

Microsoft

Microsoft 2011 Citizenship Report



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The image on the cover of our report represents a winning team at TechStart Expo, an annual event in Seattle that celebrates the learning and accomplishments of TechStart students in robotics, programming, game design, and Science, Technology, Engineering and Math (STEM) knowledge. Microsoft is proud to support TechStart which is a free, yearlong after-school and school day program for public school students in grades 1–8, providing STEM enrichment for underserved children of color. TechStart is a program of Technology Access Foundation (TAF), a nonprofit leader in STEM education that partners with public education, businesses and the community to equip and empower students of color for success in college and life.

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To Our Stakeholders:

We've always believed that technology creates opportunities for people and organizations to achieve their dreams. This belief continues to drive us towards new inventions and new markets so we can impact the lives of billions of people around the world.

This report shares some of the important work we're doing in our communities, and our efforts to manage a responsible business. It explains our Citizenship actions in fiscal year 2011 and together with our annual financial report gives a complete picture of our work and highlights our focus for the year ahead.

Our Citizenship work supports our mission—to help people and businesses throughout the world realize their full potential. It is reflected in the frequent and candid interactions we have with our stakeholders—employees, shareholders, customers, suppliers, partners, and neighbors—all critical to a responsible and sustainable business.

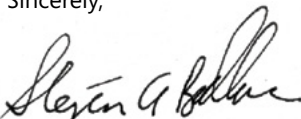
The impact we have made through our Citizenship initiatives during the past year spanned disaster relief to education. For example, we developed new ways to help teachers and schools use technology to make learning more engaging. We created a new system that supports volunteerism by matching employees with nonprofits in need based on their skills. We were also honored to partner with the organizations in Japan to deploy our cloud technologies to help those affected by the earthquake and tsunami get the critical information and help needed as part of the relief and recovery efforts.

At Microsoft, we believe that hope rests in the steady progress toward the future and we are driven to support new businesses and learning opportunities for people around the world. This year alone, we equipped 75,000 people with software to grow their small business through our BizSpark program. We also reached 23 million people through the Community Technology Skills Program. And our Partners in Learning program, now in its ninth year, worked with schools and governments to spread teachers' ideas for how to use technology to create more dynamic classrooms.

We also remain committed to operating our business responsibly. You will read in this report some of the steps we've taken to strengthen our supply chain, monitor and manage our environmental footprint, promote human rights, and continue our leadership in corporate governance, compliance, and political involvement. As a signatory of the UN Global Compact, each of these areas is part of that commitment. But even more importantly, each of these makes our business stronger and more resilient to a world that changes rapidly.

As we enter a new year, I am optimistic that the ideas, passion, and tenacity that are central to our Citizenship will continue to create value for our business and for the people and communities we touch. Thank you for your interest in Microsoft. We welcome your thoughts and suggestions.

Sincerely,

A handwritten signature in black ink, appearing to read "Steven A. Ballmer".

Steven A. Ballmer
CEO, Microsoft Corp.

Citizenship at Microsoft

Citizenship at Microsoft is about serving the needs of communities and fulfilling our responsibilities to the public.

Microsoft's mission is to help people and businesses around the world realize their full potential. Our Citizenship work plays a vital role in delivering on that mission as we apply our technology expertise and resources to help solve societal challenges on both a global and a local scale.

Our Citizenship Mission

Serve globally the needs of communities and fulfill our responsibilities to the public.

Our Citizenship Approach

In 1975 Microsoft was an unknown software company with a single product and the promise of delivering on a new way of computing. We have since grown to become one of the largest companies in the world. With that growth comes the responsibility to contribute positively to society on a global scale.

We do so in two ways: Serving Communities and Working Responsibly.

SERVING COMMUNITIES

As a company, we have a responsibility to help create social and economic opportunities wherever we work, live, and do business. Microsoft works with partners to create social opportunity by applying technology to a range of pressing social issues. These include supporting nonprofits, education, humanitarian needs, healthcare, and energy and environmental sustainability. Technology also fosters economic opportunity and creates jobs. Through our core business and through global programs, we work to strengthen local economies by supporting workforce development, IT infrastructure, research, innovation, and access to technology.

We employ exceptional local people around the world; we use our skills to serve local needs, especially in education; and we support local organizations, customs, and cultures. In return for our efforts, we are able to benefit from

diverse talent, become part of local economic life, and participate positively in the community.

WORKING RESPONSIBLY

Citizenship at Microsoft is also about the way we work every day—about the values we bring to our business practices and operations. We seek principled approaches to how we conduct our business that uphold our responsibilities to the public. Those responsibilities manifest themselves in our Citizenship activities and encompass everything from adding features that make our products more accessible to those with disabilities to how we manage our suppliers to how we communicate with and engage the full range of stakeholders.

Our commitment to responsible business practices is foundational to who we are as a company and specific information related to our work in various categories (responsible sourcing, online privacy and safety, environmental sustainability, governance, et al) is provided in this report.

However, there is one critically important issue—human rights—that spans all categories. In June 2011, the United Nations Human Rights Council endorsed new Guiding Principles on Business and Human Rights. This decision represented a significant milestone in the history of business and human rights. More clarity exists today than ever before on governments' duty to protect human rights and the responsibility business has to respect human rights. As a result of this development, we will be focused in FY12 on the key human rights questions now faced by companies. Those questions relate to how companies (specifically Microsoft) should apply the UN Guiding Principles to our business strategy and operations.

As noted elsewhere, Microsoft endorses the United Nations Declaration on Human Rights, as a signatory to the United Nations Global Compact (UNGC), and we will use both the Declaration and UNGC to inform and guide our work in developing a holistic approach meeting our human rights responsibilities within the context of the newly endorsed Guiding Principles.

Stakeholder Engagement and Responding to International Priorities

Microsoft Citizenship work is also informed by engagement with thousands of stakeholders around the world, ranging from human rights experts to parents concerned about the online safety of their children. In working to conduct our business with integrity, we engage with a wide range of stakeholders across all parts of our business operations. We also benefit from participating in a range of groups and initiatives that address corporate responsibility, including [Business for Social Responsibility](#), the [Boston College Center for Corporate Citizenship](#), [Net Impact](#), and the [World Economic Forum's Partnering Against Corruption Initiative](#).

In particular, our work is informed by and aligned with internationally recognized priorities and frameworks, such as the United Nations Global Compact and the United Nations Millennium Development Goals. We seek to align our Citizenship reporting to the Global Reporting Initiative's G3 Sustainability Reporting Guidelines.

- [Download the Microsoft UN Global Compact Communications on Progress](#) (PDF file, 478 KB)
- [Download the Microsoft Commitment to the UN Millennium Development Goals](#) (PDF file, 397 KB)

For more information and downloads, view this report online at <http://www.microsoft.com/citizenshipreport>

What's Next in Citizenship

In FY2011, we initiated planning to evolve Microsoft's Citizenship approach, which we will refine over the course of FY2012. This represents the third generation of Citizenship at Microsoft over the past dozen years, and it continues to support our corporate mission to help people and businesses around the world reach their full potential.

To enhance our commitment to working responsibly, in FY2012 we are conducting an in-depth review to assess and further strengthen our work to promote responsible business practices across our supply chain. We are also sharpening our work to serve communities, where we are launching a new set of programs focused on providing opportunities for youth. In addition, we are developing a more focused engagement with the product and business groups to support efforts to serve communities through technology.

Microsoft will continue to work to expand its commitment to transparency. We have made progress in this year's Citizenship Report, and we plan to build on this by setting clearer forward-looking goals in our FY2012 Citizenship Report. As always, we have an ongoing commitment to engage with our stakeholders, and we welcome input and feedback on how we are performing and how we are communicating.

Our Company

Our Mission

To help people and businesses around the world realize their full potential.

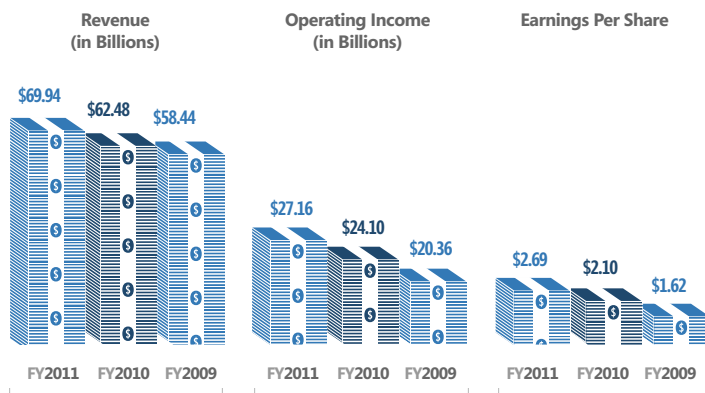
Our Business

As the worldwide leader in software, services, and solutions that help people and businesses realize their full potential, Microsoft Corporation (NASDAQ: MSFT) is committed to sharing our successes with our employees, our shareholders, and the communities in which we operate. We approach that commitment with the same energy and innovation with which we approach all parts of our business.

Where We Are

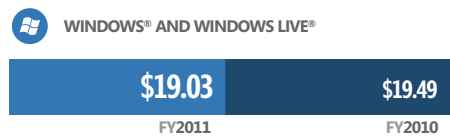
Microsoft is headquartered in Redmond, Washington. In fiscal year 2011 (FY2011) we employed approximately 90,000 people on a full-time basis in more than 100 countries/regions and territories. Approximately 54,000 employees were based in the United States, and 36,000 were based internationally.

Financial Information



For detailed financial information, see the [Microsoft annual financial report](#).

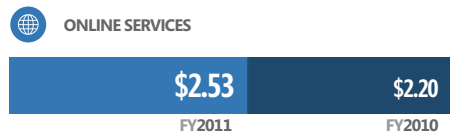
Business Structure



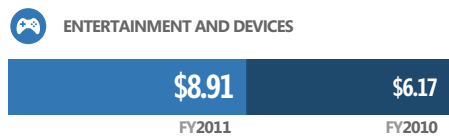
Windows 7 and prior versions of the Windows operating system • Windows Live suite of applications and web services • Microsoft PC hardware products



Windows Server® operating systems • Windows Azure™ • Microsoft SQL Server® • SQL Azure™ • Windows Intune™ • Windows Embedded • Microsoft Visual Studio® • Microsoft Silverlight® • Microsoft System Center products • Microsoft Consulting Services • Premier product support services



Windows 7 and prior versions of the Windows operating system • Windows Live suite of applications and web services • Microsoft PC hardware products



Xbox 360® gaming and entertainment console • Kinect™ for Xbox 360 • Xbox 360 video games • Xbox 360 accessories • Xbox LIVE® • Microsoft Mediaroom® • Windows Phone



Microsoft Office, Microsoft Exchange, Microsoft SharePoint®, Microsoft Lync™, Microsoft Dynamics® ERP and CRM solutions, and Office Web Apps, which are the online companions to Microsoft Word, Excel®, PowerPoint®, and OneNote®

Microsoft Office 365 was launched in June 2011. Office 365 is an online services offering of Microsoft Office, Exchange, SharePoint, and Lync.

(Revenue per business division shown in billions.)

For detailed information about Microsoft's business structure and financial performance, visit the [Microsoft Investor Relations website](#).

Our Customers and Partners

Our success as a business depends on our ability to listen and respond to feedback from our customers and partners. We continually focus on improving our customer relationships and our broad range of listening systems, including product satisfaction surveys, usability studies, online feedback forms, support communities, research forums, and our customer service Twitter account [@MicrosoftHelps](#). All of these help us understand and respond to the experiences that people have with our company.

Across Microsoft, employees and executives are accountable for customer and partner satisfaction metrics from our global surveys, and satisfaction ratings are a core measurement for both individual and regional performance. Microsoft's latest third-party global survey results show that satisfaction with Microsoft has improved significantly over the past two years. In addition, the American Customer Satisfaction Index (ACSI) reports a 2 point gain for Microsoft over the last year and a 7 percent gain since 2009.

For more information on customer and partner experience or to provide feedback, visit the [Microsoft Customer and Partner Experience website](#).

Partners

Microsoft partners with approximately 640,000 businesses—mostly small to medium-sized and locally owned—to develop, market, sell, and service Microsoft products. Our partners' impact is felt in economies around the world. In 2011, the activities of Microsoft and its partners supported many millions of jobs globally in addition to the jobs of Microsoft corporate employees.

Our Products

Microsoft products include operating systems for personal computers, servers, phones, and other intelligent devices; server applications for distributed computing environments; productivity applications; business solution applications; desktop and server management tools; software development tools; video games; and online advertising. We also design and sell hardware, including the Xbox 360[®] gaming and entertainment console.

This past year, cloud-based solutions that provide customers with software, services, and content over the Internet continued to grow in significance for our business. Some examples of Microsoft cloud services are:

- **Bing[®]**, our Internet search engine that finds and organizes the answers that people need so that they can make faster, more informed decisions.
- **Xbox LIVE[®]**, a service that enables online gaming, social networking, and access to a wide range of video, gaming, and entertainment content.
- The **Azure[™]** family of platform and database services that helps developers connect applications and services in the cloud or onsite.

In FY2011 Microsoft released a number of new products and services that further diversified our business. These included:

- **Windows[®] Phone 7:** Our next-generation mobile phone operating system. By the end of FY2011, the Windows Phone Marketplace had more than 20,000 apps available for download.
- **Kinect[™] for Xbox 360[®]:** A revolutionary device that enables people to control their Xbox 360 game console by using gestures, without requiring a mouse or controller.
- **Microsoft Lync[™] 2010:** Our newest communication service that integrates voice, video, and messaging.
- **Microsoft Office 365:** The first cloud-based application for Microsoft Office, enabling users to work, connect, and collaborate flexibly from almost anywhere.

Research and Development

These and other products are the result of considerable investment in research and development, which is conducted by Microsoft Research and dedicated product teams. In FY2011 we invested more than \$9 billion in research and development, equal to 13 percent of revenue, with a majority of this investment focused on product development.

	2011	2010	2009
Research and development spending (in billions)	\$9.04	\$8.71	\$9.01
As a percentage of revenue	13%	14%	15%

More information about Microsoft investment in research and development is available on pages 9 and 30 of our [FY2011 10-K](#) filing.

