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## FY06 Overview

- Double digit revenue growth
- Double digit bookings growth in both the quarter and fiscal year
- Business Solutions and Mobile & Embedded Devices achieved operating profitability for the fiscal year
- Substantial progress on shareholder return strategy

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## Announced Cash Distribution Plan

Today's announcement consists of two components:

- Tender offer: Repurchase up to \$20 billion of common stock at a price per share not greater than \$24.75 and not less than \$22.50
- Authorization for a \$20 billion stock repurchase plan

The content of this slide is for informational purpose only and is not an offer to buy or the solicitation of an offer to sell any shares of the Company's common stock. The solicitation of offers to buy the Company's common stock will only be made pursuant to the Offer to Purchase and related materials that the Company will send to its shareholders. Shareholders should read those materials carefully because they will contain important information, including the various terms and conditions of the tender offer. Shareholders will be able to obtain copies of the Offer to Purchase, related materials filed by the Company as part of the statement on Schedule "TO" and other documents filed with the Securities and Exchange Commission through the Commission's internet address at <http://www.sec.gov>, without charge when these documents become available. Shareholders and investors may also obtain a copy of these documents, as well as any other documents the Company has filed with the Securities and Exchange Commission, without charge, from the Company or at the Investor Relations section of the Company's Web site: [www.microsoft.com](http://www.microsoft.com). Shareholders are urged to carefully read these materials prior to making any decision with respect to the offer. Shareholders and investors who have questions or need assistance may call Georgeson Shareholder Communications, Inc. at (800) 868-1366.

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## Looking ahead to FY07

- Second and largest phase of multi-year product cycle
- Continued double digit revenue growth
- Operating income growth to lag revenue growth in the first half of FY07. We expect this to reverse in the second half of FY07
- Investments in key areas of long-term growth opportunities

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## FY06-Q4 Financial Summary

- **Total revenue: \$11.80 billion**
  - 16% growth over the comparable period last year
  - Q3 guidance was \$11.5 – \$11.7 billion
- **Operating income: \$3.88 billion**
  - Operating income was \$4.23 billion and up 13% Y/Y when adjusted to exclude certain legal charges
  - Q3 guidance was \$4.0 - \$4.2 billion
- **Diluted earnings per share: \$0.28**
  - EPS was \$0.31 and up 3% Y/Y when adjusted to exclude certain legal charges
  - Q3 guidance was \$0.30
- **Cash returned to shareholders**
  - Quarterly dividend and share repurchases returned over \$5.0 billion to shareholders

