft's Internet platform. Our Internet Platform is made up of the Internet Explorer, Windows NT and IIS, and our authoring tools. As much as possible we will tie these sales together and make one offer and deal for the netop to partner with us on MSN and adopt Microsoft's Internet platform. The list of countries we will try and establish this in can be found attached.

MSN "Access" & "Resale"

We will partner with Netops internationally to provide the IP network access portion of MSN outside the U.S. and inside the U.S. to the degree that we add additional access partners in the U.S. (Please refer to the MSN WWRDM memo for more detail on this). This will broaden and accelerate the coverage of MSN, using the Access Partner to create IP access networks, while limiting the costs and exposure of MSN in the physical buildout and operation of IP networks. Since Microsoft acquires the customer, helps with the customer support and provides the content that will retain the customer, we will share in the revenue these partners receive from MSN access. We will seek an annual recurring fee of $10-25 per user per year. This "access revenue" will amount to approximately 30% of MSN's total revenue outside of the U.S.

To maintain competition on price, coverage, time-to-market and network quality we will target having multiple access partners for MSN in every country/geography. Typically we will begin by working with the largest netop (the PTT) and also the largest/best Internet Access Provider (IAP). The PTT is the best political partner and will usually offer the best quality and coverage. The best local IAP will give us the best time to market and price. The MSN WWRDM memo goes over this in more detail, but our goals for MSN access are:

- 1 Access Partner network in top 7 countries by Q1'96 (Germany, Japan, UK, France, Australia, Canada, Sweden)
- 1 Access Partner network running or in beta in the next 32 markets by Q1'97
- Have multiple access partners running or in beta in the top 20 markets by Q1'97

Where a Netop is in the Online or Internet access business currently, they may opt to resell MSN as part of the basic content offer (either instead or in addition to MSN "access"). This is what we have done with MCI in the U.S. We essentially wholesale MSN accounts in bulk to the netop at a discount and they resell these accounts to their existing customers. In this case their are no netop phone numbers in Windows and the netop acquires the customer. This is valuable for us in gaining more customers for MSN and in positioning MSN as the lowest common denominator for content (the "CNN" of online/Internet). While we will do both access and resale deals, our clear focus for calendar 1996 is MSN access.

Internet Explorer

It's essential we increase the share of our browser. Network operators are important distributors of browsers and we will license at no cost the Internet Explorer for distribution with their Internet access business to maximize the distribution/adoption of IE as browser of choice. We will attempt exclusive arrangements, fight for preferred status, but settle for parity with NetScape. Even offering IE for free will not win us every sale. In the U.S. we will offer IE broadly to netops and IAPs including the many hundreds of smaller regional IAPs.

We will also tie IE to our MSN Access agreements and try to get every access partner to adopt IE. With MSN Access Partners only we will include their sign-up information and numbers to the IE that we distribute. In return for this, we will expect exclusivity or a high degree of preference and promotion for our browser. We will also expect a bounty to be paid by the netop/IAP in return for each customer we deliver to them for Internet access through IE.

NTS & BackOffice platform

NT Server is our strategic networking platform and it is key to move netops to NTS and BackOffice as the foundation of their value-added network services. Over time we want to replace UNIX with NT in the public network. The

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opportunities for NTS and Back Office are both Internet and Intranet related, including large scale network services (public mail/Exchange), outsourcing for services and MIPS running in the network (data backup and warehousing), or as customer premise equipment, supported by the Net Op (branch office routers, network management). We will specifically focus on the Internet Information Server and work with netops to make IIS their preferred web server for their websites. IIS is a strong product and we have already replaced NetScape in some accounts with IIS.

Authoring Tools

To complete Microsoft's Internet product offering we will also offer Internet Studio and the Vermeer Front Page product to network operators. Several netops have already licensed Front Page as part of their web hosting and web publishing business (where they provide Front Page to their customers for designing the websites the netop will host). We will focus on offering a suite of products including IE NTS, IIS, and Front Page for the Web Publishing and Hosting business.

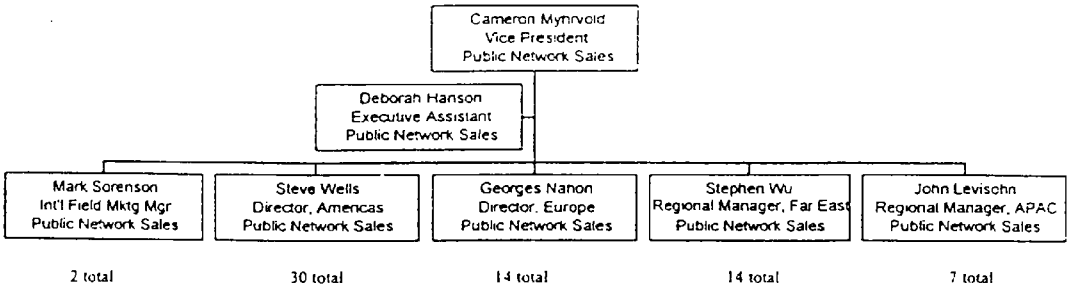
What About MiTV?