Serving Communities

"At Microsoft, we have a passion for technology. One of the best ways we can serve our communities is by working with our partners in the public and private sectors to find ways technology can help solve some of today's most pressing societal challenges. The possibilities are really exciting and our ambitions are big."

— Jean-Philippe Courtois, President, Microsoft International

Through our Citizenship efforts, Microsoft has the opportunity to help build and nurture communities in the more than 100 countries/regions around the world where we have a presence.

Microsoft Unlimited Potential has focused on serving communities with our time, our resources, and our technology. Microsoft has worked

alongside others to provide relevant, affordable, and accessible technology for those at the bottom and middle of the economic pyramid. We have served millions of people through Unlimited Potential, and we will continue to serve millions more as our work evolves to meet the needs of people around the world and embraces areas such as cloud services and mobile technology.

Highlights

The following are some of our goals in each of our Serving Communities focus areas. Many of these are goals that we set for ourselves or reported on in our FY2010 Citizenship Report. For more detail on these goals, see the relevant sections of this report.

Giving as a Percentage of Pre-Tax Profits

3.48%	3.2%	2.61%	2.09%
FY2011	FY2010	FY2009	FY2008

Countries Reached

113	95	100	98
FY2011	FY2010	FY2009	FY2008

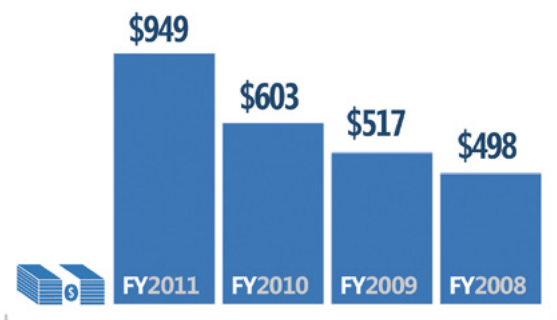
Cash Giving in Millions (Global)



In-Kind Giving in Millions (Global)



Total Giving in Millions (Global)



(Dollar amounts are rounded)

*FY2011 in-kind giving number now includes employee software donations, previous years' in-kind giving numbers do not.

Education			
Goal	Target Date	FY2011 Progress	FY2011 Details
Reach 250 million students and teachers across 115 countries/regions through Partners in Learning (2003 goal)	2013	ON TRACK	In FY2011, we reached nearly 16 million students and teachers in 114 countries/regions. Since 2003, we have reached nearly 210 million students and teachers in 120 countries/regions.
Use gaming software to make learning more interactive	On-going	ON TRACK	Began to explore classroom applications for Kinect™ for Xbox 360® to help students be more engaged in the learning process.

Jobs and Growth			
Goal	Target Date	FY2011 Progress	FY2011 Details
Help 2 million people get technology training through Elevate America	2013	ON TRACK	Reached more than 1 million people in FY2011 and nearly 1.9 million since the program launched in February 2009.
Reach 1 million people globally through Microsoft Innovation Centers	2012	ACHIEVED	Reached 250,000 people and trained 150,000 in FY2011, surpassing 1 million reached.
Help 23 million people globally get technology training through the Community Technology Skills Program	FY2011	ACHIEVED	Provided technology training to more than 23 million people in FY2011.
Provide 60,000 people worldwide with software to grow their small businesses through Microsoft BizSpark®	FY2011	ACHIEVED	Reached more than 75,000 people in FY2011, up from 40,000 in FY2010. In FY2012, we will work to improve the success rate of start-up companies participating in the program (current rate of renewal in the program is 75 percent).

Nonprofits			
Goal	Target Date	FY2011 Progress	FY2011 Details
Increase access to technology for nonprofits to help them achieve their missions	On-going	ON TRACK	Donated \$844 million in software to 46,886 nonprofits in 113 countries/regions.
Help nonprofits take advantage of the benefits of the cloud	On-going	ON TRACK	Launched Microsoft Dynamics® CRM Online 2011 Nonprofit Solution, a cloud-based program that helps nonprofits manage data and more easily work with their beneficiaries and donors. We also conducted training programs to help nonprofits learn about cloud technologies that can help their organizations.

Humanitarian Response			
Goal	Target Date	FY2011 Progress	FY2011 Details
Develop and implement cloud solutions to aid disaster response	FY2011	ACHIEVED	Created and used cloud solutions to help relief organizations, governments, businesses, and the public during disasters, including the earthquake and tsunami in Japan. In FY2012 we will continue this work and launch new tools.
Help businesses recover from disasters more quickly	FY2011	ACHIEVED	Provided businesses with free access to cloud solutions to help them get up and running even before infrastructure was rebuilt in the Japan earthquake and other disasters. In FY2012 our goal is to provide additional consulting support to businesses that are looking for technology solutions after disasters.



Education

More than 100 million young people around the world lack access to education¹. Millions more don't get the quality education or opportunities that they deserve. Technology can help.

Education, Learning, and Youth

Microsoft programs have a focus on helping youth and young adults around the world obtain the skills that they need, connect them to opportunities, and support them in pursuing their dreams. We have the unique ability through technology and partnerships to make education and learning more accessible and more engaging for them.

Challenges

- The global shortage of well-trained teachers is slowing progress in increasing access to quality education.
- Many teachers don't have the up-to-date tools that they need to teach effectively.
- Students need the opportunity to gain the critical science, technology, engineering, and math (STEM) skills that are required for so many of today's jobs.

- There are nearly 77 million unemployed youth around the world, partly because they lack skills².

Opportunities

- Providing information and communications technology tools that teachers can incorporate into their curriculum
- Using the Internet to increase access to quality learning opportunities
- Promoting science, technology, engineering, and math education for all students to improve skills and competitiveness
- Increasing the readiness of workers for the technology economy

1. http://www.unicef.org/publications/files/Progress_for_Children-No.9_EN_081710.pdf

2. http://www.ilo.org/wcmsp5/groups/public/@dgreports/@dcomm/@publ/documents/publication/wcms_150440.pdf

VIEWPOINT

Dr. Qian Tang
Deputy Assistant Director-
General for Education, UNESCO



ICT for high-quality universal education: opportunities and challenges

Information and communication technologies (ICT) are changing the face of education. They have the potential to help expand access, bring more equity, improve quality and enhance management practices.

Community radio programs, TV and satellite-broadcasting programs, self-generated video clips, community computers and mobile phones are among the different delivery solutions literacy specialists are using to reach marginalized groups and young people. Online courses are increasingly enabling broader groups of students to participate in higher education, technical and vocational education and training, and other lifelong learning opportunities. UNESCO works with its partners around the world, which include Microsoft, to develop innovative tools for education. In short, ICTs are helping the development community to bridge the knowledge divide.

The main benefits of ICT for education appear to be in developing cross-disciplinary competencies, such as critical thinking, problem solving and complex communication—skills that are very relevant in today's fast-changing labor markets. Tapping into this potential requires improving teachers' ICT competencies and developing innovative pedagogies. It also means rethinking curricula and re-defining learning outcomes in response to the growing importance of new basic skills such as information literacy, digital literacy and ICT literacy. Governments in many developed countries and some middle-income countries have recognized this, by integrating ICT-related 'learning outcomes' into their curriculum structure. UNESCO is helping governments around the world to update their curriculum to include these new learning outcomes.

Of course, there are obstacles. Many students still have little or no access to technology. Governments and institutions in least developed countries lack the capacities to provide well-designed ICT-based learning. Furthermore, the broadband divide is still widening. The public sector and private companies hold the key to bridging this gap. Together, we can ensure that ICT helps build a better, more peaceful and equitable world.

What We're Doing

IMPROVING ACCESS TO HIGH-QUALITY EDUCATION

Putting technology to use in classrooms:

In FY2011 we got closer to our goal of reaching 250 million students and teachers around the world through our [Partners in Learning](#) program by 2013. Partners in Learning aims to help teachers build their skills, share best practices with one another, and innovate in their classrooms.

Together with our partners, we reached nearly 16 million students and teachers through Partners in Learning in FY2011, and we have reached nearly 210 million since 2003.

Impact Story: In India, Project Shiksha trains teachers to use technology in the classroom. Learn more about how one teacher is using Microsoft PowerPoint® to create engaging digital lessons. [Read more](#)

Furthering digital inclusion through public/private partnerships:

By partnering with governments around the world to create inclusive technology solutions, Microsoft connected 6 million citizens in FY2011 with relevant and affordable education technologies through the [Shape the Future](#) program

Training students for jobs in the 21st century:

In FY2011, Microsoft trained more than 360,000 students worldwide in technology and job skills through Microsoft [Students to Business](#), which connects students with Microsoft partner companies. Nearly 2,000 new companies registered for the program in FY2011.

Impact Story: Through Students to Business, students in Turkey are being trained in key competencies that they will need for future jobs. [Read more](#)

Helping schools train students and teachers: In FY2011 we partnered to help thousands of schools provide information and communications technology training and technology resources for students and teachers. Our goal is to improve student employability and the professional development of teachers through the Microsoft [IT Academy](#).

Impact Story: In 2011, North Carolina became the first U.S. state to implement the IT Academy program in all of its 628 public high schools. This program will provide 200,000 students with technology training in the first three years. [Watch the video](#)

Using gaming as a teaching tool: Video games are the new frontier in interactive learning experiences. In FY2011 we launched Kinect™ for Xbox 360®, and we are just beginning to discover its [educational applications](#). For example, teachers around the globe are beginning to use Kinect to help stimulate students' language literacy, numeracy development, and even physical fitness. One school principal in South Africa observed that students focus so intensely on the games that they overcome their inhibitions and learn more easily.

ADVANCING SCIENCE AND MATH IN SCHOOLS

Providing problem-solving software: We made it easier for schools to adopt Microsoft Mathematics 4.0, a program that helps students tackle math and science challenges, by providing it at no charge.



SPOTLIGHT ON STUDENTS

Meet Team Hermes from Ireland, who took home the top prize in Software Design at the 2011 Imagine Cup. Competing against more than 380,000 students from 183 countries/regions, the team took home top honors for their device that plugs into a car to monitor dangerous driving behavior and road conditions, providing instant feedback to both the driver and the car owner.

[Read more](#)

Supporting student innovation: More than 380,000 students from more than 180 countries/regions participated in the 2011 [Imagine Cup](#), the world's largest student technology competition.

Supporting STEM policies and programs: Microsoft has joined the STEM Ed Coalition, a U.S. bipartisan group that aims to educate federal policymakers on the critical role that STEM education plays in competitiveness. We also continued our membership in Change the Equation, a joint effort of the Obama administration and corporate CEOs to improve STEM education in the United States.

Investing in STEM education in Washington State: In FY2011 we helped found Washington STEM, a nonprofit that is dedicated to advancing innovation, equity, and excellence in STEM education in Washington State. Microsoft also pledged \$25 million to the Washington Opportunity Scholarship Program to help increase the number of Washington State students who earn bachelor's degrees, particularly in STEM fields.

What's Next

OUR PRIORITIES FOR FY2012 INCLUDE:

- Partnering with governments around the world to increase access to quality 21st-century education through our Shape the Future program.
- Continuing to advance cloud-based computing, learning analytics, and mobile and game-based learning to help engage and excite students.
- Reaching 250 million students and teachers across 115 countries/regions through Partners in Learning by 2013.
- Beginning work on our commitment through the Clinton Global Initiative to connect 1 million "digitally excluded" students and their families in the United States to personal learning devices, Internet services, online education tools, job skills training, and online safety resources by the end of FY2014.
- Continuing to advocate through our public policy agenda and corporate affairs work for policies that advance educational reform.



Jobs and Growth

In many countries, unemployment remains stubbornly high and people lack the skills to fill open jobs. The technology industry can help create jobs in all sectors and rebuild economies.

Technology is a driver of economic growth. For example, small and medium-sized businesses that heavily use the cloud grow and export twice as much as those that don't.¹

Microsoft and our partners have the responsibility and opportunity to help maximize the economic growth that technology can generate. It's good for our business and good for our communities to support small businesses, provide job skills training, and create new technologies that will give rise to new industries.

Challenges

- The global economy is still suffering from the recession, and many people are still out of work.
- Workers don't have the technology skills that they need to find and keep employment in the modern economy.
- Entrepreneurs and small businesses often can't access or afford the technology that can help their companies grow.

Opportunities

- Creating new jobs through technology innovation
- Teaching people technology skills to help them get new and better jobs
- Capitalizing on the growth of cloud computing to create economic growth and opportunities for builders and users of technology
- Providing entrepreneurs and small businesses with access to technology to help them build capacity and drive growth in local economies



SPOTLIGHT ON ISABEL GARCIA

Meet Isabel Garcia. Isabel took part in Elevate America, learning technology skills that helped her find a new job. [Read more](#)

1. http://www.mckinsey.com/mgi/publications/internet_matters/index.asp

VIEWPOINT

Luis Alberto Moreno
President, Inter-American
Development Bank (IDB)



In Latin America and the Caribbean, technology is playing a crucial role in fostering development through innovation and capacity building. The IDB is partnering with Microsoft to develop projects that facilitate ICT access for citizens and institutions across the region.

Among the partnership projects, the IDB—through the Multilateral Investment Fund—and Microsoft established the Youth Technology for Job Creation Fund. In Latin America, there are more than 200 million people under the age of 30, and the unemployment rate for this group is twice that of the rest of the adult population. The fund, which finances job training programs to broaden the use of IT skills, entered its second phase in March 2011—tripling the amount of grants available. This effort builds in part on our previous partnership in which we provided technology training to people with disabilities and at-risk youth populations in more than 21 countries in the region.

The IDB and Microsoft also partner to support policies and strategies fostering ICT research capacity building and innovation through the Latin American and Caribbean Collaborative ICT Research Federation (LACCIR) Virtual Institute. Launched in 2007, LACCIR has funded more than 25 research projects to date on topics ranging from biotechnology to digital inclusion.