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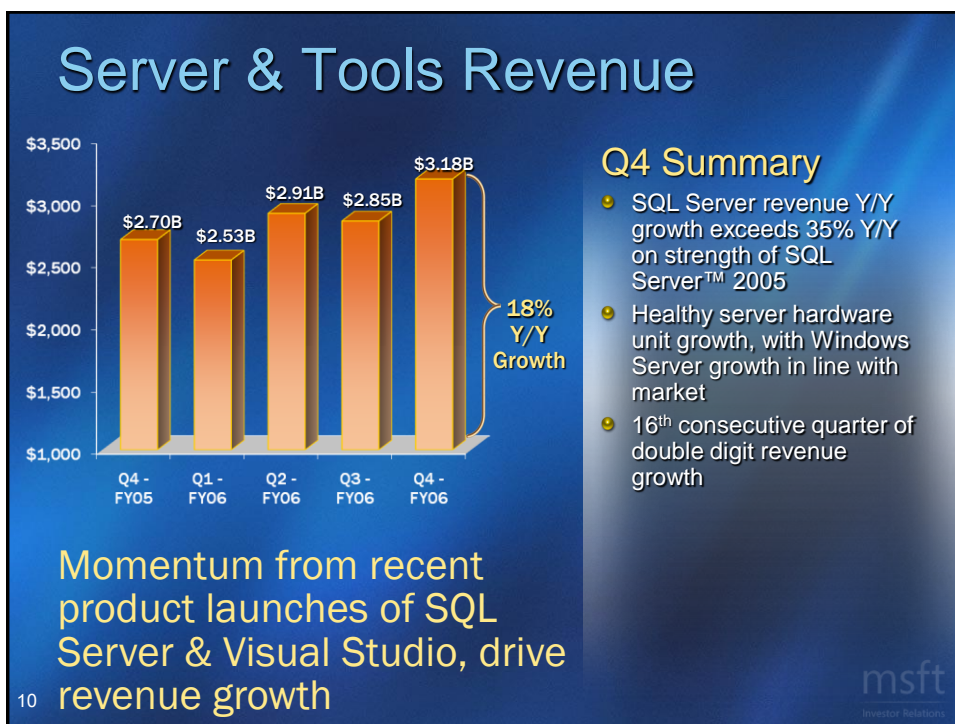
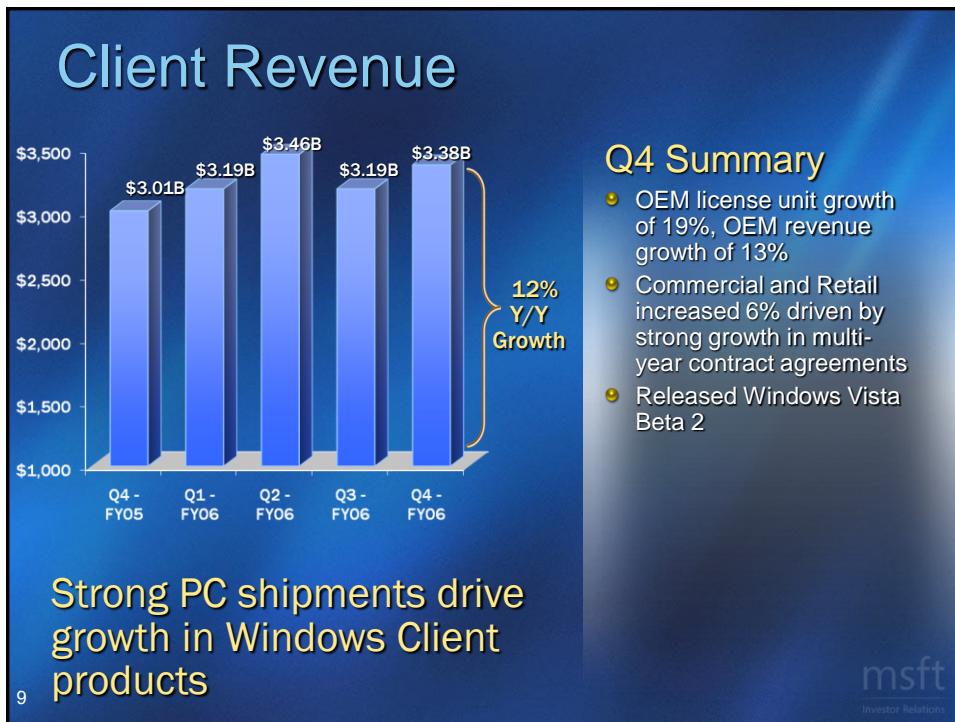
## FY06 – Q4 Key Data Points

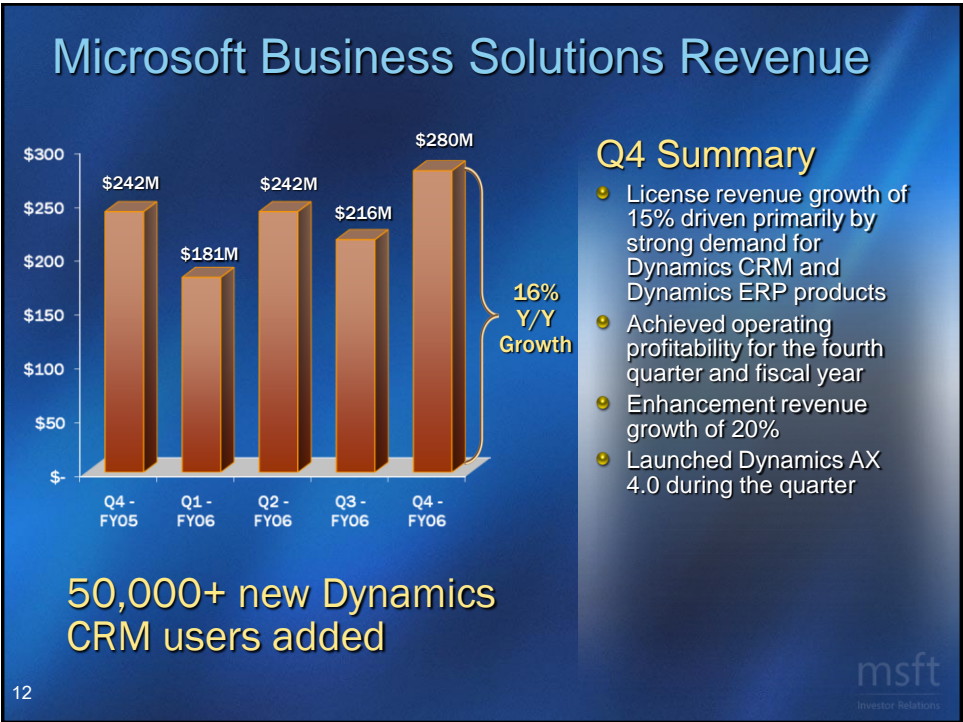
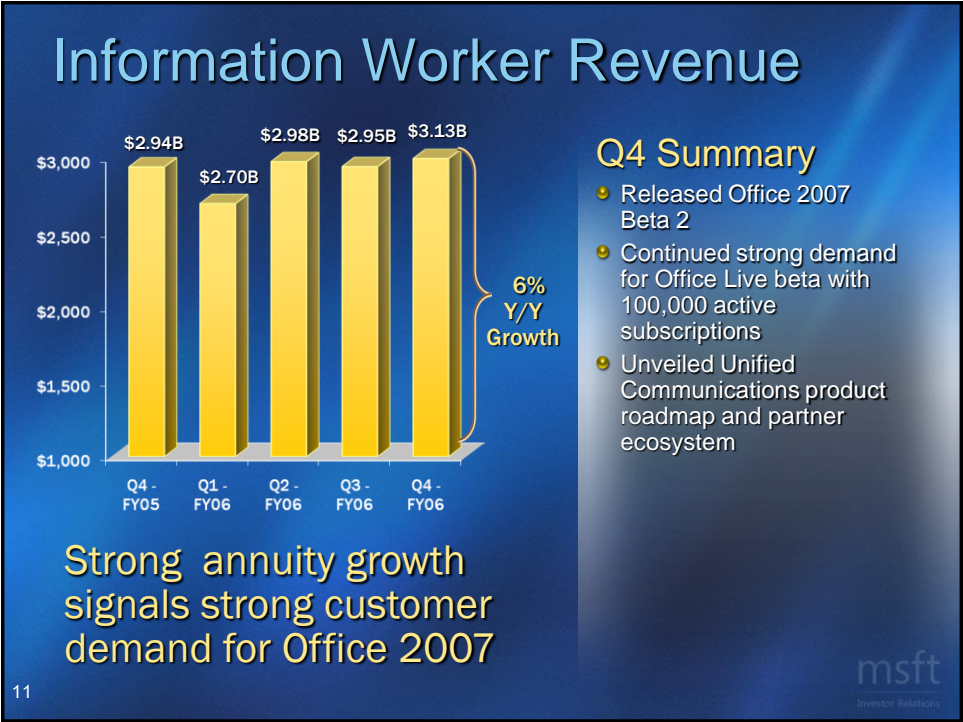
- PC market growth estimate: ~11% -12%
- Approximate billing mix
  - OEM: 30%
  - Multi-year licensing agreements: 40%
  - License only: 15%
- Unearned balance of \$10.9 billion
- Contracted, not billed balance exceeds \$9 billion

