



# Accelerating Growth

Microsoft's strategic rationale for deal announced  
with Nokia on September 3, 2013

This presentation contains forward-looking statements, which are any predictions, projections or other statements about future events based on current expectations and assumptions that are subject to risks and uncertainties. The potential risks and uncertainties include, among others, that the expected financial and other benefits from the Nokia transaction may not be realized, including because of: our inability to close the transaction, or Nokia's inability to repay the financing should it take down the financing and the transaction doesn't close; the response to the acquisition by the customers, employees, and strategic and business partners of the Nokia's Devices & Services business; the extent to which we achieve anticipated operating efficiencies and cost savings, and anticipated smart device and mobile phone market share targets; the overall growth rates for the smart device and mobile phone markets; ongoing downward pressure on prices for mobile devices; unanticipated restructuring expenses; any restrictions or limitations imposed by regulatory authorities; the impact of Microsoft management and organizational changes resulting from acquisition of Nokia's Devices & Services business; the ability to retain key Nokia personnel; our effectiveness in integrating the Nokia Devices & Services business with Microsoft's businesses; the response of existing Microsoft smart devices original equipment manufacturers; risks related to the Nokia Devices & Services international operations; and our ability to realize our broader strategic and operating objectives. Actual results could materially differ because of the factors discussed above, in the comments made during this conference call, and in the risk factors section of our Form 10-K, Form 10-Qs, and other reports and filings with the Securities and Exchange Commission. We do not undertake any duty to update any forward-looking statement.

# Today's Speakers (on the phone)



**Steve Ballmer**  
CEO  
Microsoft Corporation



**Amy Hood**  
EVP & CFO  
Microsoft Corporation



**Terry Myerson**  
EVP, Operating Systems  
Microsoft Corporation



**Stephen Elop**  
EVP, Devices & Services  
Nokia Corporation



**Brad Smith**  
EVP & General Counsel  
Microsoft Corporation



**Chris Suh**  
GM, Investor Relations  
Microsoft Corporation

# The Deal



Microsoft acquires Nokia's phone business

Microsoft acquires Nokia's Qualcomm,  
other key IP licenses

Microsoft licenses Nokia's patents  
for use across all Microsoft products

Microsoft licenses ability to use Nokia HERE  
broadly in its products

Nokia retains NSN, HERE, its CTO Office,  
and its patent portfolio

Nokia and Microsoft cement original partnership  
with this deal before 2014 recommitment date

# Nokia: More Than 200M Beautiful Phones A Year



# Strategic Rationale



**NOKIA**

Accelerate Phone Share

Strengthen Overall Opportunity

Smart Acquisition

Strong Execution Plan

# Accelerate Phone Share

# Microsoft and Nokia Partnership



**February 2011**

Strategic partnership signed  
Nokia exclusive to Windows Phone  
Microsoft commits to HERE

**November 2011**

Lumia 800 ships  
First Nokia Windows Phone

**November 2012**

Windows Phone 8 launch

**April 2013**

Lumia 520 ships  
Entry level price point

**July 2013**

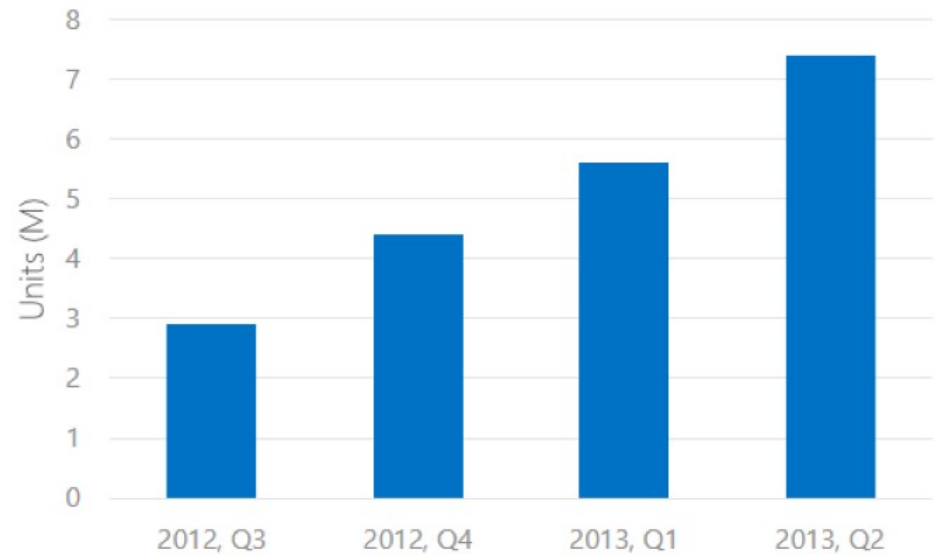
Lumia 1020 ships  
Best camera phone in the world