In the aftermath of the January 2010 earthquake in Haiti, we are addressing the challenge of managing information and resources in the reconstruction effort and improving the capacity of the country's education system. In partnership with the Haitian government, Microsoft and the IDB developed the Haiti Integrated Government Platform (HIGP), providing a comprehensive e-governance solution to improve transparency and donor coordination, thereby transforming the delivery of government services. We also continue to support education reform and programs to provide teachers and students with access to technology.

What We're Doing

STIMULATING ECONOMIC GROWTH

Creating jobs and businesses: The technology sector is an engine of economic growth. Worldwide, jobs in the technology sector increased to more than 38 million in 2011. But what is more important is the growth that technology enables in other sectors. A recent study found that creation and use of Internet technologies contributed 7 percent growth in gross domestic product (GDP) in mature and emerging markets in the past 15 years and 11 percent in the past five¹. We believe that our investment in cloud computing will bring the benefits of technology to more users at lower costs, stimulating the creation of new businesses and nurturing the longevity of others.

Propelling innovation: One key to creating economic growth through technology is innovation. That is why Microsoft is one of the industry's leading investors in research and development. We view this as an investment in our future, in our industry's future, and in the global progress of technology. Some of the results of our research last year included new technology to improve everything from colon cancer screenings to microfinance transactions in the developing world. Through the **Microsoft Innovation Centers** we offer courses and resources in technology and business skills for entrepreneurs, IT professionals, and students. We reached 250,000 people and trained 150,000. There are currently 102 centers in 42 countries.

1. http://www.mckinsey.com/mgi/publications/internet_matters/index.asp, page 2.

EQUIPPING WORKERS WITH TECHNOLOGY SKILLS

In today's workplace, most employers demand that their employees have a high comfort level with technology. We continued to heavily focus on providing people with the technology training that they need to get and keep good jobs. Through our programs and partnerships, in FY2011 Microsoft provided technology skills training to approximately 23 million people around the world, reaching more than 190 million since 2003.

Impact Story: Microsoft Britain Works is helping train workers in the United Kingdom. [Read More](#)

Our Microsoft Elevate America program provides technology skills training and resources to help people in the United States find employment. Through this program, we reached more than 1 million people in FY2011.

In FY2011, we also announced the Microsoft Elevate America Veterans Initiative. This is our commitment to contribute \$2 million in cash and up to \$6 million in software over the next two years to support programs for members of the U.S. armed services and their spouses who are separating from the military and reintegrating into their civilian communities and the work force.

SUPPORTING SMALL BUSINESSES

Through Microsoft BizSpark®, we provide start-up businesses with access to technology, business and technical support, and marketing and networking opportunities with experienced members of the entrepreneurial community. In FY2011, we reached more than 75,000 people

worldwide through BizSpark, up from 40,000 in FY2010, and we worked with about 45,000 new start-up businesses. Of these companies, about two-thirds were outside the United States. In FY2012, we will work to improve the success and survivability rate of start-up companies that participate in the program.

Impact Story: French software development company and BizSpark participant Lokad delivers sales, demand, and call volume forecasts by using Windows Azure™ [Read More](#)

What's Next

OUR PRIORITIES FOR FY2012 INCLUDE:

- Going deeper with our technology skills program to support youth who are interested in technology to change the world. Through our Tech Talent 4 Good initiative, we will provide young technology talent with: On-site experience through a mentorship program with nonprofits. Seed funding to help take their innovations to scale. A network to help them work together to bring about social change.
- Continuing to provide technology training to workers and technology access to small businesses.
- Helping start-up businesses increase their survival rates in their first few years of existence.
- Working with partners and governments to unlock the economic potential of the cloud.



Nonprofits

Nonprofits are changing the world, often with limited resources and equipment. Imagine what they can accomplish with a little more help.

Technology helps nonprofits reduce costs, boost productivity, raise funds, and deliver new and improved services to their local communities. Microsoft has a longstanding commitment to ensuring that technology is accessible to nonprofits around the world, bringing the benefits of technology to local communities.

We are proud to work with thousands of nonprofits around the world to get them access to the technology that they need and train them how to use it.

Challenges

- Many nonprofits lack the resources that they need to carry out their missions.
- Nonprofits are focused on delivering much-needed services, but many lack the technology training and resources that they need to drive efficiencies, cut costs, and increase reach.
- Nonprofits may not have optimized their use of existing technology, or they are not using it correctly.

Opportunities

- Ensuring that more nonprofits know they can receive software donations from Microsoft
- Helping nonprofits understand how cloud computing can provide technology faster and often at a lower cost
- Creating more innovative technologies, and more that are tailored to the needs of nonprofits
- Repurposing Microsoft enterprise solutions to serve nonprofits



PARTNER SPOTLIGHT

TechSoup Global

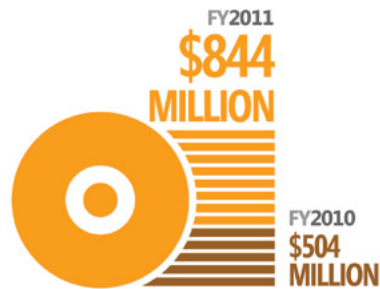
TechSoup Global is Microsoft's signature software donation partner. Together, we donate an average of \$1 million worth of software every day to nonprofits around the world. We also work together to provide nonprofits with technology training and opportunities to share technology best practices with one another.

[Read more](#)

Giving nonprofits access to technology

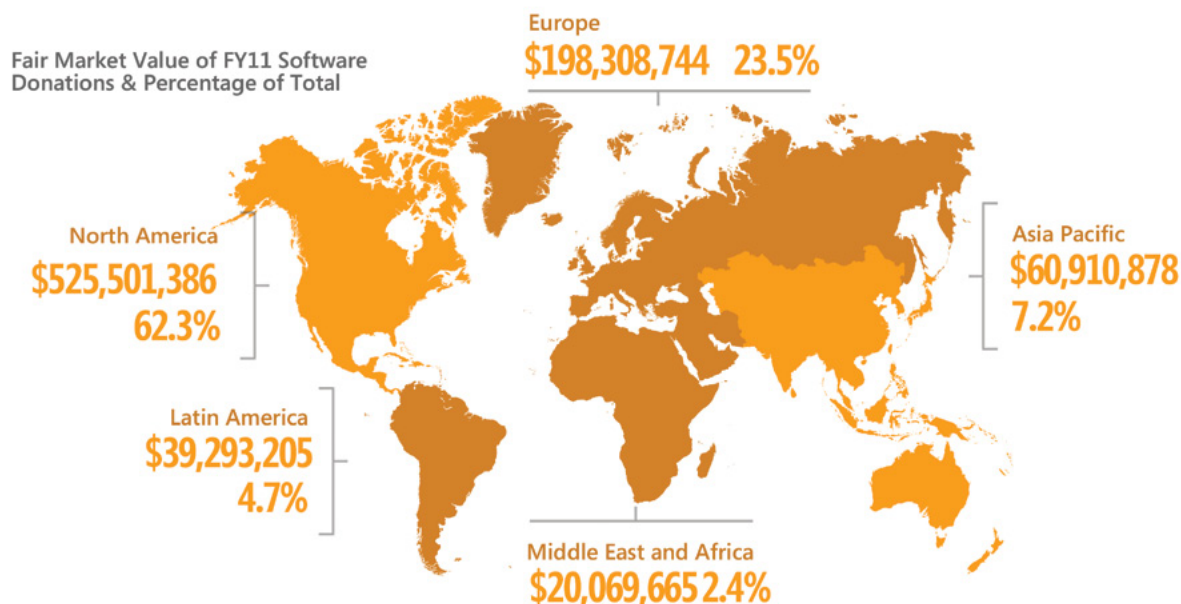
Donating software: In FY2011 we donated more than \$844 million in software to 46,886 nonprofits in 113 countries/regions. The value of software that we have donated globally since 1998 is more than \$3.9 billion. The FY2011 value of software donated now includes employee software donations; previous years' in-kind giving numbers do not.

Value of Software Donated



(Dollar amounts are rounded)

Number of Recipient Nonprofits



Fair Market Value of FY11 Software Donations **TOTAL \$844,083,878**

REGION	 COPIES OF WINDOWS SUPPLIED*	 COPIES OF OFFICE SUPPLIED*
ASIA PACIFIC	49,030	28,820
EUROPE, MIDDLE EAST & AFRICA	60,680	23,230
LATIN AMERICA	21,650	880
NORTH AMERICA	285,670	131,150
TOTAL	417,030	184,080

*Various versions of Windows and Office were supplied, depending on the type of refurbished hardware.

Equipping refurbished computers: In FY2011 we supplied 417,030 copies of Windows® and 184,080 copies of Microsoft Office to partners that offer refurbished computers to nonprofits, schools, and technology access programs.

Providing software licensing: In FY2011 authorities in Russia were reported to have used charges of pirating Microsoft software as a means to confiscate computers and challenge nonprofits. To help protect the freedom of expression of nonprofits and their access to technology, we established a program that allows nonprofits in certain countries/regions** to license their existing Microsoft software for free. The policy will extend through January 1, 2013.

Training nonprofits to use the latest technology

Hosting NGO Connection Days: In FY2011 Microsoft held more than 100 NGO Connection Days, training more than 6,200 nonprofits in 62 countries/regions on how to use technology to build their capacity and serve more people.

Offering technology webinars: We hosted webinars twice a month, at no charge, to help more than 750 nonprofit professionals around the world learn about a variety of technology topics, including cloud computing, collaboration through Microsoft SharePoint®, and managing donors and volunteers with CRM.

Training nonprofit leaders: We worked with Nonprofit Technology Network (NTEN) to train 100 nonprofit leaders to more effectively manage information technology within their organizations.

NGO Connection Days	 NUMBER OF EVENTS	 ORGANIZATIONS REACHED	 NUMBER OF ATTENDEES
ASIA PACIFIC	29	1,394	2,447
EUROPE	30	1,766	2,379
LATIN AMERICA	29	2,424	3,589
MIDDLE EAST & AFRICA	13	554	1,032
NORTH AMERICA	1	100	250
TOTAL	FY2011 102 FY2010 107	FY2011 6,238 FY2010 6,310	FY2011 9,697 FY2010 9,237

**Countries/regions included are Armenia, Azerbaijan, Belarus, China, Kazakhstan, Malaysia, Russia, Tajikistan, Turkmenistan, Uzbekistan, and Vietnam.

CREATING NEW TECHNOLOGIES FOR NONPROFITS

In FY2011 we launched Microsoft Dynamics® **CRM Online 2011 Nonprofit Solution**, a cloud-based program that helps nonprofits manage data and more easily work with their beneficiaries and donors.

What's Next

OUR PRIORITIES FOR FY2012 INCLUDE:

- Working with TechSoup Global, our software donations partner, to simplify the software donation process for nonprofit users and to provide increased customer support to help nonprofits access technology more easily.
- Expanding our programs to serve nonprofits in more countries/regions.
- Launching a new program to help nonprofits get the most out of their computers by working with them to properly license the operating systems that they may already have installed.
- Offering Windows 7 Professional to our computer refurbishing partners. This will be the first time that we've been able to offer the most current version of Windows for refurbished computers.
- Researching and developing new software and offerings that are tailored to the needs of nonprofits.

VIEWPOINT



Rita Soni
CEO, NASSCOM Foundation

How does a remote district in India improve the newborn sex ratio from 839 girls for every 1,000 births to 876 (the world average is 1,084¹)? How does a small Indian nonprofit reach 150 million weak readers, doubling the number of good readers in local primary schools (India's adult literacy is 74.04 percent²)? There is only one answer: technology. The information age has transformed communities across vast geographies by plugging them into networks and providing tools to interact, manage, and reach. The term 'global village' has taken on a new meaning in this information age as miles get bridged by the Internet superhighway. However, the impact of ICT on poverty and development is still just beginning to be felt.

The solution to the reach challenge is through partnership and active participation of tech companies like Microsoft that support the delivery of technology access, training, and informed usage to local communities. Microsoft has supported the NASSCOM Foundation since 2005, and together they have benefited more than 1,700 nonprofits all over India through software donations, certifications, and IT training for better nonprofit performance as well as community development. Through partnership we can scale this impact, assisting with solving the world's toughest and most pressing issues. Creating a platform for proactive participation of tech companies is critical for the success of this knowledge transfer. Corporate philanthropy by tech companies for hardware, software, and general donations is a start. Innovation can come from tech companies forging partnerships with nonprofits for product/service development. Bridging the talent needs of nonprofits with employee volunteering and all-out deployment will engage employees and build capacity. Tech companies can also consider investment into social enterprises piloted by nonprofits as another means of bridging the technology divide. And finally, linking in the government as the third leg of this collaborative effort will scale such efforts to reach the last mile.

ICT-connected villages and urban slums with content that can support education, livelihoods, health, disaster preparedness, and public services will truly bring about an inclusive and sustainable globe where gender divides are bridged and illiteracy is a thing of the past.

1. http://hdr.undp.org/en/media/HDR_2010_EN_Complete_reprint.pdf
2. <http://www.censusindia.gov.in/2011-prov-results/indiaatglance.html>



Humanitarian Response

People and businesses who have suffered a disaster need help as quickly as possible. Microsoft works with partners to use technology to accelerate communication between response organizations, enable accurate communication with the public, and speed the return to normalcy. We provide customers with the support and services that they need to get their businesses back up and running as quickly as possible. A fast recovery not only benefits communities, but also decreases the economic impact on the economy.

Challenges

- Natural disasters are increasing globally. Workers don't have the technology skills that they need to find and keep employment in the modern economy.
- The destruction of infrastructure in humanitarian emergency situations makes communication and coordinated response difficult.

Opportunities

- Partnering with relief agencies and governments to help respond to disasters
- Using the cloud to bypass infrastructure problems to get responders and those affected back to normal faster
- Encouraging employee giving and volunteering
- Driving global donations and awareness through social media

What We're Doing

Microsoft activated company-wide responses to two major humanitarian emergencies in FY2011: the earthquake and tsunami in Japan and the flooding in Pakistan. The company also supported relief efforts for more than 40 other disasters around the world.

The earthquake and tsunami in Japan was one of the world's largest humanitarian disasters and our most significant engagement in FY2011. A summary of our response follows. For information on our response to other recent disasters, visit the [Microsoft Citizenship website](#).