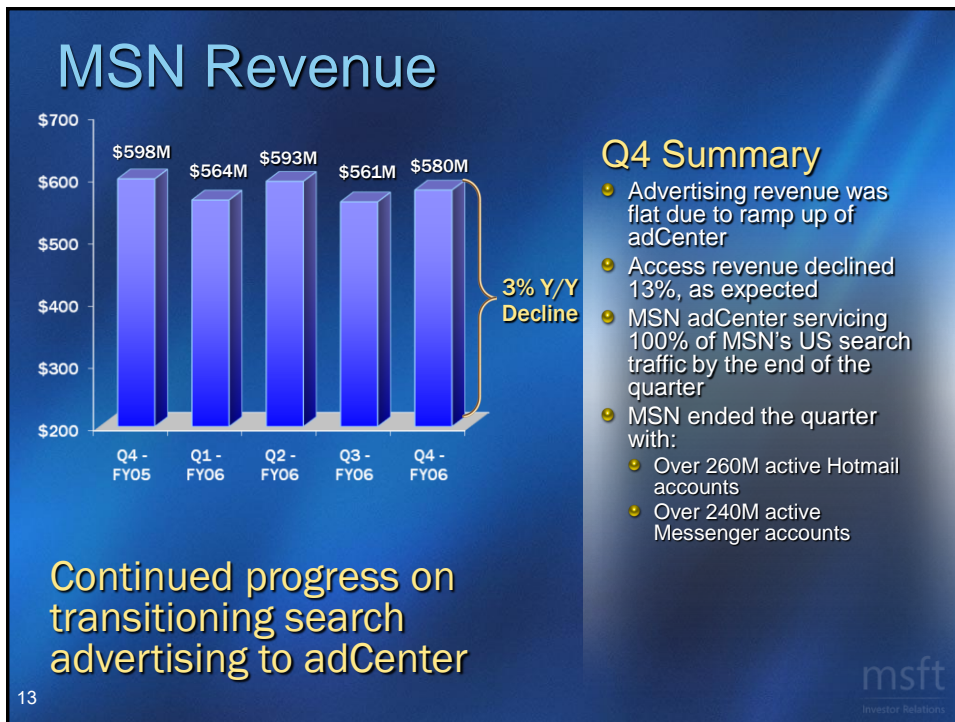
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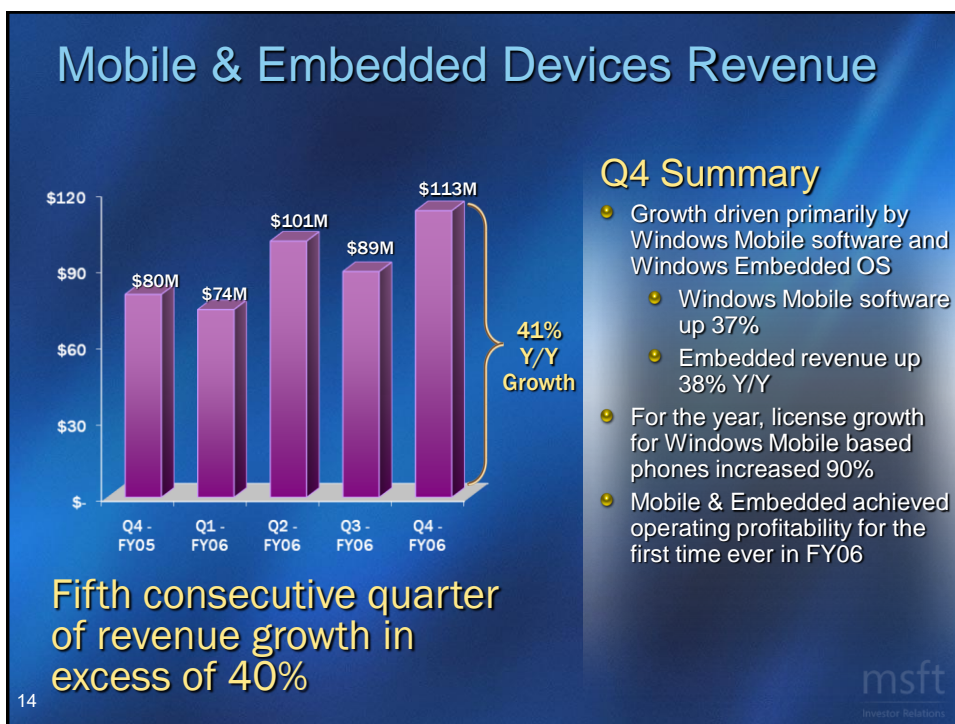






