

investors
government education
research & innovation small business

accelerating
innovation

"Microsoft innovates as much for the IT industry as we do for our customers. Indeed, innovation is the key driver for our future growth, and fostering such innovation within the broader IT ecosystem, through deep partnerships, is central to our business model and our role as a responsible leader. Microsoft already works closely with thousands of SME technology firms across Europe to provide customer with powerful and innovative technology platforms and solutions which drive economic productivity and job creation across the region. Through our partnerships to connect all SMEs to public and private financing, technology research and specialist advice and support, we are committed to going even further to help Europe realize its future as a knowledge-based economy."

Neil Holloway

President of Microsoft Europe, Middle East and Africa

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Investing in Innovation, Growth and Jobs For Europe's SMEs

- Connecting SME entrepreneurs to Venture Capital
- Helping SMEs enhance their Intellectual Property
- Supporting SME Innovation and Productivity

"At Microsoft we support the European Union's strategy for growth and jobs and we believe that the private sector should also step up to help deliver results for Europe. So we are building a new generation of practical partnerships to help Europe meet its most important goals."

Jean-Philippe Courtois
President Microsoft International

Building a more competitive Europe that grows faster and creates more jobs

The European Union has rightly identified the small and medium-sized enterprise sector as the “growth gene” of the European economy. If it can be stimulated into adopting new technologies more rapidly, and creating innovative products more competitively, then Europe can be assured of continuing to be a leading player in the global economy.

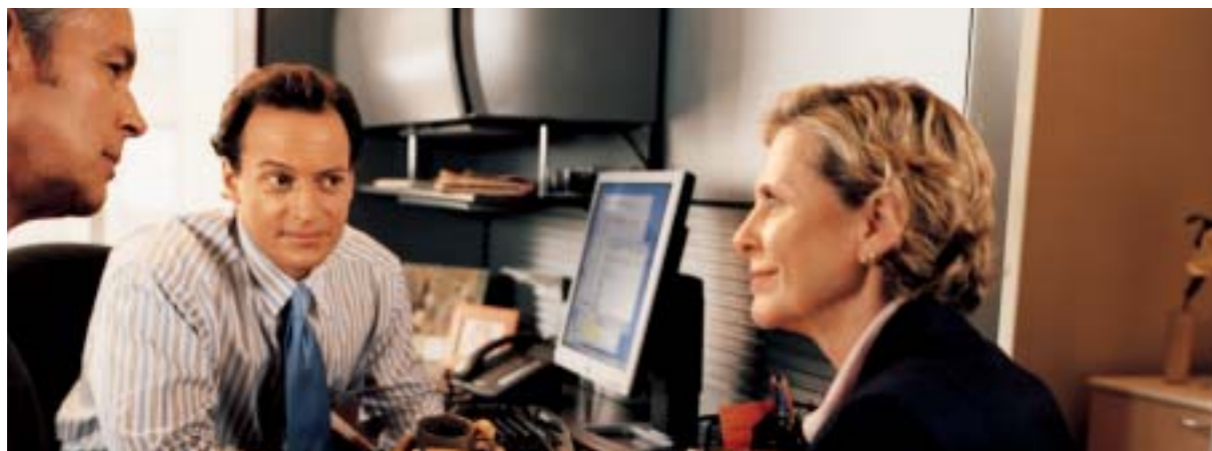
The toolbox for supporting and stimulating SMEs does not need to rely purely on public policies and aids. As the European Commission has recognised, there is an important role for the private sector in partnering SMEs in the application of new technologies, the development of innovative products and in supplying equity and venture capital.

This report sets out how one company, Microsoft, is pursuing the mission of helping European SMEs to grow. It is intended to inform and to encourage others to see the advantages of such an enterprise.

Across Europe, we demonstrate our commitment through a range of practical and collaborative programmes with industry, financial sector, academic and government partners to produce technologies that

serve society, business and the technology industry. Some of these investments are yielding benefits today with software breakthroughs in such critical areas as security and reliability. Others will transform the way we use computers years from now.

But they all stem from our optimism about the future of computing and our commitment to helping our SME partners grow and prosper.



Committed to helping SMEs grow and prosper

We've only scratched the surface of what Information and Communications Technology (ICT) can do to improve people's lives and drive growth and opportunity for their societies. The basic technologies of computing, such as processing power, network capabilities, storage and graphics, are continuing to grow at amazing rates. Software is the key to transforming these new capabilities into empowering products and services.

At Microsoft we are inspired by technology's unique ability to help people, businesses and entire countries realise their potential. It's what motivates us to keep reaching for the possible in all areas of our business.