Microsoft and its employees also contributed approximately \$3.4 million to help victims of the disaster in Japan.

In addition, to support our ongoing commitment to help bring technology to remote refugee camps with the UN Refugee Agency (UNHCR), the Community Technology Access (CTA) program added 6 new centers in FY2011; bringing the total number of centers to 31 spanning Argentina, Armenia, Azerbaijan, Bangladesh, Bulgaria, Georgia, Kenya, Mauritania, Nepal, Rwanda, Sudan, Uganda, and Yemen.

Japan Earthquake and Tsunami	
Affected Group	Microsoft Response
Response Organizations	- As a part of a cross-industry effort, provided more than 1,200 laptop computers and software to aid workers. We also worked with Dell and HP to provide 250 computers for NetHope, our partner that provides humanitarian response organizations with technology support. - Worked with a partner to develop an online tool to manage evacuation center capacity and resources - Deployed a pilot cloud-based portal to help a local food bank keep the public up to date on where they could get food
Government and Infrastructure Providers	- Developed a website and mapping tool in partnership with the Ministry of Education, Culture, Sports, Science, and Technology to share information about radiation levels with the public - Provided Microsoft Business Productivity Online Standard Suite/Office 365 to organizations whose communications infrastructure was damaged
Local and International Public	- Worked with partners to develop and deploy the cloud-based application J!ResQ to help displaced persons find their family and friends - Microsoft online properties in Japan featured public information, such as a rolling blackout calendar and Bing® map tools showing the government radiation reports and the status of roads. - Raised global awareness and funds through Microsoft online properties such as MSN, Bing, and Xbox LIVE®
Customers and Partners	Provided free customer service and support, Windows® Azure, Microsoft Exchange Online, Microsoft SharePoint® Online, and Microsoft Lync™ Online for 90 days while existing systems were down

What's Next

OUR PRIORITIES FOR FY2012 INCLUDE:

- Strengthening and building cross-industry relationships with technology partners to offer a more robust suite of technology solutions that address some of the toughest challenges of disaster response.
- Implementing more cloud solutions in disaster situations, including the Disaster Response cloud-based portal that was piloted in Japan.
- Helping businesses restart after a disaster. Building on the work we did in giving businesses access to cloud solutions to help them restart their operations, we will add consulting services for affected customers and partners to help them find the best technology to speed their recovery.



PARTNER SPOTLIGHT

Digital Office Japan

In just a matter of days after the earthquake hit in Japan, Microsoft partner Digital Office Japan developed and deployed J!ResQ, a cloud application that helps people displaced by the earthquake find their loved ones. Built on Windows® Azure, J!ResQ allows the user to record and automatically send a voice message from their mobile phone to their family's and friends' email addresses about their well-being and their GPS-based location. J!ResQ also enables people to search for missing people by using their email addresses.

More than 15,000 people used J!ResQ to find one another in the days and weeks after the earthquake.

Working Responsibly

“Microsoft is committed to principled, accountable, and transparent business practices that meet our responsibilities as a global company. We appreciate the importance of talking with and listening to those who are affected by our decisions. And we’re committed to learning from groups and individuals that are leaders on the social, economic, and environmental issues of our day.”

— Brad Smith, General Counsel and Executive Vice President,
Legal and Corporate Affairs

How we work is just as important as the products we make and all we do to support our local communities. Our behavior affects all of our stakeholders—customers, shareholders, employees, communities, suppliers, and partners. We work across all areas of business to be a responsible partner to all of the people who place their trust in us.

Highlights

The following are some of our goals in each of our Working Responsibly focus areas. Many of these are goals that we reported on or set for ourselves in our FY2010 Citizenship Report. For detail on progress achieved against these goals, see the relevant sections of this report.

Our People			
Goal	Target Date	FY2011 Progress	FY2011 Details
Regularly evaluate compensation and benefits to meet employee and market needs	Ongoing	ON TRACK	Announced significant changes to our pay structure. We are raising employees' base salaries, providing more cash up front by reducing performance-based stock award targets for most employees. Starting in FY2012, employees in particularly competitive positions or markets will receive an additional pay increase.
Increase executive leadership support and accountability in diversity and inclusion	Ongoing	ON TRACK	Deepened direct executive involvement in company-wide diversity and inclusion planning. In FY2012 and beyond, this will create greater visibility and accountability for diversity and inclusion results.
Recruit, advance, and retain senior-level women globally	Ongoing	BEHIND	The percentage of women pursuing careers in technology continues to decrease. We are working to address the issue along with other industry partners and organizations.
Continue to encourage employees to volunteer their skills	Ongoing	ON TRACK	Created an online tool to match the skills of employees with nonprofits in need.

Environmental Sustainability			
Goal	Target Date	FY2011 Progress	FY2011 Details
Reduce carbon emissions per unit of revenue by 30 percent compared with 2007	2012	BEHIND	The rise in cloud computing is requiring more data center capacity, which in turn is causing the use of more energy. We will continue to work to achieve this goal, particularly by making our data centers more efficient.
Build new data centers that average 1.125 in Power Use Effectiveness (PUE)	2012	ON TRACK	Achieved a PUE of 1.15 to 1.20 in our newest data center.
Enhance our global carbon footprint tracking system to also track water consumption and waste	FY2011	ON TRACK	Added water tracking to our system and improved our waste tracking capabilities. The results on water are available in this report. We are working toward more detailed reporting on waste in FY2012.
Create new energy-efficiency guidelines for Microsoft product groups	Ongoing	ON TRACK	Developed energy-efficiency guidelines for Windows® products. In FY2012, we will work to develop energy-efficiency guidelines for our cloud services.
Develop new environmental guidelines for the software industry as a whole	Ongoing	ON TRACK	Currently working with peers to develop two new industry-wide metrics to track carbon emissions and water use .
Work with partners to find solutions that allow cloud computing to grow, while reducing environmental impacts	Ongoing	ON TRACK	Worked with peers and third-party organizations, including the Green Grid, to find new ways to make cloud computing more energy efficient.

Responsible Sourcing			
Goal	Target Date	FY2011 Progress	FY2011 Details
Update our Vendor Code of Conduct	FY2011	ACHIEVED	Updated the code to strengthen human rights, anticorruption, and customer security and privacy. The new code became effective at the beginning of FY2012.
Increase transparency	Ongoing	ON TRACK	Briefed socially responsible investors, advocacy groups, and industry peers on our policies, programs, and progress. We also increased the level of detail that we make public about our supply chain in our annual Citizenship Report.
Eradicate conflict minerals from the technology industry's supply chain	Ongoing	ON TRACK	Worked with suppliers to help them launch conflict-free sourcing smelter tracking and management systems, which are at various stages of development. We also worked with industry peers through the Electronics Industry Citizenship Coalition to support an industry-wide Conflict-Free Smelter Program.

Privacy and Safety			
Goal	Target Date	FY2011 Progress	FY2011 Details
Teach online safety to people around the world	Ongoing	ON TRACK	Helped teach more than 12 million students, teachers, parents, and consumers safer online habits and practices
Develop strong privacy and safety public policy frameworks	Ongoing	ON TRACK	Created new resources to help policymakers understand online challenges and how we can work together to solve them
Partner to fight online crime	Ongoing	ON TRACK	Worked with partners to shut down major Internet crime operations such as the Win 32/Rustock botnet
Create company-wide guidelines on online freedom of expression	FY2011	ACHIEVED	Adopted a company-wide Freedom of Expression policy that is based on international human rights standards and the Global Network Initiative

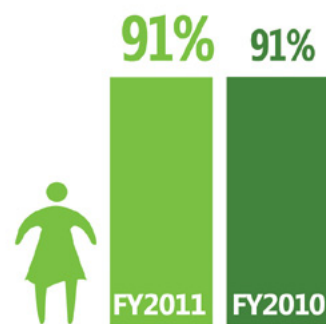
Integrity and Governance			
Goal	Target Date	FY2011 Progress	FY2011 Details
Expand stakeholder engagement and dialogue	Ongoing	ON TRACK	Redesigned and expanded our corporate Governance and Citizenship content on the Investor Relations website , in addition to maintaining regular communications with stakeholder groups
Engage with others on industry best practices	Ongoing	ON TRACK	Engaged in cross-industry dialogues through the Conference Board Governance Center, Stanford Institutional Investors' Forum, the Society of Corporate Secretaries and Governance Professionals, and the Council of Institutional Investors to help develop best practices
Examine how we manage enterprise and external risk	Ongoing	ON TRACK	Expanded our disclosure related to the role of the Board and its committees in risk management
Maintain our strong practices and performance	Ongoing	ON TRACK	Achieved strong ratings from independent rating agencies, including a global market rating of 9.5 from Governance Metrics International

Compliance			
Goal	Target Date	FY2011 Progress	FY2011 Details
Strengthen support for industry standards in Windows Internet Explorer®	FY2011	ACHIEVED	Published more than 40 documents with the release of Internet Explorer 9 that explain its support for web standards. No other browser vendor provides this level of documentation.

MICROSOFT EMPLOYEE POLL RESULTS



Employees who have positive opinions about the degree of flexibility they are given in doing their job



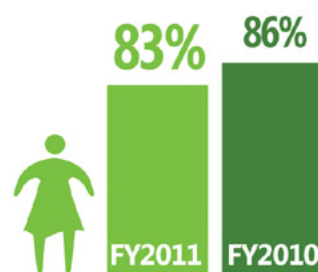
Employees who feel Microsoft is a good corporate citizen in employees' communities and in the world



Employee response rate



Employees who feel proud to work for Microsoft



Employees who would recommend Microsoft as a great place to work



Employees who feel their work group values diverse perspectives



Employees who feel their workgroup speaks openly and honestly, even when news is bad



Employees who feel they are treated with dignity and respect by their managers

Note: Employee poll responses to the questions reflected in this table have not changed significantly since last year. We continue to invest in building high levels of employee participation in providing feedback.



Our People

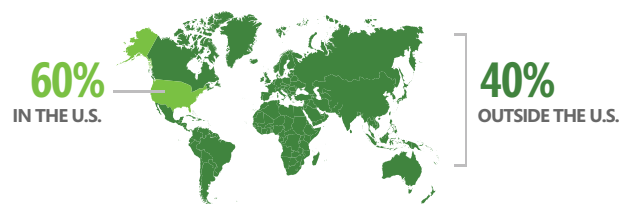
"No matter where we go in the world, we have to attract great talent. The passion and talent of our people is what drives the success of Microsoft."

— Lisa Brummel, Chief People Officer

COMPENSATION AND PROFESSIONAL DEVELOPMENT

More than 100 million young people around the world lack access to education. Millions more don't get the quality education or opportunities that they deserve. Technology can help.

MICROSOFT EMPLOYEES BY REGION



Challenges

- There is fierce, global competition for top talent, particularly in the research and development pool.
- Microsoft depends on attracting and retaining the best talent for our business success.
- The cost of healthcare in the United States is rising, and this has near- and long-term economic impact for both employees and employers.

Opportunities

- Continually gathering employee feedback about Microsoft culture and responding to this feedback
- Retaining top talent through offering competitive compensation, rewarding top performance, and providing ongoing development opportunities
- Recruiting top talent globally

What We’re Doing

PROVIDING INDUSTRY-LEADING
COMPENSATION AND BENEFITS

Updated the way we pay our people:
We announced the biggest-ever changes to our pay structure. We are raising employees’ base salaries, providing more cash up front by reducing performance-based stock award targets for most employees. Starting in FY2012, employees in particularly competitive positions or markets will receive an additional pay increase. We took these steps to respond to employee preferences for cash compensation and to target areas of the market where competition is most intense.

Simplified employee performance reviews:
We simplified our performance review system to make the link between performance and rewards more transparent and to allow managers to invest more time in meaningful performance and career development discussions throughout the year.

Announced the evolution of United States healthcare benefits: Microsoft healthcare benefits have led the industry for years and will continue to be among the best in the future. In FY2011 we announced that we will be moving to a cost-sharing model beginning in 2013, providing employees with two years to learn more about alternate plans, including the Health Savings Plan with generously Microsoft-funded Health Savings Accounts. The change addresses the rising cost of health care in the United States and our need to ensure that our health plan is sustainable for the long term.



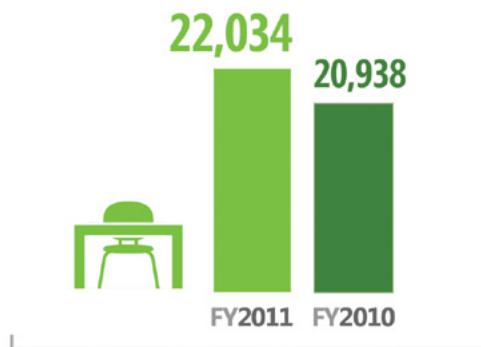
Reaffirmed our support for comprehensive benefits: We continue to offer a wide range of meaningful employee benefits—including wellness, insurance, retirement, and work-life balance benefits—to provide our employees with a high quality of life and ongoing peace of mind. Microsoft’s investments in some of these programs are detailed in the table.

PROVIDING LIFELONG LEARNING AND DEVELOPMENT OPPORTUNITIES

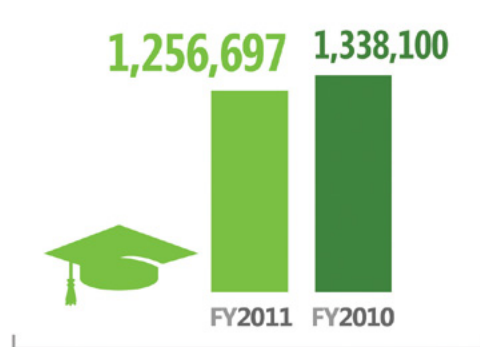
We are committed to supporting employee development to help employees learn through their work, through their colleagues, and through formal training programs. Opportunities are framed around a 70-20-10 learning and

development model: 70 percent on the job, 20 percent learning through others such as mentors and teammates, and 10 percent in formal online or in-person training.