### Q4 Summary

- Advertising revenue was flat due to ramp up of adCenter
- Access revenue declined 13%, as expected
- MSN adCenter servicing 100% of MSN's US search traffic by the end of the quarter
- MSN ended the quarter with:
  - Over 260M active Hotmail accounts
  - Over 240M active Messenger accounts



### Q4 Summary

- Growth driven primarily by Windows Mobile software and Windows Embedded OS
  - Windows Mobile software up 37%
  - Embedded revenue up 38% Y/Y
- For the year, license growth for Windows Mobile based phones increased 90%
- Mobile & Embedded achieved operating profitability for the first time ever in FY06



## Home & Entertainment Revenue



Continued strong customer demand for Xbox 360 console

### Q4 Summary

- Over 125% Xbox revenue growth
  - 1.8M Xbox 360 console shipments; 5M console installed base
  - Strong software and peripheral attach
  - Over 3M Xbox Live subscribers
- 24% Y/Y growth in Home Products Division, MSTV & PC Games
- Announced the acquisition of Lionhead during the quarter

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## Fiscal Q4 Results

| (\$ in millions, except EPS)             | FY06-Q4   | FY05-Q4   | % Change |
|--|-----------|-----------|----------|
| Revenue                                  | \$ 11,804 | \$ 10,161 | 16%      |
| Cost of revenue                          | 2,130     | 1,388     | 53%      |
| Research and development                 | 1,861     | 1,664     | 12%      |
| Sales and marketing                      | 2,822     | 2,707     | 4%       |
| General and administrative               | 1,110     | 1,413     | -21%     |
| Total operating expenses                 | 7,923     | 7,172     | 10%      |
| Operating income                         | 3,881     | 2,989     | 30%      |
| Investment income and other              | 377       | 872       | -57%     |
| Income before income taxes               | 4,258     | 3,861     | 10%      |
| Provision for income taxes               | 1,430     | 161       | 788%     |
| Net income                               | \$ 2,828  | \$ 3,700  | -24%     |
| EPS - Diluted                            | \$ 0.28   | \$ 0.34   | -18%     |
| Cash dividends declared per common share | \$0.09    | \$0.08    |          |