It is also clear that innovation is increasingly central to Europe's future success by driving competitiveness, job creation and overall living standards.

In 2005, Europe's ICT sector as a whole

Employed **7.9 million people**.

Generated nearly **US\$ 300 billion in tax revenues**.

And is forecast to add **1.5 million new jobs** between 2006 and 2009, **60 percent** of those new jobs in software-related activities.

In 2005, companies offering products that run on Microsoft software or that service or distribute such software

Employed almost **2.8 million people**
almost 35 percent of European ICT employment.

Generated over **US\$ 107 billion in company and employee taxes**.

Earned **US\$ 7.68 for every US\$ 1 earned** by Microsoft.
And of this revenue, some of the hardware revenue, much of the software revenue, and most of the services revenue, was earned by local European companies.

Most of these companies are SMEs.

International Data Corporation (IDC) study, "The Economic Impact of IT, Software and the Microsoft ecosystem on the EU, Croatia, Norway and Switzerland", April 2006.

EUROPEAN UNION GRANTS ADVISOR

"The EU Grants Advisor consortium is a clear and logical step to kick-start SME growth across the region. The SME Union has always recognised that structural funds are the catalyst to growth in this sector."

Jacques Santer,
President of the SME Union, and former European Commission President

The EU Grants Advisor (EUGA) initiative has been developed by Microsoft, in partnership with HP, Intel and a diverse group of local participants, to help

Europe's small and medium-sized businesses and local and regional governments, to increase their awareness and understanding of EU funds for which they may be eligible. They can then take advantage of a process that has been simplified to make applying for funds easier.

Demonstrating the power of successful multi-sector partnerships, Microsoft, HP and Intel have worked with a diverse group of local banks, telecoms providers, Chambers of Commerce and other trade groups, as EUGA consortium members in EU countries.

EUGA Fast Facts at January 2006

10,000+ grants identified in technology and growth related categories.

EUGA launched in **19 EU member countries.**

100 local consortium members participating.

SPAIN

Tech Loan - Helping small business access EU funding for investment

Spain was one of the first countries to pilot the EUGA initiative through Banespyme, a programme established by Banesto Bank, Microsoft, Telefónica, and HP, to raise awareness amongst SMEs about EU funding opportunities. One Banespyme initiative is Tech Loan.

A €200 million scheme financed from EU structural funds and supported by the Spanish Ministry of Industry, Tech Loan offers interest free loans to SMEs to fund investment in ICT.

In the first six months of its operation, 15,000 SMEs in Spain benefited from Tech Loan. More than 80% of the companies received the loan in less than two weeks: 75% stated they would invest further in ICT solutions, a third indicating they would not have made the investment without the loan.

One beneficiary is Quota, a market research company. In 2005 Quota acquired new office premises and needed to invest in furniture, technical equipment and

a robust and reliable voice and data network. When Quota investigated its funding options, its trusted banking partner, Banesto Bank, suggested Tech Loan.

"Compared to other financing options for this investment, the technology loan programme provided many advantages, as we weren't required to pay any interest on top of our loan. Because the programme is designed so that we deal directly with the bank, our choice of technology was not influenced by any of the industry stakeholders involved in the consortium. We were able to invest in the technology solution best suited to our needs."

Jesús Perán López
Managing Director, Quota

"Thanks to the public-private partnership a great deal of companies have benefited from the Banespyme initiative in just six months. This would have been much more difficult had this cooperation not existed."

Francisco Ros
Secretary of State for
Telecommunications and Information Society, Spain

POLAND

Computer Service Support - Supporting SME skills development across Poland

Keen to take full advantage of its entry into the EU, Poland is developing a major new sector around ICT, and in particular ICT training. Computer Service Support, headquartered in Warsaw and with 12 ICT training centres across Poland, is just one organisation working to bridge the skills divide.

Launched in 1993 with a team of just three people, the company has grown substantially as Poland's business sector has recognised the importance of technology in the development of productivity and economic prosperity for all. Nevertheless, only 2-3% of companies with fewer than 500 people are making any investment in training at all.

All too often, funding is the barrier that prevents SMEs from obtaining the up-to-date and relevant ICT skills that will help them compete in the global marketplace.

The EU Grants Advisor initiative has made possible access to finance such as ICT skills training is available

at significantly discounted prices. Computer Service Support has put together a marketing campaign for its latest courses providing basic ICT skills as well as specialist tools to boost business productivity and a range of knowledge worker courses. The campaign will comprise newspaper advertisements in the local press, telephone selling, and e-mailing thousands of target companies contained on their database.