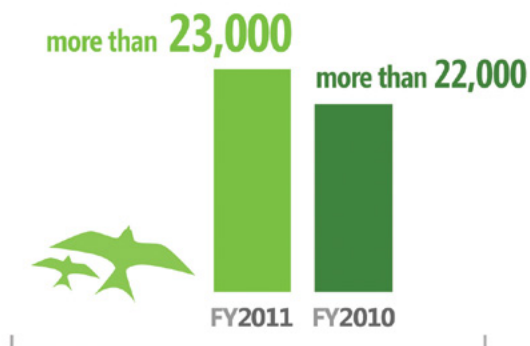
Approximate Number of Classes Offered Through Microsoft



Approximate Number of Classes Completed by Employees



Employees Participating in Mentoring Program



Employees Who Received Tuition Assistance for External Education and Training (U.S.)



SPOTLIGHT ON LEADERSHIP



One of the ways that Microsoft develops leaders is through our Front Lines program. The program brings Microsoft executives together for an immersive three-to four-day workshop in a developing country. There, they work with Microsoft partners, including nonprofits and United Nations agencies, to help them solve organizational challenges. The interactive experience helps our executives build their leadership and problem-solving abilities and helps them learn how to do business in emerging markets. The experience also helps Microsoft partners benefit from the expertise of our leaders.

Thirty-five Microsoft leaders participated in the FY2011 program in Peru. One hundred percent of Microsoft participants agreed that the program gave them a deeper understanding of the challenges and opportunities for the company in doing business in emerging markets.

What's Next

OUR PRIORITIES FOR FY2012 INCLUDE:

- Rolling out our new pay structure and monitoring feedback to remain a leading employer of choice.
- Optimizing our pay-for-performance culture and supporting our new performance management approach that rewards business impact and emphasizes ongoing career development.
- Finalizing and communicating the details of our 2013 U.S. healthcare benefits in advance of 2013 Open Enrollment (November 2012) to build employees' awareness of and confidence in future health benefit election decisions.
- Offering learning and development opportunities to help employees and managers meet the future needs of the business, support agility in the workforce, and enhance change management capabilities.

DIVERSITY AND INCLUSION

“Our emphasis on diversity and inclusion enables us to build a workforce and create a work environment that fosters talent and creativity and welcomes different experiences, perspectives, and capabilities. We believe this is key to understanding our customers’ changing needs so we can continue to deliver products and services that provide them with real value.”

— Gwen Houston, General Manager of Global Diversity and Inclusion

Challenges

- It can be difficult to attract and retain top diverse talent in increasingly competitive markets.
- Fewer women pursue careers in the technology industry globally.

Opportunities

- Continuing to recruit and retain diverse employees who reflect our customer markets
- Increasing interest in technology careers among women and diverse populations
- Capitalizing on the opportunities of an increasingly diverse global marketplace

What We’re Doing

BUILDING A MORE DIVERSE MICROSOFT WORKFORCE

Increasing executive leadership and accountability for diversity and inclusion:

In our FY2010 Citizenship Report, we committed to increase Microsoft leaders’ involvement. Last year we more deeply engaged the CEO and senior executives in diversity and inclusion planning for FY2012. Going forward, this higher level of engagement will allow us to drive greater alignment around global diversity and inclusion priorities and impact across Microsoft and to hold our leaders accountable for results.

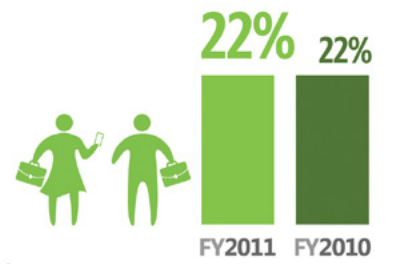
Providing professional development opportunities to employee groups:

We partnered with our employee resource groups to help individuals of all backgrounds develop their professional skills, ultimately helping improve our pipeline of talented employees.

Minorities in the United States Microsoft Workforce*



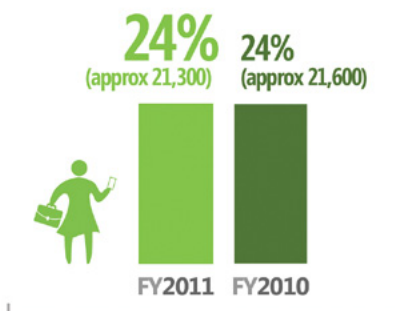
Women and U.S. Minorities* on the Board of Directors



Women and U.S. Minorities* in Executive Positions at Microsoft



Women Globally in the Microsoft Workforce



*U.S. minorities include the following populations: African American/Black, American Indian/Alaska Native, Asian, Hispanic/Latino(a), Native Hawaiian/Other Pacific Islander.

Sparking student interest in technology careers: With our partners, we provided youth programming opportunities to help increase interest in technology careers among more than 4,000 diverse students. Over the long term, our hope is that this will also increase our pipeline of talented, diverse employees.

CREATING A MORE INCLUSIVE WORK ENVIRONMENT

Increasing diversity and inclusion training: We added new training courses on diversity

and inclusion for Microsoft employees and integrated these into the broader company training offerings. More than 42,000 Microsoft employees took the new online training in FY2011.

Encouraging employee conversations about diversity and inclusion: We facilitated inclusive conversations with employees and leaders to deepen engagement in diversity and inclusion dialogues across the company.

Supporting diverse Microsoft employee development: We continued to offer programs

and resources to nurture the professional development and meet the unique needs of diverse groups of Microsoft employees.

What's Next

OUR PRIORITIES FOR FY2012 INCLUDE:

- Continuing efforts to increase diverse talent in senior level positions, with a focus on racial minorities in the United States and women globally. We will do this by:
 - Systemically integrating Diversity and Inclusion principles into all aspects of the talent-management life cycle.
 - Working with employee resource groups and employee networks to build rich communities and to successfully bring diverse employees to Microsoft.
- Enhancing managers' capability and skills for engaging a diverse workforce and creating inclusive work environments. We will focus on critical skills and behaviors that all levels of management must demonstrate to excel when leading diverse employees and teams.
- Continuing to expand diversity and inclusion efforts in countries outside the United States.
- Conducting research to identify business opportunities for Microsoft to market to diverse populations.



SPOTLIGHT ON OUR PEOPLE

Through the DigiGirlz Program, Microsoft employees are inspiring high school girls in Kenya to learn about technology and potentially seek future careers in the technology industry. Employees contribute to the hands-on computer and technology workshops, educational sessions, and fun activities that DigiGirlz provides for hundreds of Kenyan girls. [Read more](#)

EMPLOYEE COMMUNITY INVOLVEMENT

Microsoft employees make us a strong and successful company. We have a responsibility to support them as they unleash their passions and use their talents to help the people and causes that they care about.

Challenges

- There is a lack of global infrastructure to match the unique skills of volunteers with the needs of nonprofits.
- Employees are demanding more opportunities to make a difference through their careers.
- Volunteering is often done in one-off projects rather than through sustained partnerships.

Opportunities

- Working with employees to help make a difference in communities around the world
- Providing employees with meaningful opportunities to contribute to their communities, bond with their co-workers, and improve their leadership skills
- Taking best practices learned in one part of the world and applying them globally

What We're Doing

SUPPORTING EMPLOYEE GIVING AND VOLUNTEERISM

Encouraging volunteerism: We organize employee volunteer activities and support employees' personal volunteering by offering paid time off for volunteering outside the United States and making contributions to nonprofits where our employees volunteer in the United States. In FY2011, Microsoft employees in the United States alone volunteered more than 383,000 hours in their communities.

Volunteering Hours Contributed

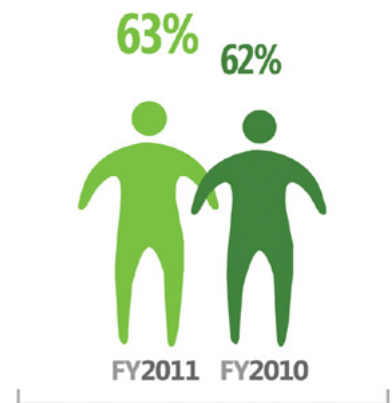


Number and Percentage of Employees Volunteering



Matching charitable giving: In the United States, we match employee donations to nonprofits up to \$12,000. We also run an annual employee giving campaign in support of U.S.-based nonprofits. In FY2011, with employee contributions and the corporate match, we contributed a record-breaking \$93.5 million. Many offices outside the United States also match employee giving.

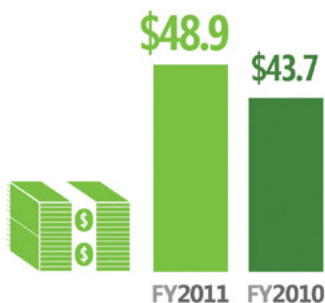
U.S. Employees Donating to Nonprofits



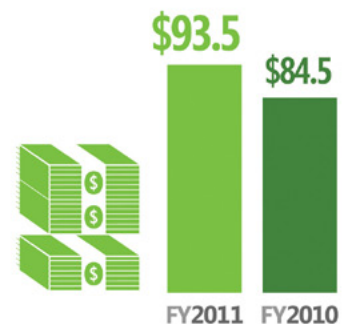
Employee Donations (in Millions)



Microsoft Match (in Millions)



Total Donations to Nonprofits (in Millions)



VIEWPOINT

Aaron Hurst
President and Founder,
Taproot Foundation



Since the Taproot Foundation launched eight years ago we have succeeded in changing the game and substantially redefining service. Now, 1 million hours of pro bono service later, we have provided more than US\$90 million dollars of consulting services to nonprofits working to tackle the toughest problems our society faces.

We have pioneered the spread of the pro bono ethic—"give what you know"—to a point where the movement is poised to attain critical mass. Twenty of the top 25 business schools in the United States have pro bono programs, and in the corporate sector pro bono is quickly becoming an integrated practice. Our six-year partnership with Microsoft has helped to bring us to this juncture.

The next critical step is ensuring the pro bono marketplace is sufficiently large and accessible for the 79 percent of nonprofits that have an identified need but can't access a supply of skilled volunteers.

We applaud Microsoft for three tremendous initiatives they've supported, working with us to close this gap.

- The development of Volunteer Profile Standards, creating a consistent taxonomy for coding volunteer skills. Already, Points of Light and other industry leaders have agreed to incorporate the results, smoothing the way for collaboration across the marketplace.
- Creation of a large-scale skills-based volunteering program for their workforce, highlighting their own commitment to pro bono and continuing to expand the marketplace.
- Development of a matching platform that will connect Microsoft employees and the Microsoft retiree base with skills-based volunteering opportunities, a freestanding tool that will generate its own momentum.

It is through these collaborations, shared thought leadership, and tireless work to redefine and integrate service into our businesses and communities that we will succeed in creating a world where every nonprofit can fulfill its mission.

CONNECTING SKILLED EMPLOYEES WITH NONPROFITS IN NEED

In FY2011, we studied how our employees can use their unique skills—both professional and nonprofessional—to contribute to their communities. To help connect skilled volunteers with the community, we created Volunteer Manager, an online tool that matches Microsoft employees and Microsoft alumni with volunteer opportunities based on their skills, areas of interest, location, and other factors. The tool was piloted in the United States in FY2011 and will launch internally across our U.S. offices in FY2012.

EMPOWERING EMPLOYEES TO PERSONALIZE AND INSPIRE MICROSOFT'S CITIZENSHIP

Employees at our headquarters in Redmond, Washington, started a Net Impact chapter in FY2011 to learn about and brainstorm ways that Microsoft can be a better corporate citizen. Net Impact is a global organization that promotes the power of business to make a better world. The Microsoft Net Impact chapter is the first corporate chapter of its kind.

What's Next

OUR PRIORITIES FOR FY2012 INCLUDE:

- Increasing employees' and Microsoft alumni's skilled volunteerism and use of Volunteer Manager with the official launch of the tool.
- Supporting the Microsoft Net Impact chapter to develop and drive employee-generated Citizenship projects and expanding the chapter to Microsoft employees outside of our headquarters in Redmond.
- Continuing to support employees' personal giving and volunteerism worldwide.

SPOTLIGHT ON NET IMPACT

In its pilot year, the Redmond Net Impact chapter was led by four dynamic employees from across the business.

Jasdeep Garcha
Program Manager,
Windows Core Kernel
President, Microsoft Net Impact



"I'm proud to have the opportunity to lead this organization in its pilot year, and have no doubt it can sustain momentum at Microsoft for a very long time."

Himani Naresh
Group Finance Manager,
OEM Finance
Co-Chair of Microsoft Net Impact



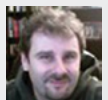
"I was looking for an outlet to channel my professional skills and my passion for technology in a way to help make Microsoft a better global citizen. We have over 90,000 employees at this great company and together we can be an army of change!"

Charles Thrasher
Program Manager,
SMB Advertising
Co-Chair of Microsoft Net Impact



"I want to become part of the solution rather than the problem, to reimagine what business can contribute to the greater good, the potential of all rather than a few, and I think Microsoft is the place to begin. We've changed the world before."

Enrico Toro
Senior Product Marketing Manager,
Windows Server and Management
Marketing
Co-Chair of Microsoft Net Impact



"I always believed that we leave our mark in life by making the world a little better place than what we found, and I believe this is true of individuals and corporations. When Net Impact gave me the possibility to work with similarly minded individuals to do something good together I couldn't say no."



Environmental Sustainability

"IT accounts for about 2 percent of the world's energy use, but that percentage is growing as demand for IT services increases. The cloud will allow us to rethink the role of IT and energy, so that we're not just thinking about how to reduce the impact of IT, but also about how IT can reduce the impact of the other 98 percent of the energy consumed."

— Rob Bernard, Chief Environmental Strategist

OUR OPERATIONS

Environmental sustainability starts with how we run our own business. We are always finding ways for our business to operate more efficiently and sustainably.

Challenges

- The world's environmental situation is deteriorating quickly.
- Cloud computing requires additional data centers that consume more energy.
- Everything is global, requiring travel to do regular business.