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## Fiscal Year 2006 Results

| (\$ in millions, except EPS)             | FY06      | FY05      | % Change |
|--|-----------|-----------|----------|
| Revenue                                  | \$ 44,282 | \$ 39,788 | 11%      |
| Cost of revenue                          | 7,650     | 6,031     | 27%      |
| Research and development                 | 6,584     | 6,097     | 8%       |
| Sales and marketing                      | 9,818     | 8,563     | 15%      |
| General and administrative               | 3,758     | 4,536     | -17%     |
| Total operating expenses                 | 27,810    | 25,227    | 10%      |
| Operating income                         | 16,472    | 14,561    | 13%      |
| Investment income and other              | 1,790     | 2,067     | -13%     |
| Income before income taxes               | 18,262    | 16,628    | 10%      |
| Provision for income taxes               | 5,663     | 4,374     | 29%      |
| Net income                               | \$ 12,599 | \$ 12,254 | 3%       |
| EPS - Diluted                            | \$ 1.20   | \$ 1.12   | 7%       |
| Cash dividends declared per common share | \$0.34    | \$3.40    |          |

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## Comparative Balance Sheet

| (\$ in millions)                        | 6/30/2006 | 6/30/2005 | Change    |
|---|-----------|-----------|-----------|
| Cash & short term investments           | \$34,161  | \$37,751  | (\$3,590) |
| Accounts receivable, net                | 9,316     | 7,180     | 2,136     |
| Other current assets                    | 5,533     | 3,806     | 1,727     |
| Current assets                          | 49,010    | 48,737    | 273       |
| Property & equipment                    | 3,044     | 2,346     | 698       |
| Equity & other investments              | 9,232     | 11,004    | (1,772)   |
| Other assets                            | 8,311     | 8,728     | (417)     |
| Total assets                            | \$69,597  | \$70,815  | (\$1,218) |
| Short-term unearned revenue             | \$9,138   | \$7,502   | \$1,636   |
| Other current liabilities               | 13,304    | 9,375     | 3,929     |
| Current liabilities                     | 22,442    | 16,877    | 5,565     |
| Long-term unearned revenue              | 1,764     | 1,665     | 99        |
| Other long-term liabilities             | 5,287     | 4,158     | 1,129     |
| Shareholders' equity                    | 40,104    | 48,115    | (8,011)   |
| Total liabilities & shareholders equity | \$69,597  | \$70,815  | (\$1,218) |

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## Guidance\*

|               | <i>FY07-Q1</i> | <i>FY07</i> |
|---------------|----------------|-------------|
| PC market     | 9% - 11%       | 8% - 10%    |
| Server market |                | 10% - 12%   |

|  | <i>FY07-Q1</i>                         | <i>FY07</i>                            |
|--|--|--|
| Total revenue                          | <b>\$10.6 billion - \$10.8 billion</b> | <b>\$49.7 billion - \$50.7 billion</b> |
| Client                                 | 5% - 6%                                | 8% - 10%                               |
| Server & Tools                         | 12% - 14%                              | 14% - 15%                              |
| Online Services Group                  | Flat to down 4%                        | 7% - 11%                               |
| Microsoft Business Division            | 3% - 5%                                | 9% - 10%                               |
| Entertainment & Devices Division       | 53% - 60%                              | 31% - 46%                              |
| Cost of goods sold (as a % of revenue) | Up 3 pts.                              | Up 1 - 2 pts.                          |
| Operating income (GAAP)                | <b>\$4.0 billion - \$4.2 billion</b>   | <b>\$18.9 - \$19.4 billion</b>         |
| Earnings per share (GAAP)              | <b>\$0.30 - \$0.32</b>                 | <b>\$1.43 - \$1.47</b>                 |

19 \* Guidance as of July 20, 2006. Percentages denote year over year comparison to prior year quarter.

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## Planned spending in FY07

|         |  |
|---------|--|
| ~\$450M | • Marketing and launch related costs                                     |
| ~\$450M | • Sales force and general marketing growth                               |
| ~\$1.0B | • The development of high growth products and new products and services  |
| ~\$500M | • Online Services (adCenter, Office Live, CRM Live, Live.com, Search...) |
| ~\$300M | • General increases in costs and unallocated acquisition amounts         |

20 All amounts are approximate

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## Reconciliation Slides and Appendix

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### Reconciliation of differences between GAAP and Non-GAAP financial measures

We may from time to time discuss fourth quarter and fiscal year 2006 performance using the non-GAAP financial measures presented on the following four slides. The following tables provide a reconciliation of the differences between the non-GAAP financial measures presented therein and the most directly comparable financial measures calculated and presented in accordance with GAAP.