# Nokia and Windows Phone Momentum

- >10% share in 9 markets
- Outselling Blackberry in 34 markets
- 78% YOY growth

Nokia Windows Phone Shipments  
by Calendar Quarter



# One Brand, United Voice

Clarity helps make  
the market for  
all Windows Phones

Microsoft Windows Phone.  
Nothing else comes close.



 Microsoft

Apps for the Windows Phone Store available only on the Windows Phone Store.

# Accelerating Innovation



Next billion  
people online



Imaging



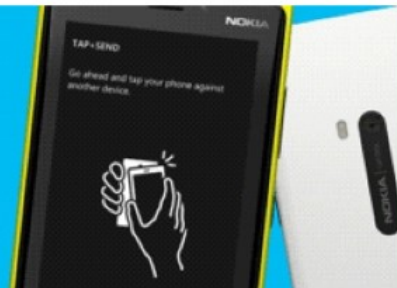
Personal assistant



Meetings



Information capture



Connectivity



Interactive  
entertainment



New form factors

Strengthen Overall  
Opportunity

# Transformation: Beyond Software and PCs

A family of devices with integrated services that best empowers people and businesses for the activities they value most

Greater smartphone success strengthens Microsoft and our OEMs

High value services including geospatial are key



# High Value Services Including Geospatial

- Office, Skype, Xbox Live, SkyDrive, Bing at Microsoft
- Geospatial and mapping essential to integrate for mobile
- Need an effective alternative to Google; more than one “digital map of the world”
- Nokia can maximize HERE use by others
- Microsoft gets flexibility to integrate HERE with other experiences
- A new, simpler, and more effective partnership for the future
  - Microsoft acquires rights equivalent to ownership for the HERE mapping apps
  - Nokia will continue to improve these apps for other platforms
  - For mapping data and services, under a new four-year agreement:
    - Nokia will provide Microsoft with mapping data services in exchange for annual payments
    - Microsoft can combine Nokia mapping data with data from other sources
    - Microsoft can syndicate Nokia’s data to customers using Windows Azure for additional fees

# Devices and Services: Why Phones?

- Devices help services and services help devices
- With the consumerization of IT, users matter at both home and work
  - Devices and high volume/value services are ways to build a large user base
- Microsoft and phones
  - High value experiences light up on great devices
  - Device innovation gives Microsoft economic opportunity
  - We will continue to support iPhone and Android/Galaxy phones with our services
  - But we cannot risk having Google or Apple foreclose app innovation, integration, distribution, or economics
  - We need a first-rate Microsoft phone experience for users
- Windows: 300M+ devices a year
  - Success in phones is important to success in tablets
  - Success in tablets will help PCs
  - We will take additional steps to promote the app ecosystem for Windows

# Devices and Services: Why Phone Hardware? Driving Ongoing OEM Opportunity

- Windows Phone has achieved #3 position in smartphones globally
- Acquisition protects Windows Phone future
  - High concentration with Nokia
  - First party hardware ensures Windows Phone presence
  - OEM model alone expensive in this market position
- Acquisition reduces friction moving forward
  - Pace of innovation
  - Marketing efficiency
- Acquisition grows OEM opportunity
  - Address diversity of markets
  - Continue existing partnerships
  - Microsoft success creates expanded OEM opportunity