Opportunities

- Using information technology to reduce our own and our customers' energy use and corporate travel
- Increasing the efficiency of data centers to further increase the global environmental benefits of the cloud
- Reducing costs through efficiency efforts resulting in energy savings
- Working with our peers to improve energy efficiency in the technology industry

What We're Doing

These infographics summarize the carbon footprint of our global facilities, operations, and corporate travel. We compile this information on a calendar year basis for reporting through the [Carbon Disclosure Project](#), the largest public database of primary corporate climate change information in the world. All of our CDP submissions are available on the Carbon Disclosure Project website.

REDUCING CARBON EMISSIONS

To achieve our goal to reduce carbon emissions per unit of revenue by 30 percent by 2012 (calendar year) compared with 2007, we are focusing on the three key areas of our business operations that have the greatest potential for emissions reductions: data centers, travel, and facilities.

SCOPE 1 – DIRECT EMISSIONS (ON-SITE EMISSIONS)



**This data is provided on a calendar year basis rather than a Fiscal Year basis to facilitate reporting to the Carbon Disclosure Project, which is now being extended to water impacts.*

VIEWPOINT



Dan Jørgensen

**Member of
the European
Parliament, Vice-Chair,
Committee on the Environment,
Public Health and Food Safety**

In recent years I have been pleased to notice that the technology sector is becoming more aware of its impact on the environment and is acting decisively to cut its carbon footprint. By reducing power and water usage in its Dublin data center, Microsoft and its peers are truly leading the way and showing how innovation can both foster economic growth and create a cleaner, more sustainable future for people everywhere.

These efforts are critical as we are facing some of the most serious issues of global warming caused by increasing carbon emissions. In addition, we are experiencing some of the worst economic setbacks in living memory. I have always had a commitment to the environment and I believe that information and communications technology (ICT) will play a crucial role in enabling solutions to address these challenges, whilst also enabling the creation of a revitalized economy for Europe. It is increasingly clear that ICT—and especially cloud computing—can help people and businesses increase energy efficiency and drive down carbon emissions.

MAKING OUR DATA CENTERS MORE EFFICIENT

Our data centers still need to become more efficient to accommodate the cloud, but we are making progress.

- We opened the new Generation 4 data center in Quincy, Washington, which is achieving a PUE (power usage effectiveness) of 1.15 to 1.20 and gets its electricity from hydropower. We are on track to achieve our goal of designing and constructing data centers that average 1.125 PUE by calendar year 2012.
- We reduced power use for mechanical and electrical infrastructure from an estimated industry average of 50 percent of data center power to less than 10 percent for our Generation 4 data centers that were constructed in FY2011.

REDUCING CORPORATE TRAVEL

In 2010, corporate travel increased over 2009, leading to a rise in air travel emissions. This was a result of the recovering economy. (This data is provided on a calendar rather than fiscal year basis because it is part of our public reporting to the Carbon Disclosure Project.) Trips meant to be taken in 2009 were postponed to 2010, making for higher 2010 travel emissions. Despite this increase, we made some progress in keeping travel emissions down.

- We adopted a new company car policy that requires CO₂ emissions for all new Microsoft company cars to average 130 grams per kilometer, representing a significant reduction from previous averages.
- We added 12 electric vehicle charging stations to the Puget Sound campus to support employee-owned electric vehicles, as well as other company service vehicles.

SCOPE 2 – INDIRECT EMISSIONS (ELECTRICITY CONSUMPTION)



SCOPE 3 – INDIRECT EMISSIONS (AIR TRAVEL ONLY)



**This data is provided on a calendar year basis rather than a Fiscal Year basis to facilitate reporting to the Carbon Disclosure Project, which is now being extended to water impacts.*

IMPROVING THE EFFICIENCY OF OUR BUILDINGS

- We reduced computer energy use by 27 percent.
- We launched the Sustainability Champions program, an initiative for Microsoft employees to rally their co-workers to adopt more sustainable work habits. The goal is to reduce energy consumption in all Puget Sound buildings by 3 to 5 percent.

TOTAL METRIC TONS OF CO2 EQUIVALENT



TOTAL WATER USAGE (CUBIC METERS)



DECREASING WASTE

In FY2011 we increased our total waste diversion rate to more than 80 percent overall and 95 percent within our dining services.

ENHANCING THE SYSTEMS THAT WE USE TO TRACK OUR FOOTPRINT

In our FY2010 Citizenship Report, we committed to enhancing our global tracking systems. Over the past year, we:

- Began a process to improve how we track emissions, as well as water consumption and waste, for our more than 600 Microsoft sites around the world.
- Improved our data center and travel reporting.
- Added water use to our current inventory and reporting system.

For information about how Microsoft is working to reduce the environmental impact of our supply chain, see the Responsible Sourcing section of this report. More information about our environmental efforts is available on the [Microsoft Environment website](#).

*This data is provided on a calendar year basis rather than a Fiscal Year basis to facilitate reporting to the Carbon Disclosure Project, which is now being extended to water impacts.

**In 2010 our Greenhouse Gas Emissions inventory was verified by an independent auditor.

***2010 was the first year we reported on water. At this point, our data collection system does not cover our presence in more than 100 countries. The number reported here represents approximate 65 percent of our global portfolio by square footage.

What's Next

OUR PRIORITIES FOR FY2012 INCLUDE:

- Developing new strategies to meet our goal to reduce carbon emissions per unit of revenue by 30 percent by 2012 in the wake of growth in data center capacity and travel.
- Improving our governance model to increase accountability to corporate environmental goals.
- Sourcing more renewable power and implementing our more sustainable Generation 4 modular data center designs.
- Piloting an energy management program to decrease energy use in 10 percent of the buildings on our campus in Redmond.

SPOTLIGHT ON THE CLOUD

Similar to other parts of the Microsoft business, cloud computing has impacted how we approach environmental sustainability. The economic impact of the cloud is direct, but the environmental impact is more complex.

There are two major environmental impacts of the cloud:

1. The cloud saves energy for users. As we learned in a study that we co-published with Accenture and WSP Environment last year, energy use and the carbon footprint of computing is reduced by 30 to 90 percent per user when companies move their business software to the cloud. That means enormous energy savings for millions of people and businesses. [Download the Cloud Computing and Sustainability Study](#) (PDF file, 593 KB)
2. The cloud requires more energy use from data centers. The cloud means data centers—including Microsoft data centers—are storing more information and working harder than ever. That means more energy use

The energy savings for users outweigh the energy gains by data centers. But, to really maximize the energy benefits of the cloud, we are working with our industry peers and third-party partners to find ways to make data centers as efficient as they can possibly be. In the long term, we see the cloud as a positive environmental strategy.

MICROSOFT TECHNOLOGY FOR THE ENVIRONMENT

Governments, businesses, and households are looking for ways to reduce energy and resource use. New technologies will be an important part of the solution.

Challenges

- Communities and economies have high energy and resource demands.
- Making changes in favor of environmental sustainability can sometimes be difficult and costly.
- The systemic nature of environmental challenges requires “systems thinking” and approaches.

Opportunities

- Using cloud solutions to help cut energy use for users
- Using technology to track and manage important resources and help show how they can be reduced
- Tapping the growing willingness to pay attention to environmental challenges and work together to solve them, across countries and across sectors

What We’re Doing

CREATING ENERGY SAVINGS THROUGH TECHNOLOGY

Developing cloud products: Microsoft continued to develop cloud solutions, such as Microsoft Office 365, which help customers use less energy.

Reducing the energy use of computers: We released Microsoft System Center Configuration Manager 2007 R3 (SCCM R3), a tool that can help information technology departments better manage computer energy use.

PARTNER SPOTLIGHT

OSISoft

FY2011 was the first year in which we recognized a Sustainability Partner of the Year as part of the Microsoft annual business partner awards. The inaugural winner was OSISoft. OSISoft developed the PI System, built by using Microsoft technology, to help companies reduce and manage their energy and water consumption.

[Read more](#)

Providing guidance for developers: We published [new guidance](#) to help developers ensure that applications work well with Windows® Power Management, a key step in reducing how much energy information and communications technology products consume.

Providing guidance for IT decision makers: We published a white paper to assist technology decision makers in increasing the energy efficiency of their operations by highlighting best practices for energy efficiency.

- [Download the white paper](#) (PDF file, 3.30 MB)

Developing environmental tracking software: Microsoft launched Environmental Sustainability Dashboard for Microsoft Dynamics® AX 2012, an update to our 2009 Dashboard. The updated Dashboard helps users track not only carbon emissions, but also water and waste data, to help them make more informed decisions about their resource use.

Helping drivers track their energy use: We partnered with automakers such as Toyota and Ford to provide technologies for cars that enable drivers to track and reduce their power consumption.

Improving energy management: Microsoft collaborated with companies—including Alstom Power, Johnson Controls, and Sensus Machine Intelligence—to improve the management and measurement of energy in buildings, data centers, and entire cities.

Impact Story: Microsoft technology is being used to help reduce greenhouse gas emissions through our sponsorship of Acterra's Drive Less Challenge. [Read More](#)

PARTNERING TO MAKE THE INFORMATION TECHNOLOGY INDUSTRY MORE SUSTAINABLE

Minimizing our carbon footprint: We continued to work with organizations such as the Green Grid to reduce the carbon footprint of the information and communications technology industry and to optimize computing resource use and efficiency.

Setting industry goals: We co-chaired a working group of the ICT4EE forum in the European Union to develop methodologies, policy solutions, and energy reduction targets for the information and communications technology industry.

Working with governments: Together with a coalition of information and communications technology companies, we announced the Guadalajara ICT Declaration for Transformative Low-Carbon Solutions. The declaration commits our industry to working with governments to use information technology to reach emission targets.

What's Next

OUR PRIORITIES FOR FY2012 INCLUDE:

- Continuing to improve the energy efficiency of our products.
- Creating energy-efficiency guidelines for some of our cloud products, including Windows Azure™ and Office 365.
- Working with partners to create solutions for customers in five key areas: Greener IT, Buildings, Power and Energy Infrastructure, Transportation, and Resource Management.
- Providing guidance to the information and communications technology industry on how to produce more efficient software.
- Working with industry peers to develop two new metrics—Carbon Usage Effectiveness and Water Usage Effectiveness—that will help make data centers as efficient as possible. These metrics will be used to help Microsoft and the entire information technology industry improve the efficiency of data centers.
- Collaborating with leading external researchers to identify new ways that technology can help their understanding of environmental challenges.
- Increasing awareness among customers on how to dispose of their old computers and devices sustainably by supporting industry partnerships, offering collection programs at Microsoft stores and other locations, and conducting outreach on the issue.
- Creating a kit to help software developers build environmental monitoring features on the Azure platform.



Responsible Sourcing

Microsoft has tens of thousands of suppliers around the world. They are critical to our business success, and we expect them to uphold the high standards of Citizenship to which we hold ourselves.

Challenges

- The global network of suppliers is complex and has different business practices and norms.
- It can be difficult to ensure compliance with set standards throughout the supply chain.
- There is no guarantee that monitoring is completely effective in addressing supply chain issues.

Opportunities

- Developing a diverse and efficient supply chain
- Helping our suppliers improve their business practices

What We're Doing

HOLDING OUR SUPPLIERS ACCOUNTABLE

Strengthened our Vendor Code of Conduct:

We require all of our suppliers to follow our Vendor Code of Conduct. As we committed to in our FY2010 Citizenship Report, Microsoft significantly strengthened our Vendor Code of Conduct in FY2011. This was our first major update to the code in three years and gave us the opportunity to address emerging issues of concern. Changes included:

- More stringent provisions on anticorruption, customer security and privacy, and human rights.
- A limit of 60 hours of work per week, even if local law allows more.
- An explicit prohibition of discrimination against union members.

We communicated the changes in the code to our global supply base. The new code went into effect as of the beginning of FY2012.

Monitoring priority suppliers based on risk and compliance records: All of the final assemblers of our hardware and all high-and medium-risk suppliers have undergone human rights pre-contracting and ongoing screening. In FY2011 about 80 significant suppliers underwent human rights risk assessment and monitoring. Overall, monitoring found no instances of child labor or forced labor. It did find six non-conformances to our non-discrimination policies. Of these, three were escalated to senior management and were placed on restricted status (meaning that they could not be awarded any new Microsoft business). A corrective action plan was reviewed and approved in all six cases.

Conducting supply-chain-wide third-party anticorruption assessments: We conducted third-party risk assessments of our entire database of vendors to screen for corruption risk factors and found we had a risk rate of about half the industry average. We also identified about 100 vendors out of our more than 60,000 suppliers that were not sufficiently implementing anticorruption practices; we either ended those relationships or took corrective action.

Training suppliers: We engaged and trained our direct material suppliers on the Vendor Code of Conduct to ensure compliance, particularly with the human rights standards.

Initiated a new grievance process: We collaborated with the Fair Labor Association and Clear Voice Hotline to give workers in our supply chain access 24 hours a day, 7 days a week, to a hotline that allows anonymous reporting of grievances and issues of concern.

KEEPING CONFLICT MINERALS OUT OF OUR SUPPLY CHAIN

Adhering to new regulations: In FY2011 the United States passed the Dodd-Frank Wall Street Reform and Consumer Protection Act, which requires companies to disclose whether their products use minerals from conflict zones, such as the Democratic Republic of the Congo. We are working with our suppliers to trace the source of all minerals used in our products that could potentially come from conflict zones. We proactively encourage responsible sourcing of minerals and collaborate with industry peers, such as the Electronics Industry Citizenship Coalition, to help the entire industry's supply chain be free of conflict minerals.

Staying "on track": Our efforts to prevent conflict minerals from entering our supply chain were ranked against other electronics companies in December 2010 by the Enough Project, and

SUPPLIER STANDARDS

The Microsoft Vendor Code of Conduct applies to all of our suppliers and requires, among other things:

- Fair wages and health benefits.
- Proper health and safety.
- Environmental compliance.
- Freedom of association.
- No forced or child labor.
- Non-discrimination.
- Protection of privacy and intellectual property.



SPOTLIGHT ON WOMEN'S HEALTH

Gender inequality affects women's health and reduces opportunities for women to participate in the economy. This is particularly true in developing countries. In FY2011, Microsoft piloted a women's health education and awareness program in collaboration with Business for Social Responsibility and a China-based supplier, Lite On Power, called HERproject (Health Enables Returns).