The following five slides include reconciliations for:

- Operating income excluding legal charges
- Earnings per share excluding legal charges
- Operating expenses excluding legal charges
- Revenue, operating income, and operating margins excluding legal charges and Home & Entertainment
- Q4 effective tax rate excluding legal charges

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## Reconciliation of Differences Between GAAP and Non-GAAP Financial Measures: Operating income

|  | Three Months Ended |           | Year Ended |           |
|--|--------------------|-----------|------------|-----------|
|  | 6/30/2006          | 6/30/2005 | 6/30/2006  | 6/30/2005 |
| GAAP Operating income                                    | \$3,881            | \$2,989   | \$16,472   | \$14,561  |
| Add back:  |                    |           |            |           |
| European Commission fine                                 | 351                |           | 351        |           |
| IBM legal settlement and other anti-trust related claims |                    | 756       |            | 756       |
| Novell and other anti-trust matters                      |                    |           |            | 536       |
| Gateway Inc., Burst.com, and other anti-trust matters    |                    |           |            | 714       |
| Real Networks settlement                                 |                    |           | 361        |           |
| Sun settlement and and other legal charges               |                    |           | 397        | 54        |
| Operating income, adjusted for items above               | 4,232              | 3,745     | 17,581     | 16,621    |

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The non-GAAP measures provided above, which remove the legal charges from the most directly comparable GAAP measures are included as an additional clarifying item to aid readers of the financial statements in further understanding the Company's fourth quarter and fiscal year 2006 performance and the impact that certain items and events had on the financial results. The non-GAAP financial measures provided above should not be considered as a substitute for, or superior to, the measures of financial performance prepared in accordance with GAAP.

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## Reconciliation of Differences Between GAAP and Non-GAAP Financial Measures: Earnings Per Share

|  | Three Months Ended |           | Year Ended |           |
|--|--------------------|-----------|------------|-----------|
|  | 6/30/2006          | 6/30/2005 | 6/30/2006  | 6/30/2005 |
| GAAP Diluted EPS   | \$0.28             | \$0.34    | \$1.20     | \$1.12    |
| Add back:  |                    |           |            |           |
| European Commission fine                                 | 0.03               |           | 0.03       |           |
| IBM legal settlement and other anti-trust related claims |                    | 0.05      |            | 0.05      |
| Novell and other anti-trust matters                      |                    |           |            | 0.03      |
| Gateway Inc., Burst.com, and other anti-trust matters    |                    |           |            | 0.05      |
| Real Networks Settlement                                 |                    |           | 0.02       |           |
| Sun settlement and and other legal charges               |                    |           | 0.03       |           |
| Subtract Tax benefit                                     |                    | (0.09)    | (0.01)     | (0.09)    |
| Diluted EPS, adjusted for items above                    | 0.31               | 0.30      | 1.27       | 1.16      |
| Fully Diluted Shares Outstanding                         | 10,255             | 10,819    | 10,531     | 10,906    |

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The non-GAAP measures provided above, which remove the legal charges from the most directly comparable GAAP measures and are after tax measures, are included as an additional clarifying item to aid readers of the financial statements in further understanding the Company's fourth quarter and fiscal year 2006 performance and the impact that certain items and events had on the financial results. The non-GAAP financial measures provided above should not be considered as a substitute for, or superior to, the measures of financial performance prepared in accordance with GAAP.

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## Reconciliation of differences between GAAP and Non-GAAP financial measures: Operating expense

|  | Three Months Ended |           | Year Ended |           |
|--|--------------------|-----------|------------|-----------|
|  | 6/30/2006          | 6/30/2005 | 6/30/2006  | 6/30/2005 |
| GAAP Operating expense                                   | \$7,923            | \$7,172   | \$27,810   | \$25,227  |
| Deduct:  |                    |           |            |           |
| European Commission fine                                 | (351)              |           | (351)      |           |
| IBM legal settlement and other anti-trust related claims |                    | (756)     |            | (756)     |
| Novell and other anti-trust matters                      |                    |           |            | (536)     |
| Gateway Inc., Burst.com, and other anti-trust matters    |                    |           |            | (714)     |
| Real Networks settlement                                 |                    |           | (361)      |           |
| Sun settlement and other legal charges                   |                    |           | (397)      | (54)      |
| Cost of Goods Sold                                       | (2,130)            | (1,388)   | (7,650)    | (6,031)   |
| Operating expense, adjusted for items above              | 5,442              | 5,028     | 19,051     | 17,136    |

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The non-GAAP measures provided above, which remove legal settlements from the most directly comparable GAAP measures and are after tax measures, are included as an additional clarifying item to aid readers of the financial statements in further understanding the Company's first quarter fiscal year 2006 performance and the impact that certain items and events had on the financial results. The non-GAAP financial measures provided above should not be considered as a substitute for, or superior to, the measures of financial performance prepared in accordance with GAAP.