# Devices: Nokia D&S Brings Key Capabilities



Device design  
and engineering

Device distribution  
and sales

Globally scaled  
supply chain

Mature operational  
processes and systems

Operator sales  
and support

Windows Phone

# Smart Acquisition

# Smart Acquisition

## Deal Overview

- €3.79 billion for Nokia's Devices and Services business including key patents
- €1.65 billion for a broad intellectual property license
- Uses offshore cash; no impact on ability to return capital to shareholders

IP and patent agreements have material value

Mobile phone business provides entry into key growth markets

Improved unit economics

Long term value creation

# Better Unit Economics Drive Profitability

## Current Partnership

- Windows Phone royalty gross margin (<\$10 per unit)
- Platform payment support
- Marketing investment

## Acquisition

- Smart Device gross margin (> \$40 per unit)
- Integrated hardware R&D and design
- Focused marketing investment

Improved unit economics by owning gross margin dollars and synergies

Fueling investment in innovation and marketing

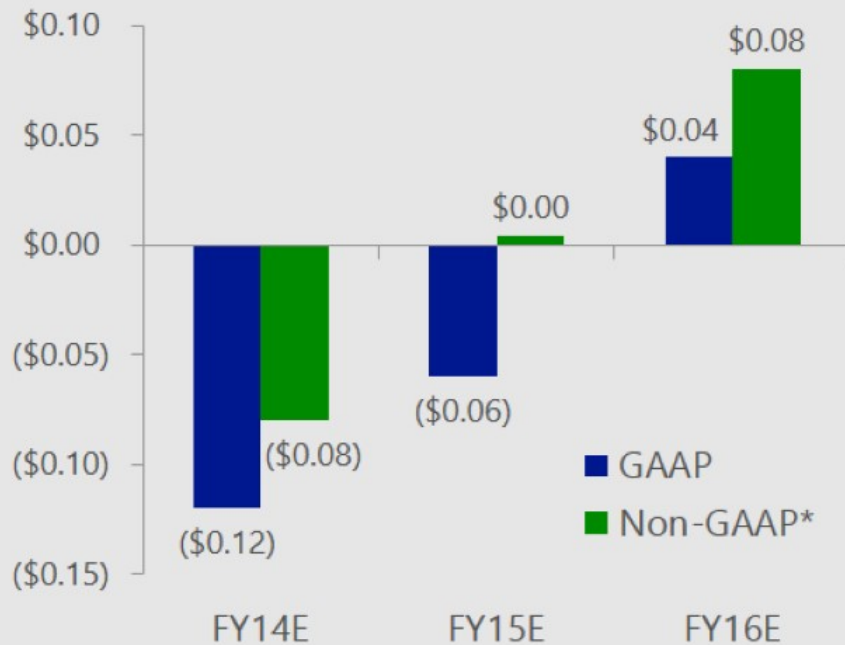
Driving further unit growth and market share



Operating income breakeven when Smart Device units exceed ~50M

# Accretive to Adjusted EPS by FY15

## Expected EPS Impact



\* Excludes acquisition-related amortization and integration expenses

- The transaction is expected to be accretive to FY15 Non-GAAP EPS\*
- Expected to be accretive to both GAAP and Non-GAAP EPS in FY16
- Annual cost synergies of \$600M within 18 months after close

# Long Term Value Creation

Outsized financial opportunity fueled by growth in smartphone business

Smartphone Revenue Opportunity		
2018E Worldwide Smartphone Shipments	1.7 billion	
Assumed Market Share	15%	
Annual Revenue	~\$45 billion	

NPV		
Assumed Operating Margin	5%	10%
Annual Operating Income	\$2.3 billion	\$4.5 billion
NPV	\$15 billion	\$30 billion