The promotional drive is also backed by the EUGA consortium members from both public and private sectors. Microsoft Poland is promoting the courses on its Web site and is e-mailing 25,000 SMEs across the country with promotional messages. The partners hope that in this way more than 50,000 Poles who work for SMEs will receive subsidised training by 2008.

"Polish people have gained a great opportunity to take their personal drive and ambition onto the next level in terms of productivity, and make Poland an increasingly important partner in the EU."

Witold Ozimek
Training Division Director, Computer Service Support, Poland



Connecting SME Entrepreneurs to Venture Capital

Across Europe, thousands of entrepreneurial technology companies are designing and delivering innovative solutions and businesses on the Microsoft platform. This common computing environment with its large customer base is one of the key attractions for both the technology entrepreneurs and the venture capital (VC) companies who invest in them.



Private equity and venture capital play a vital role in translating new ideas and innovations into thriving new SME businesses in Europe's technology industry. In 2004, the European private equity market was worth €37 billion, of which one-third was venture capital. According to a recent European Venture Capital Association (EVCA) report, private equity and venture capital contributed to the creation of 1 million new jobs between 2000 and 2004, including the creation of 630,000 new jobs in European companies backed by venture capital. Worldwide, venture capital investments are accelerating with a 264% increase year-on-year for the first quarter of 2006.

Microsoft's engagement with the venture capital community in Europe focuses on accelerating technical and

commercial partnerships between VCs and technology start-ups utilising the Microsoft platform. Microsoft does not itself act as a VC or invest directly in VC funds for core competency reasons, as we believe good VCs have the 'smart money' to spot the 'smart entrepreneurs', while our role is to make 'smart software' and empower a strong and vibrant partner ecosystem. To this end, we believe there is greater leverage in developing the right commercial/strategic relationships than directly using investment dollars.

Accordingly, we contribute to the innovation investment partnership ecosystem by:

- ▶ Engaging with the influential VCs in the technology industry as well as their portfolio companies and

providing insight into our product and business strategy.

- ▶ Engaging through our Emerging Businesses programme with approximately 300 VC-backed businesses in Europe.
- ▶ Providing inexpensive licensing of Microsoft technology to start-ups, through our Empower programme, which has over 6,500 partners.

During 2005, over 70 VC firms participated directly in Microsoft-hosted events in Europe, including Digital Home exhibits in Germany and the UK, a European VC Summit in France, and the Microsoft Executive Partner Summit in Spain.

In 2006, 100 European Companies in the biotech, semiconductor and software industries were winners in the Red Herring Top 100 Venture Market. Of these, 25 companies are formally engaged in the Microsoft Partner Programs (MSPP), and a further 8 with the Emerging Business Team.

"Netsize commends Microsoft for its effort in supporting innovation and creativity via their partnership programme. We are delighted with our partnership with Microsoft which is truly a win-win relationship giving us access to valuable technical support and tools helping us in developing cutting edge wireless products and services for our customers. Microsoft and Netsize are jointly contributing in developing the wireless services eco system accelerating deployment and proliferation of a wireless information society."

Laurent Chesnais,
Founder & CTO, Netsize

"Tao considers our relationship with Microsoft as an important part of our company growth story. As the leading provider of high performance Java technology to Microsoft Mobile powered devices, we consider our Microsoft relationship as a major contributor to helping us win recognition as part of the Red Herring 100."

Ray Burgess,
CEO, Tao

"Reportive's partnership with Microsoft has been successful in every dimension so far, and the future is even more promising."

Hubert Catanese,
CEO, Reportive



Connecting SME Entrepreneurs to Intellectual Property

Microsoft invests billions of dollars annually in research and development. Our computer science research organisation, Microsoft Research, employs more than 700 of the best software engineers and researchers around the world, including Microsoft Research Cambridge in the United Kingdom. And our product development teams constantly create new software building blocks and internal business applications.



The result is a large portfolio of innovations, many of which have significant commercial potential.

Our IP Ventures programme licenses and spins out these early-stage technologies to entrepreneurs as a way to both recoup a portion of our R&D investments and to encourage new business investments and local economic development.

In mid 2005, Microsoft announced the extension of this programme to include close collaboration with governments to facilitate relations with local start-ups and the venture capital community to deliver innovative technology to new markets.