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## Reconciliation of Differences Between GAAP and Non-GAAP Financial Measures: Revenue, Operating income, and Operating margins excluding legal charges and Home & Entertainment

|   | Three months ended |           | Y/Y<br>Growth | Fiscal Year ended |           | Y/Y<br>Growth |
|---|--------------------|-----------|---------------|-------------------|-----------|---------------|
|   | 6/30/2006          | 6/30/2005 |               | 6/30/2006         | 6/30/2005 |               |
| Revenue   | \$11,804           | \$10,161  | 16%           | \$44,282          | \$39,788  | 11%           |
| Ex. Home & Entertainment                            | 1,138              | 587       |               | 4,256             | 3,140     |               |
| Revenue, adjusted for items above                   | \$10,666           | \$9,574   | 11%           | \$40,026          | \$36,648  | 9%            |
| GAAP operating income                               | \$3,881            | \$2,989   | 30%           | \$16,472          | \$14,561  | 13%           |
| GAAP operating margin                               | 33%                | 29%       | 3%            | 37%               | 37%       | 1%            |
| Add back:   |                    |           |               |                   |           |               |
| Legal charges                                       | 351                | 756       |               | 1,109             | 2,060     |               |
| Operating income, adjusted for items above          | \$4,232            | \$3,745   | 13%           | \$17,581          | \$16,621  | 6%            |
| Operating Margin (ex. legal charges)                | 36%                | 37%       | -1%           | 40%               | 42%       | -2%           |
| Add back:   |                    |           |               |                   |           |               |
| Home & Entertainment                                | 414                | 201       |               | 1,262             | 485       |               |
| Operating income, adjusted for items above          | \$4,646            | \$3,946   | 18%           | \$18,843          | \$17,106  | 10%           |
| Operating Margin (ex. Legal & Home & Entertainment) | 44%                | 41%       | 2%            | 47%               | 47%       | 0%            |

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The non-GAAP measures provided above, which remove the legal charges from the most directly comparable GAAP measures and are after tax measures, are included as an additional clarifying item to aid readers of the financial statements in further understanding the Company's fourth quarter and fiscal year 2006 performance and the impact that certain items and events had on the financial results. The non-GAAP financial measures provided above should not be considered as a substitute for, or superior to, the measures of financial performance prepared in accordance with GAAP.

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## Reconciliation of differences between GAAP and Non-GAAP financial measures: FY06-Q4 Effective tax rate

|  | FY06-Q4  |                |
|--|----------|----------------|
|  | Reported | Adj. for legal |
| GAAP Income before Income Taxes                      | 4,258    | 4,258          |
| Add back:  |          |                |
| European Commision Fine                              |          | 351            |
| Income before Income taxes, adjusted for items above |          | 4,609          |
| Provision for income taxes                           | 1,430    | 1,430          |
| Net income   | 2,828    | 3,179          |
| Effective tax rate                                   | 34%      | 31%            |

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The non-GAAP measures provided above, which remove the legal charges from the most directly comparable GAAP measures and are after tax measures, are included as an additional clarifying item to aid readers of the financial statements in further understanding the Company's fourth quarter and fiscal year 2006 performance and the impact that certain items and events had on the financial results. The non-GAAP financial measures provided above should not be considered as a substitute for, or superior to, the measures of financial performance prepared in accordance with GAAP.

## Reconciliation of Differences Between GAAP and Non-GAAP FY07 guidance

We may from time to time discuss fiscal year 2007 guidance using the non-GAAP financial measures presented on the following slide. The following tables provide a reconciliation of the differences between the non-GAAP financial measures presented therein and the most directly comparable financial measures calculated and presented in accordance with GAAP.

The following slide includes a reconciliation for:

- FY07 operating income guidance

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Reconciliation of Differences Between GAAP and Non-GAAP Financial Measures: FY07 operating income

|  | FY06   | FY07 guidance range* |        | Y/Y Growth |     |
|--|--------|----------------------|--------|------------|-----|
| GAAP Operating income                      | \$16.5 | \$18.9               | \$19.4 | 15%        | 18% |
| Add back:                                  |        |                      |        |            |     |
| Legal charges                              | 1.1    |                      |        |            |     |
| Operating income, adjusted for items above | \$17.6 | \$18.9               | \$19.4 | 8%         | 10% |

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\*Guidance may not add due to rounding.

The non-GAAP measures provided above, which remove certain settlement charges, and the tax benefit from the most directly comparable GAAP measures, are included as an additional clarifying item to aid readers of the financial statements in further understanding the Company's fiscal year 2007 guidance and the impact that certain items and events had on the financial guidance. The non-GAAP financial measures provided above should not be considered as a substitute for, or superior to, the measures of financial performance prepared in accordance with GAAP.