The LiteOn HERproject collaboration educates their women workers about gender-specific health issues. This program uses a "train the trainer" approach that has proven successful in reducing absenteeism, improving retention, and increasing productivity.

Microsoft was rated as "on track." We will continue to work with our industry peers to stay on track.

REDUCING THE ENVIRONMENTAL IMPACT OF OUR SUPPLY CHAIN

Setting environmental standards: We address environmental issues with our suppliers in many ways, from measuring the greenhouse gas emissions of our Tier 1 contract hardware manufacturers and requiring that the computers we buy meet the Gold level requirements of the Electronic Product Environmental Assessment Tool (EPEAT) to seeking more locally sourced and organic food for our cafeterias.

Implementing environmental purchasing initiatives: In FY2011, our environmental purchasing initiatives included:

- Purchasing enough wind energy in Europe to cover 100 percent of our Dublin data center's power use.
- Signing a contract with a supplier to increase the use of post-consumer recycled printing paper at our Puget Sound facilities from 35 percent to 100 percent. Unfortunately, in the months after the contract was signed, the supplier company closed. We are exploring other options.

DIVERSIFYING OUR SUPPLY CHAIN

In FY2011 we spent more than US\$1 billion with suppliers that are woman-owned, minority-owned, or veteran-owned. This puts us among the top 15 companies worldwide in supplier diversity spending.

What's Next

OUR PRIORITIES FOR FY2012 INCLUDE:

- Continuing education and training on our updated Vendor Code of Conduct.
- Developing new policies and practices to ensure that the Vendor Code of Conduct is consistently applied across business units. This includes compliance among service providers as well as contract manufacturers.
- Working with all suppliers to identify and verify conflict-free minerals.
- Continuing to increase the transparency of our supplier auditing processes on labor and human rights issues.
- Further evaluating and enhancing our supply chain policies.



Privacy and Safety

"Internet privacy, safety, and security are at the heart of our values as a company. We are committed to promoting strong methods of authentication on the Internet that can lead to greater accountability in a host of online scenarios, while also respecting personal privacy."

— Scott Charney, Corporate Vice President, Trustworthy Computing

PRIVACY AND SECURITY

Innovations such as cloud computing have countless benefits for society, but also present some challenges. As more people and businesses entrust the cloud with their information, we are working hard to uphold that trust.

Challenges

- With more and more personal information being stored and transferred online, the stakes for privacy and data security keep getting higher.
- Public policy frameworks for online privacy and safety need modernization.
- Like all types of crime, online crime is a persistent problem, and it is difficult to eradicate.

Opportunities

- Creating safer products that help keep customers more secure
- Educating people around the world about online safety techniques to help them protect themselves and their information
- Working with industry partners and policymakers to put in place the public policy frameworks and cooperative actions that are necessary to better protect people online

What We're Doing

DEVELOPING SAFER PRODUCTS

Product design can play a major role in helping protect users and giving them greater control.

FY2011 Products: Examples of new Microsoft products designed for privacy and safety include:

- **Windows® Internet Explorer® 9:** The latest version of our web browser incorporates new features to help users limit the information that websites can collect about them and to help protect users from inadvertently downloading harmful software.
- **Kinect™ for Xbox 360®:** Kinect uses built-in cameras and sensors to scan gamers' body movement. However, Kinect was built with privacy protection in mind, and the body movement information does not personally identify an individual. If gamers are using Xbox LIVE®, which allows them to interact with others online, body movement data is sent to the other players' Xbox consoles. After the game session is over, the body movement data is immediately deleted from all consoles. Data may only occasionally be sent to Microsoft for analysis or to help improve the game.
- **PhotoDNA™ implementation in Microsoft products:** In FY2010, in partnership with Dartmouth College and the National Center for Missing and Exploited Children, Microsoft developed **PhotoDNA**, an image-matching technology that helps find and remove some of the worst-known child pornography images from the Internet. In

VIEWPOINT

**The Honorable
Brendan O'Connor
MP Minister for
Justice, Minister for
Home Affairs, Minister for Privacy
and Freedom of Information**



As we articulated in our Digital Economy Strategy of May 2011, the Australian Government's goal is for our nation to be one of the world's leading digital economies by 2020. To help meet that goal, the Government is committed to building a strong cybersecurity culture, cutting-edge technological capacity, and skilled human capital to be one of the most attractive locations on the global information highway.

Cybercrime and other forms of malicious online activity pose a serious threat to the long-term prosperity of Australia's digital economy. Hacking incidents around the globe have reinforced the importance of protecting online information and challenge traditional notions of privacy, identity, and social responsibility in a virtual world.

It is a responsibility of the government—but also of individuals and businesses—to face up to these new challenges and to try to stay one step ahead of those who might seek to harm us. Microsoft is engaging in this challenge and I encourage their continued engagement in this field.

As part of the wider initiatives undertaken by the Government, the Australian Federal Police in collaboration with Microsoft and ninemsn established ThinkUKnow (www.thinkuknow.org.au) to provide interactive training that educates and increases awareness among parents, teachers, caregivers, and young people about the risks our young people face online and how to create a safer online experience. ThinkUKnow is a great example of how partnerships between government and industry can help create responsible and well-informed cyber citizens, protect privacy, and increase security in cyberspace.

FY2011 we implemented PhotoDNA on Windows Live® Hotmail®, Windows Live SkyDrive®, and Bing® to help stop the spread of these images through these platforms.

- **Microsoft Privacy Standard:** We released a new internal Microsoft Privacy Standard to help our employees integrate privacy and safety into all parts of our business.

TEACHING PEOPLE HOW TO STAY SAFER ONLINE

As we committed to in our FY2010 Citizenship Report, we focused on teaching people online safety techniques in FY2011.

Safer Internet Day: For the ninth year, we worked with partners to celebrate Safer Internet Day. More than 1,000 Microsoft volunteers visited schools around the world and, together with local partners, helped teach more than 100,000 parents, teachers, and students about online safety—up from 50,000 reached on Safer Internet Day 2010.

Data Privacy Day: We celebrated global Data Privacy Day by providing consumers with guidance on how to more safely use mobile phones and other devices.

Safety and Security website: We launched a new Safety and Security website for customers that provides access to tools and guidance about online safety and security. The website serves more than 1 million customers a month.

Impact Story: To help keep Pakistan's children safe online, Microsoft held a workshop for parents and teachers on Internet safety. [Read More](#)

HELPING PROTECT PEOPLE AND BUSINESSES ONLINE

Fighting online crime: In FY2011, the Microsoft Digital Crimes Unit coordinated a legal and technical action that took down the [Win32/Rustock](#) botnet, a global online threat operating with more than 1 million malware-infected computers under its control globally. Before the takedown, Rustock was known to be one of the largest sources of spam in the world, capable of sending up to 30 billion spam messages a day. Microsoft has since been working with Internet service providers and Computer Emergency Response Teams around the world to help people clean the botnet malware from their infected computers and has provided free cleaning tools and information at <http://support.microsoft.com/botnets>. This was the second botnet takedown operation in Microsoft's Project MARS (Microsoft Active Response for Security), a joint effort between the Microsoft Digital Crimes Unit, Microsoft Malware Protection Center, and Microsoft Trustworthy Computing to annihilate botnets and help make the Internet safer for everyone.

Working with law enforcement and government: We work with law enforcement and government around the world to help fight cybercrime. For example, in FY2011 we worked with the European Commission to create 2CENTRE, a program to build the capacity of European countries to fight cybercrime. 2CENTRE will officially launch in FY2012 and will operate for two years. In FY2011 we also launched the Digital Crimes Community Portal, an online portal where Microsoft and members of the law enforcement and security communities can share intelligence on digital crime.

Working with partners: We work with peers in the technology industry to figure out new ways to fight digital crime. In FY2011, we worked with

Facebook as they implemented PhotoDNA to help identify illegal images of the worst-known child pornography online from the more than 200 million images uploaded to Facebook every day. We also partnered with the DNA Foundation to form a technology task force to explore new ways that the technology industry can help fight child sexual exploitation and trafficking.

Working with policymakers: Online privacy and safety can be complex issues. We launched a new [guide](#) in FY2011 to help policymakers understand the online challenges that we face and help us work together to solve them. And as we said we would in our FY2010 Citizenship Report, we worked with policymakers to advocate for the legal frameworks that we need to help protect privacy and safety online. We made progress this year, but there is still work to do.

What's Next

OUR PRIORITIES FOR FY2012 INCLUDE:

- Working with policymakers to help create comprehensive privacy legislation and reform of electronic surveillance laws in the United States and to develop privacy laws in emerging markets.
- Engaging with multilateral organizations such as the Organization for Economic Co-operation and Development, the Asia Pacific Economic Cooperation, the Council of Europe, and the International Telecommunications Union to create strong and consistent global frameworks for privacy and security policy.
- Continuing to work with industry, law enforcement, government, and nonprofit partners to fight cybercrime. Our focus will include:
 - Taking down botnets and helping repair malware-infected computers.
 - Working with other online services companies to integrate PhotoDNA and other disruptive technologies into their products.
- Increasing awareness of online safety and data privacy through efforts such as:
 - Updating the Microsoft Safety and Security website to give customers the most recent information.
 - Supporting National Cyber Security Awareness Month, Safer Internet Day, and Data Privacy Day.
 - Working with education partners to host more than 1,300 Family Online Safety Nights.
 - Conducting privacy education campaigns.

FREEDOM OF EXPRESSION

Freedom of expression is a basic human right. The Internet is a powerful tool for free expression, and we support it as a vehicle for the exchange of information and ideas.

Challenges

- Some governments make demands of information technology companies that are inconsistent with international human rights standards.
- It can sometimes be difficult to distinguish between legitimate government demands and those intended to infringe on human rights.
- Compliance with local law is a condition of doing business and is necessary to ensure that services and information are available to users.

Opportunities

- Giving anyone, anywhere the ability to express their ideas, personal or political
- Providing people with great tools to enable civic engagement and improved public services
- Helping users take more control over their online identity and how they share information

What We're Doing

WORKING WITH OUR PEERS TO ADVANCE FREEDOM OF EXPRESSION

In 2008, we worked with industry peers, civil society groups, academics, and investors to found the Global Network Initiative (GNI), an organization dedicated to advancing Internet freedom. The GNI principles and guidelines inform how we engage in markets throughout the world. In FY2011, we worked with the GNI to publish its [inaugural report](#) (PDF file, 5 MB) on trends and member activities.

SPOTLIGHT ON CIVIC ENGAGEMENT

One of the ways that Microsoft supports freedom of expression is by helping individuals, nonprofits, and issue and political campaigns use technology for civic engagement in their countries and communities.

As one example, Get Online Egypt is a nationwide campaign to help people benefit from computers and the Internet. Events in Egypt have opened the door to new ways of civic participation in social, economic, and political developments. In all these areas, the Internet is poised to become the channel of the future through which Egyptians can be reached and through which they can engage as citizens. Microsoft is leading efforts to help more Egyptians get online for the first time and use technology for civic engagement.

CREATING CORPORATE POLICIES TO PROTECT FREEDOM OF EXPRESSION

Adopting a Freedom of Expression Policy:

In FY2011 we adopted a company-wide Freedom of Expression policy to guide how we handle decisions about restricting or not restricting content. The policy is based on the GNI and international human rights standards, including the International Covenant on Civil and Political Rights and the United Nations Declaration on Human Rights. More on our policy is described in the [GNI report](#).

Engaging leadership: FY2011 was the first year we made a freedom of expression risk analysis—based on GNI principles—part of our Board’s Audit Committee annual risk analysis review of the company. The committee did not identify any immediate remedial steps, but it did recommend that the issue continue to be monitored.

BUILDING FREEDOM OF EXPRESSION PROTECTIONS INTO OUR PRODUCTS AND PROCESSES

In some cases, we can design our products to help protect online freedom of expression. Features in the Bing® design minimize the impact of government demands by enabling restrictions of content only for users in the market that issues the restriction and who use the version of Bing tailored to that market. In FY2011, we also created internal processes and tools to help ensure that government content removal requests are handled consistently with our new Freedom of Expression policy.

SUPPORTING FREEDOM OF POLITICAL EXPRESSION

As part of our due diligence approach, we become aware of situations in which free expression issues could arise. The following are some examples of issues that came up in FY2011 and how we responded.

Anti-piracy enforcement and nonprofits:

Early in FY2011 there were allegations that authorities in Russia had used software piracy charges to confiscate computers and challenge nonprofits that had voiced opposition to the government. Regardless of whether these allegations were true, we wanted to make it clear that we opposed any such use of our property rights. We therefore created a new unilateral software license to allow nonprofits in certain countries/regions to use Microsoft software freely and legally. (See the [Nonprofits](#) section of this report for more information on the unilateral license). We also offered legal assistance to nonprofits in countries/regions that experienced any government challenges because of Microsoft software piracy accusations.

Political change in the Middle East: In early 2011 there were uprisings against incumbent governments in Tunisia, Egypt, Syria, Yemen, and other countries/regions. Microsoft believes that, ultimately, the choice of government is for the people of those countries/regions to make. However, we also believe that we have a role to play through our technology in helping those people use technology for civic engagement and to foster more sustainable societies.

Since the change in governments in Egypt and Tunisia, Microsoft has contributed to reform efforts. For example, we have supplied e-case

and data management software to three Tunisian government commissions that are managing reform efforts: Human Rights Abuse Commission, Political Reform Commission, and Stolen Assets Commission.

In Egypt, where youth unemployment has been an ongoing issue, Microsoft has increased its investment in programs that support entrepreneurship and job creation. We are employing a multi-stakeholder initiative, Egypt Works, to design and finance job creation and training programs to help youth graduates become better qualified with the skills that they need to enter the workforce.

Microsoft is also reaching out to nonprofit organizations to support relief efforts in humanitarian disasters and to support capacity building for this sector, which is vital to the rebuilding of the country. Recently more than 300,000 people fled the crisis in Libya and resettled in Egypt, where they found limited support and unemployment challenges were already pressing. Microsoft Egypt developed a simple cloud-based database to enable the International Organization for Migration to track returnees to Egypt from Libya and to reach out to provide direct assistance to them.