WORKING WITH IP VENTURES

Entrepreneurs

Entrepreneurs can start a new business or accelerate early growth with breakthrough innovations that not only advance the state of the art, but also present compelling new business opportunities. Access to these technologies, reduces time to market for early ventures. The programme focuses on entrepreneurs that have obtained an early round of funding in a technology market/ focus area. As part of this programme, we can also provide access to Microsoft partner and marketing programmes.



Economic Development Agencies

Microsoft partners with economic development agencies to encourage development of strong local IT companies and accelerate the growth of start-up companies in local markets. As part of the programme we also provide access to training and marketing programmes.

Enterprise Ireland and SITRA were the first government agencies to join the IP Ventures programme.

In mid 2005, IP Ventures began engagement with Enterprise Ireland. After two local sessions with promising entrepreneurs, Microsoft announced a collaboration agreement with Softedge-Systems, a Dublin-based software products company. The unique IP Ventures technology from Microsoft Research helped SoftEdge-Systems realise rapid growth and quick time to market. Softedge-Systems provides user-friendly, cost-effective software products that allow non-technical users to create multimedia documents and content. Through IP Ventures, the company has produced Interactive Image Cutout, an image-editing technology that allows users easily to select and move objects, such as people, in pictures and photographs.

"Enterprise Ireland helped connect us with Microsoft to access this technology for our products. This level of support is exactly the kind of help that small and medium-sized enterprises need to get a real foothold in the industry."

Vikas Sahni,
CEO of Sof tedge-Systems

In January 2006, Microsoft and the Finnish National Fund for Research and Development (SITRA) hosted an Access to Innovations forum to generate awareness of licensing and funding opportunities for innovative companies in Finland.

Senior executives from 17 Finnish firms took part, bringing together expertise in the mobility, digital media, security and gaming fields. SITRA has committed to support the longer-term roll-out of the IP Ventures programme in Finland, and will continue to facilitate licensing agreements with innovative SMEs in Finland.

SUPPORTING SME INNOVATION AND PRODUCTIVITY

The EU Strategy for Growth and Jobs identifies promotion of entrepreneurship and skills, improving access to markets, cutting red tape, improving growth potential and dialogue with stakeholders as the success factors for Europe's 22 million SMEs.

Of Europe's 22 million SMEs, approximately 800,000 are mid-sized companies (more than 250 employees) and the rest are small businesses. Together, these 22 million businesses employ around 120 million people across Europe and contribute to 57% of Europe's GDP.

Small Business Specialist Community Initiative

The Microsoft Small Business Specialist Community (SBSC) initiative was launched in September 2005, after successful pilots in Denmark, Italy and Poland. The programme aims to enable with a specific focus on small business to increase their sales profitability and provide tailored resources, additional training and enhanced support for operating in this segment of the market.

To date more than 2,800 partners have joined SBSC across Europe, the Middle East and Africa (representing more than 50% of enrolments worldwide), and an enrolment rate of 25 new partners joining the programme every day.

SBSC aims to help technological innovation become reality for Europe's small businesses by connecting them through partnership to the 'innovation relay'.

- ▶ In Europe today, innovation starts in universities, public institutes and corporate R&D centres. For example, Microsoft Research in Cambridge, UK, and the European Microsoft Innovation Centre in Aachen, Germany are today collaborating with academic and business partners on R&D in areas such as real-time stereo vision, the Internet IPv6 protocol for mobile phones, and the development of open middleware and intelligent user services for the networked home.

- ▶ To truly impact on human progress and prosperity, the results of research need to be transferred to Innovation Centres across Europe. Microsoft is partnering with governments across Europe to increase the number of these centres where technology developers including manufacturing and software product manufacturers can learn about the research and innovative technologies, and develop new devices, software and products based upon it.

- ▶ However, this innovation cycle truly succeeds when a large and local ecosystem of IT partners delivers the results of these new innovations to millions of SMEs and consumers. This is the point at which public and private investment and partnership in R&D truly pays off.

The purpose of the SBSC initiative is to contribute directly to this crucial 'third stage' in the innovation cycle by serving as a 'breadth partner initiative' for supporting Small Business Specialists in providing access to and training about these new technologies to millions of SMEs.

In addition, because access to finance is a barrier to growth for many SMEs, Microsoft leads initiatives such as the European Union Grants Advisor (EUGA) programme in collaboration with other private-sector partners, to facilitate SME access to 'Growth and Innovation'-related public funds.



The initiatives described in this report are borne of an ambitious strategy for stimulating competitiveness, growth and job creation among Europe's SMEs. Microsoft's long-term commitment to bringing its technological know-how and entrepreneurial dynamism to the task is demonstrated almost daily. We are passionate about the challenge and dedicated to success.