# IP Acquisition and License Agreements with Nokia

- Intellectual property is an important element of the smart devices business
  - Unless managed proactively, patent issues can create uncertainty for smartphone shipments
  - Unless managed creatively, patent royalties can add over 10 percent to the costs of a smartphone Bill of Materials
- Microsoft is acquiring over 8,500 design patents, ownership of the Lumia & Asha brands, and a ten-year license to use the Nokia brand on feature phones
- Microsoft is paying €1.65 billion for a fully paid-up license to Nokia's utility patents
  - Covers all of Nokia's patents and applications as of the closing date (except NSN)
  - The total license price includes an option to convert coverage from a ten-year to a perpetual license
  - The agreement provides for a broad, five-year, two-way standstill, including NSN
- Nokia's patent portfolio is one of the most valuable in the tech sector
  - Nokia's portfolio has approximately 30,000 utility patents and patent applications; we consider it to be one of the two most valuable portfolios relevant to wireless connectivity
  - The license also provides significant value for Microsoft's existing businesses, replacing after 2014 Microsoft's existing annual license payment to Nokia

# Microsoft Also Secures Other Valuable Patent Benefits

- Nokia is assigning to Microsoft benefits under more than 60 patent licenses with third parties
  - Nokia is assigning its existing license with Qualcomm, which is the other company that ranks with Nokia at the top in having a valuable wireless patent portfolio
  - Nokia is also conveying rights under its agreements with IBM, Motorola Mobility, and Motorola Solutions
  - These give Microsoft the benefit of attractive royalty arrangements Nokia negotiated
- Microsoft will combine the new Nokia license and these assignments with its existing patent agreements
  - Microsoft's agreement with Samsung will provide coverage for these additional devices without added payments
  - Microsoft will also benefit from its prior or continuing agreements with Apple, LG, Nortel, Kodak, and others at no additional cost
- Put all together, Microsoft will have the most cost-effective patent arrangements for smart devices



# Strong Execution Plan

# Strong Execution Plan

Nokia executives on board assuming key roles

Device/supply chain consolidation

Phone device R&D centered in Finland

Marketing/services consolidation

Nokia sales team intact

Integration executives mobilized

Working rhythms intact



Stephen Elop  
EVP Devices



Jo Harlow  
Smart Devices



Stefan Pannenbecker  
Head of Design



Juha Putkiranta  
Operations



Timo Toikkanen  
Mobile Phones



Chris Weber  
Sales & Marketing

# Confident About Regulatory Approval

- We will submit the acquisition for approval in the EU, U.S., China, India, Brazil, Russia, Canada, and other countries
- We are confident about our prospects for approval by early 2014
  - The acquired assets are complementary
  - The acquisition will promote competition
    - Integration of hardware and software will help Microsoft offer competitive alternatives to Google and Apple
    - Microsoft will gain proven capability and talent critical to success in devices and services
    - Microsoft remains committed to working with partners in the Windows & Windows Phone ecosystems
  - The acquisition will benefit consumers
    - Will drive down Microsoft's devices and services costs from development through go-to-market and by obtaining cost savings from Nokia's existing IP licenses
    - Provides consumers with more choice and innovation

Q&A

# Reconciliation of GAAP and non-GAAP Financial Measures

<b>Net Income</b>	Twelve Months Ended		
	June 30,		
<b>(In millions)</b>	2014	2015	2016
<b>Estimated impact of acquisition (GAAP)</b>	(\$1,005)	(\$541)	\$299
<b>    Estimated for acquisition-related amortization and integration expenses</b>	\$309	\$548	\$410
<b>Estimated impact of acquisition (non-GAAP)</b>	(\$696)	\$7	\$709

The non-GAAP measures adjust for the estimated acquisition-related amortization and integration expenses, and are included as additional clarifying items to aid readers of this presentation in further understanding the Company's estimate for the impact of the Nokia devices and services acquisition in FY14, FY15 and FY16. The non-GAAP financial measures provided should not be considered as a substitute for, or superior to, the estimates prepared in accordance with GAAP.

<b>Earnings per share</b>	Twelve Months Ended		
	June 30,		
	2014	2015	2016
<b>Estimated impact of acquisition (GAAP)</b>	(\$0.12)	(\$0.06)	\$0.04
<b>    Estimated for acquisition-related amortization and integration expenses</b>	\$0.04	\$0.06	\$0.04
<b>Estimated impact of acquisition (non-GAAP)</b>	(\$0.08)	\$0.00	\$0.08