The timeframe for interactive TV and the broadband networks required to support them have clearly moved out. This is as true for Sun, SGI and Oracle as it is for us. It will take a long time for these systems to mature and for the huge investment necessary to build these networks to be built. In the interim the Internet has really taken off as a narrowband and mid-band opportunity. We will cut back on our investment in MiTV and broadband activities in favor of pursuing the Internet opportunities here and now. ATM networks are the future and we are still committed to ITV, but clearly there is much more interest in the Internet and nearer term opportunities.

Public Network Sales will limit our current investment in MiTV by transitioning our existing customers to our Internet products. We will support the current commitments, including ongoing trials and MiTV Lab Release (MLR) program. However, we will not enter into any new trials, nor sell MLR to any new accounts. We will actively explore mid-band opportunities with MSN and our Internet platform with both cable-modems and ADSL.

We will continue to work on the technology and when broadband ATM networks do begin to appear we will be ready with the best technology. In the interim we will focus on where the action is – on the Internet.

Organization



Key Future products

There's a variety of important future products well positioned for network operator adoption, including the Merchant Server for ecommerce, Media Server (for delivering audio and video over the Internet), POP (Point-of-Presence) Services for carrier grade "access services" for netops (this is the way we will get IAPs to base their businesses on NT), and MiTV and video-on-demand applications. The key with each of these is establishing NT in the public network today. If we can do this then we can farm this for life by selling additional NT-based value add servers like these to our netop customers.

Likewise we will also sell "Sicily" for distributing MSN "infrastructure services" like authentication, billing and user tracking. This will further cement our MSN partnerships and help netops build their own businesses and services leveraging MSN's infrastructure.

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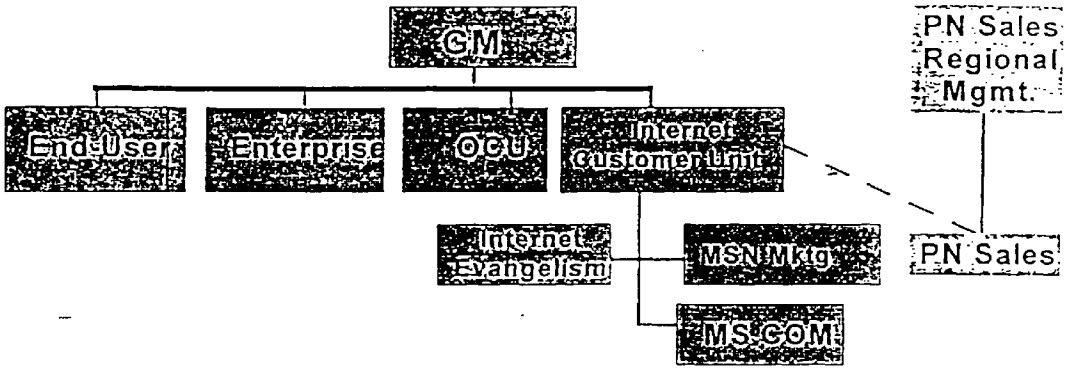
Network Provider Program

The Network Provider Program supersedes and incorporates both the original WOIF program, as well as the InSight program from MiTV, into a single program for all Network operators including online information network, business solutions tool kits and events. This program will leverage MS resources wherever possible to develop a NP program framework that is consistent worldwide and accommodates the needs of PNS accounts worldwide.

Working with MS Subsidiaries

It's essential the Public Network Sales work with the subs and specifically with the Internet Customer Unit. Below is a diagram showing the working relationship. The Public Network sales people will continue to report to Redmond, but be based in-country or in region and have a dotted line responsibility to the Internet Customer Unit in the subsidary.



It's important that Public Network Sales people locally work with the MSN and ICU people and coordinate on access partners, pricing access deals, etc. It's also vital that the Public Network Sales people locally take direction and strategy and programs from Redmond.

As you can see in the attached list we will be accelerating our IP access build out WW We will be adding staff to help accomplish this and to address new regions we are not currently working in (AIME and Latin America).

- North America staffed in Redmond
- Latin America staffed in Miami (and reporting to Steve Wells in Redmond)
- Europe, staffed in UK, France, Germany, Belgium, Italy and Sweden
- Asia Pacific, staffed in Australia, Malaysia, Singapore
- AIME staffed in London

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MSN International Access Build-Out Plan