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Operating Segment History

The following slide includes tables for:

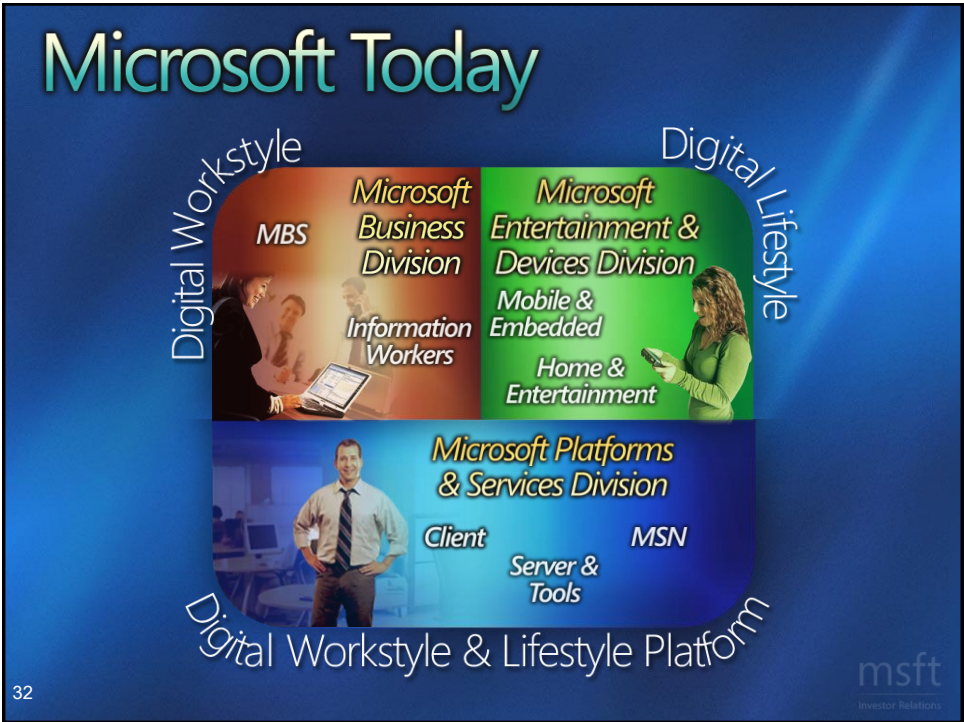
- Unaudited Pro Forma results for changes to the FY07 Operating Segments

Unaudited Pro Forma results for changes to the  
FY07 Operating Segments

| Revenue (In millions)            | Q1 - 05 | Q2 - 05  | Q3 - 05 | Q4 - 05  | FY05     | Q1 - 06 | Q2 - 06  | Q3 - 06  | Q4 - 06  | FY06     |
|----------------------------------|---------|----------|---------|----------|----------|---------|----------|----------|----------|----------|
| Client                           | \$2,980 | \$3,193  | \$2,964 | \$3,014  | \$12,151 | \$3,187 | \$3,459  | \$3,187  | \$3,376  | \$13,209 |
| Server & Tools                   | 1,906   | 2,161    | 2,058   | 2,245    | 8,370    | 2,127   | 2,438    | 2,398    | 2,690    | \$9,653  |
| Online Services Group            | 559     | 606      | 581     | 598      | 2,344    | 564     | 594      | 561      | 580      | \$2,299  |
| Microsoft Business Division      | 3,086   | 3,413    | 3,384   | 3,637    | 13,520   | 3,283   | 3,689    | 3,608    | 3,908    | \$14,488 |
| Entertainment & Devices Division | 658     | 1,445    | 633     | 667      | 3,403    | 580     | 1,657    | 1,146    | 1,250    | \$4,633  |
| Consolidated                     | \$9,189 | \$10,818 | \$9,620 | \$10,161 | \$39,788 | \$9,741 | \$11,837 | \$10,900 | \$11,804 | \$44,282 |

| Operating Income/(Loss)          | Q1 - 05 | Q2 - 05 | Q3 - 05 | Q4 - 05 | FY05     | Q1 - 06 | Q2 - 06 | Q3 - 06 | Q4 - 06 | FY06     |
|----------------------------------|---------|---------|---------|---------|----------|---------|---------|---------|---------|----------|
| Client                           | \$2,387 | \$2,513 | \$2,331 | \$2,172 | \$9,403  | \$2,569 | \$2,638 | \$2,471 | \$2,504 | \$10,182 |
| Server & Tools                   | 455     | 660     | 515     | 479     | 2,109    | 606     | 762     | 746     | 903     | 3,017    |
| Online Services Group            | 79      | 130     | 101     | 101     | 411      | 81      | 58      | (26)    | (190)   | (77)     |
| Microsoft Business Division      | 2,160   | 2,355   | 2,316   | 2,285   | 9,116    | 2,251   | 2,466   | 2,414   | 2,544   | 9,675    |
| Entertainment & Devices Division | (202)   | 28      | (198)   | (235)   | (607)    | (182)   | (296)   | (422)   | (437)   | (1,337)  |
| Corporate-Level Activity         | (1,385) | (937)   | (1,736) | (1,813) | (5,871)  | (1,279) | (971)   | (1,295) | (1,443) | (4,988)  |
| Consolidated                     | \$3,494 | \$4,749 | \$3,329 | \$2,989 | \$14,561 | \$4,046 | \$4,657 | \$3,888 | \$3,881 | \$16,472 |

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