	Total Business Net Revenue (1000s)	Total PC Install Base Plan 96 (millions)	Home PCs	Win95 Upgrade	Win95 Upgrade Rate%	Pop.	GDP/Person	Total(1000s)	Phone Line Per 100 people
Japan	763,247	11.4	897,400	451,532	11.0%	125.03	$ 37,027	59,870	48
Germany	640,034	13.7	1,600,000	940,000	16.1%	81.70	$ 20,957	39,200	48
UK	473,869	9.7	1,074,455	837,715	19.9%	58.60	$ 16,727	28,389	49
France	364,190	8.4	457,000	545,999	10.3%	58.10	$ 21,551	31,600	55
Australia	197,297	4.8	310,000	400,000	20.0%	18.00	$ 18,872	8,850	50
Sweden	117,634	2.2	144,210	200,000	20.0%	8.90	$ 17,270	5,967	68
Italy	168,885	4.3	221,100	285,310	17.8%	57.70	$ 17,199	24,542	43
Switzerland	120,218	2.2	191,800	276,675	21.3%	7.00	$ 21,300	4,258	60
Brazil	115,176	2.7	200,000	123,417	15.1%	157.80	$ 4,975	11,746	7
Taiwan	102,991	1.8	161,000	54,900	12.0%	21.15	$ 11,567	8,503	40
Holland	90,385	3.2	205,000	174,000	19.3%	15.50	$ 16,955	7,830	51
Korea	85,461	4.5	680,000	57,000	5.7%	44.90	$ 659	17,647	40
Belgium	69,573	1.5	73,000	115,000	19.2%	10.20	$ 17,402	4,526	45
Spain	57,484	3.0	163,283	132,785	12.0%	39.30	$ 12,672	14,685	37
Denmark	56,824	1.2	82,235	98,000	17.0%	5.20	$ 18,385	3,123	60
Norway	55,994	1.0	67,477	113,000	18.0%	4.32	$ 20,696	2,392	55
Finland	51,374	0.8	44,997	68,000	18.0%	5.10	$ 15,902	2,801	55
South Africa	48,209	1.2	35,000	80,617	21.0%	43.50	$ 2,805	6,845	9
Austria	43,302	1.1	99,000	91,000	16.7%	8.10	$ 18,494	3,681	47
Hong Kong	38,027	0.9	44,479	35,206	20.0%	6.00	$ 19,833	3,149	54
Mexico	37,178	2.6	41,000	88,158	7.4%	93.70	$ 7,898	8,493	9
Singapore	35,370	0.5	45,000	37,500	15.0%	2.82	$ 19,539	1,332	47
New Zealand	34,832	0.9	65,000	90,535	20.0%	3.50	$ 15,143	1,658	47
Czech Republic	23,834	0.5	21,600	18,000	18.0%	10.40	$ 7,212	2,151	21
Portugal	23,701	0.8	44,785	41,383	13.7%	9.90	$ 9,212	1,315	36
Poland	23,182	1.1	30,000	23,000	8.0%	38.60	$ 2,383	5,006	13
Columbia	21,398	0.7	35,000	34,098	15.2%	37.70	$ 1,565	3,518	7
Israel	17,995	0.6	85,000	12,800	9.8%	5.50	$ 11,945	2,138	39
Argentina	17,615	1.4	35,625	38,336	11.0%	34.60	$ 5,347	4,834	14
Russia	16,860	3.7	97,500	30,000	8.0%	147.50	$ 5,257	24,097	16
Hungary	16,725	0.5	15,000	20,000	13.3%	10.20	$ 5,588	1,732	17
India	14,965	1.0	14,000	11,000	15.7%	930.60	$ 249	9,795	1
Malaysia	14,129	0.8	40,000	30,000	15.0%	19.90	$ 2,769	2,864	15
Chile	12,950	0.6	20,000	27,215	15.0%	14.30	$ 6,713	1,545	11
PR China	8,313	3.1	50,000	24,100	5.0%	1,218.80	$ 589	27,230	2
Thailand	12,261	1.0	35,000	12,500	10.0%	60.20	$ 5,365	2,752	5
Venezuela	9,436	0.5	15,125	20,100	10.7%	21.80	$ 7,385	2,334	11
Greece	7,042	0.6	10,000	8,700	7.0%	10.50	$ 8,876	4,976	48
Turkey	6,413	0.4	4,000	8,500	6.0%	61.64	$ 2,145	12,212	20
Peru	5,758	0.5	8,550	13,325	12.4%	24.00	$ 2,917	772	3
Slovak Republic	3,892	0.1	-	500,000	50.0%	5.40	$ 5,741	1,009	19
Philippines	3,536	0.7	20,000	7,032	12.0%	68.40	$ 2,580	1,110	2

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Slovenia	3,381	0.2	7,120	5,000	20.0%	2.00	$	6,900	573	30
Indonesia	3,373	1.2	15,000	8,200	10.0%	198.40	$	2,878	2,521	1
Morocco/ North Africa	3,254	0.2	400	3,500	7.0%	29.20	$	2,408	993	4
Ecuador	2,760	0.2	2,856	3,500	6.0%	11.46	$	1,245	658	6
Uraguay	2,432	0.3	-	5,790	20.2%	3.20	$	5,938	582	18
Regions (not countries)										
Dubai/Middle East	19,737	1.0	35,000	31,190	7.8%					
Caribbean	11,938	0.7	5,000	15,644	13.0%					

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