What's Next

OUR PRIORITIES FOR FY2012 INCLUDE:

- Providing financial support for the George Washington University Law School's work on Internet freedom and human rights. We will specifically support three areas:
 - Strategic litigation by the International Human Rights Clinic in the inter-American human rights system, aimed at defining new precedents to help protect press freedom
 - A speaker series on Internet freedom and human rights law
 - Research, writing, and academic conferences on Internet freedom topics
- Continuing our sponsorship of the Personal Democracy Forum, which helps share knowledge and insight on the use of technology in campaigns, organizing, and civic engagement.
- Hosting the fifth U.S.-China Internet Industry Forum, bringing together leaders from the United States and Chinese governments, industry, and civil society for candid discussions about Internet policy issues, including free expression.
- Continuing to provide financial and in-kind support to efforts to promote rule of law (including respect for freedom of expression). Specific efforts include support for the World Justice Project and for pro bono legal work by Microsoft employees.



Integrity and Governance

"We were an early adopter of majority voting, the first company to adopt say on pay, and one of the very earliest adopters of a no-fault clawback. We continue to evaluate our corporate governance framework, and talk with our Board about what is right for us and our shareholders."

— John Seethoff, Vice President and Deputy General Counsel

CORPORATE GOVERNANCE

Trust in U.S. based corporations is near an all-time low. Good corporate governance practices build trust, create internal checks and balances, and strengthen management accountability.

Challenges

- The global financial crisis has amplified public distrust in corporations.
- Financial scandals cause people to question the management of large businesses.
- Shareholders feel a lack of control over the companies that they own.

Opportunities

- Expanding and deepening dialogue and partnership with stakeholders
- Advancing best practices through voluntary principles and disclosures
- Working through stakeholder collaboration and engagement to help address mistrust

What We're Doing

ENGAGING PROACTIVELY WITH STAKEHOLDERS

- Microsoft sent its annual letter to our 50 largest investors from members of the Governance and Nominating Committee of the Board.
- At least twice annually, members of management engage with a broad spectrum of our investors, including public pension funds and those representing the socially responsible investment community. The investors whom we contacted hold about 40 percent of shares outstanding. The Board receives a summary of feedback from these discussions.
- We redesigned and expanded the Corporate Governance and Citizenship content on the [Microsoft Investor Relations website](#).
- We regularly contribute governance-focused blog posts through the [Microsoft on the Issues](#) blog.

ENGAGING WITH OTHERS ON INDUSTRY BEST PRACTICES

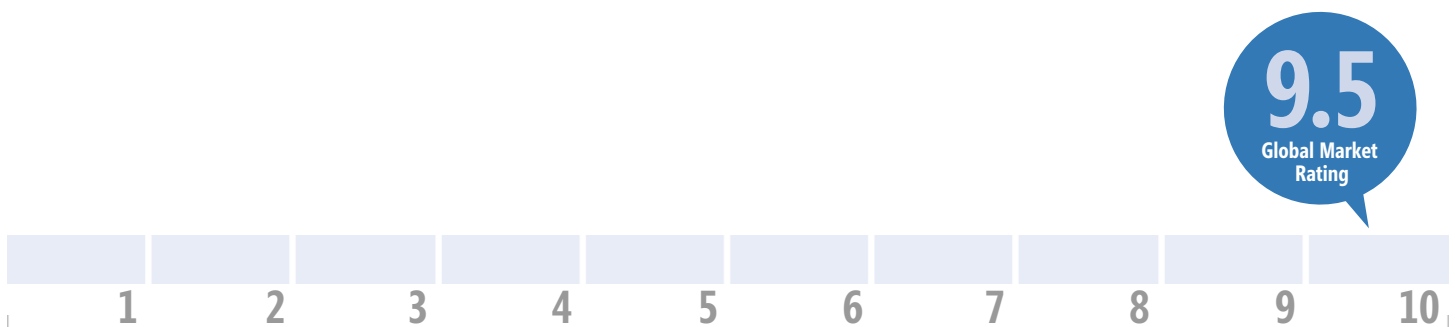
We engaged in cross-industry dialogues through the Conference Board Governance Center; Stanford Institutional Investors' Forum; the Society of Corporate Secretaries and Governance Professionals; the Millstein Center for Corporate Governance and Performance; and the Council of Institutional Investors to help identify and contribute to the development of best practices.

MANAGING RISK AT THE BOARD LEVEL

Microsoft expanded its disclosure related to the role of the Board and its committees in risk management. The Board exercises direct oversight of strategic risks to the company. The Audit Committee reviews and assesses the company's processes to manage business and financial risk and financial reporting risk. It also reviews the company's policies for risk assessment and assesses the steps that management has taken to control significant risks. The Finance Committee oversees investment, tax, foreign exchange, and other financial risks. The Compensation Committee oversees risks related to compensation programs and policies. The Antitrust Compliance Committee oversees competition law-related risks. In each case, management periodically reports to our Board or the relevant committee, which provides guidance on risk appetite, assessment, and mitigation. Each committee charged with risk oversight reports to our Board on those matters.

MAINTAINING OUR STRONG PRACTICES AND PERFORMANCE

- In FY2011, Microsoft achieved strong ratings from independent agencies.
- Independent members of the Board appointed Reed Hastings, founder, chairman, and CEO of Netflix Inc., as the Board's lead independent director in December 2010. The lead independent director coordinates the activities of the independent directors, coordinates with the CEO and corporate secretary to set the agenda for Board meetings, chairs executive sessions of the independent directors, and performs other duties as determined by the Board.



*As of May 15, 2011

Governance Metrics International
(based on a 10-point scale, with 10 being the best)

Number of Directors 9	Percentage of Independent Directors 78%	Number of Board Committees 5	Independence of Directors Serving on Board Committees 100%	Separate Chairman and CEO YES SINCE 2000
Lead Independent Director YES SINCE 2004	Annual Board, Committee, and Individual Member Evaluations YES	Number of Board Meetings Held 7	Shares of Microsoft Common Stock Outstanding 8,378,265,782*	Registered Holders of Record of Common Stock 134,854*

*As of July 20, 2011

What's Next

OUR PRIORITIES FOR FY2012 INCLUDE:

- Maintaining or increasing dialogue between shareholders and the company.
- Engaging in cross-industry forums to help us identify and contribute to the development of best practices.
- Continuing to enhance our corporate governance principles and policies to serve the interests of our shareholders and other stakeholders.
- Implementing the regulatory and disclosure requirements adopted under the Dodd-Frank Wall Street Reform and Consumer Protection Act.

PUBLIC POLICY

Political advocacy lets us promote our interests while sharing expertise and contributing to policies. Ultimately, we want what is good for both our business and society.

Challenges

- The public is understandably concerned by the influence of companies in government.
- Political advocacy is often seen as being done behind closed doors outside the view of the general public.
- Governments sometimes lack technical expertise, particularly in emerging fields such as cloud computing.

Opportunities

- Taking action on issues of joint concern for companies and the public, e.g. education and jobs
- Contributing expertise on technical issues to help create policies
- Implementing strong guidelines and principles for corporate engagement to effectively prevent abuses

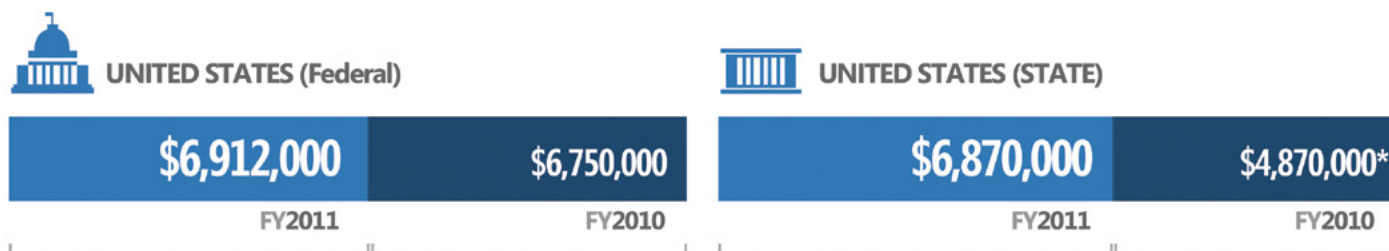
What We're Doing

ENGAGING TRANSPARENTLY WITH POLICYMAKERS

Public policy engagement: Microsoft engages in public policy discussions that directly relate to our business. We update our public policy agenda annually to reflect changes in the policy environment and in our business. Our [FY2011 policy agenda](#) (PDF file, 334 KB) focused on strengthening economies, addressing societal challenges, and promoting a healthy online ecosystem.

Advocacy: In compliance with regulations and our commitment to transparency, Microsoft regularly files reports that detail our advocacy activities. Our disclosures include consultant fees, lobbying expenses, and trade association dues spent on advocacy.

Memberships: Microsoft is a member of a number of trade associations and business coalitions globally that help us work collectively with industry peers to advance issues that affect our business and society. Our advocacy expense disclosures include association dues spent on



*The revised amount for FY2010 state-level expenditures now includes lobbying expenses for state government affairs work and state trade association dues spent on advocacy, in addition to consultant fees which were reported previously.

advocacy. A full list of the trade associations and business coalitions supported by our Corporate Affairs group in the United States is available through the [political engagement section](#) of the Microsoft Corporate Citizenship website. In FY2012, we will also be reporting on our memberships outside the United States.

ADHERING TO STRICT PRINCIPLES AND POLICIES

Participating in the political process in the United States: Our engagement in the political process in the United States is governed by [ten principles](#) (PDF file, 98 KB). These include:

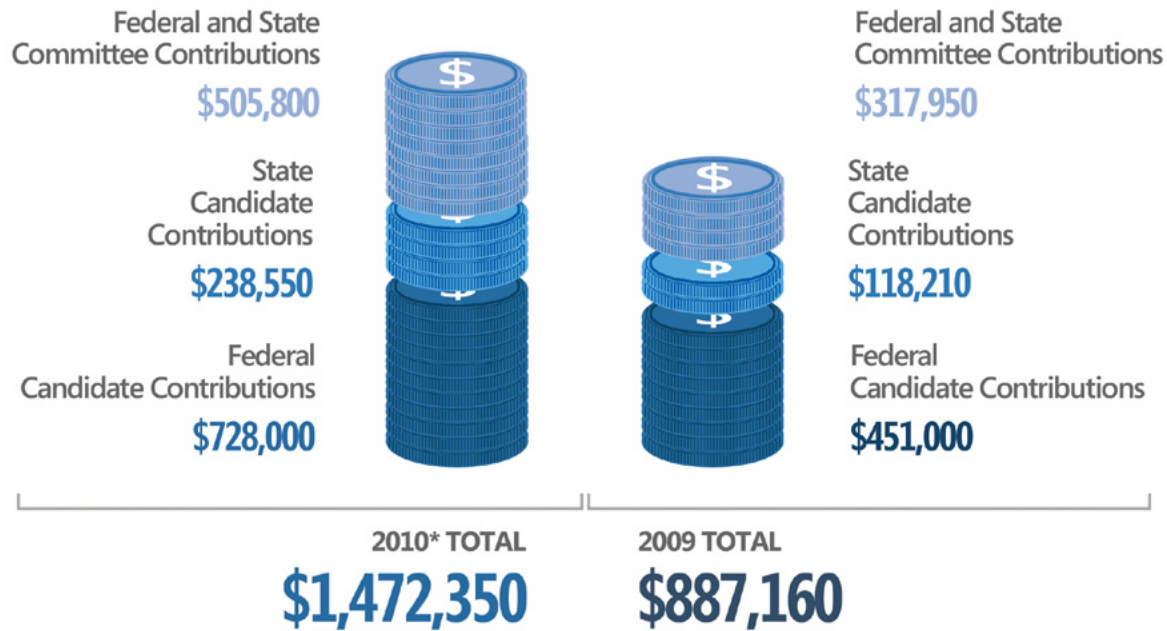
- Political spending will reflect the company's interests and be used to further its public policy agenda and not the personal agenda of individual officers, directors, or employees.
- Microsoft does not make corporate contributions to any non-candidate or nonparty political committee organized under section 527 of the Internal Revenue Code.
- No campaign contributions are given in anticipation of, in recognition of, or in return for an official act.

Microsoft amended these principles in June 2010 to clarify that Microsoft will not make independent political expenditures or electioneering communications as are now permitted after the U.S. Supreme Court's decision in the Citizens United case.

Contributing to U.S. political candidates:

The Microsoft Political Action Committee (MSPAC) provides opportunity for Microsoft employees and shareholders to participate in the U.S. political process and jointly support public policy positions that are important to Microsoft and the software industry. MSPAC is a bipartisan organization that contributes to the campaigns of federal, state, and local candidates. MSPAC typically supports candidates who share Microsoft views on public policy, serve as congressional or legislative leaders, represent districts or states where Microsoft has a major business presence, or serve on committees that have jurisdiction over legislation that is important to the company. For the last calendar year (2010), MSPAC made political contributions totaling \$1,472,350.

In addition to the contributions made by MSPAC, Microsoft as a company contributed \$107,400 to state and local political campaigns in calendar year 2010.



* 2010 was a U.S. congressional election year. MSPAC contributions in 2010 were higher than those in 2009 as a result of increased political activity.

Microsoft does not support political candidates or campaigns outside of the United States.

What's Next

OUR PRIORITIES FOR FY2012 INCLUDE:

- Completing a review and an update of our U.S. Political Principles; updates will include applying our disclosure requirements to a broader group of trade associations.
- Releasing an updated public policy agenda to share our priorities and areas of focus.

- Working with investors and advocates to continue enhancing openness, transparency, and accountability.
- Co-chairing the Conference Board's newly formed Committee on Corporate Political Spending and, with fellow committee members, developing and publishing a report that provides corporations with resources to strengthen their governance practices in disclosure and accountability.
- Sharing best practices and lessons with other corporations.



Compliance

Compliance with laws and regulations is fundamental to working responsibly. Microsoft's goal is to meet or exceed legal requirements by conducting our business ethically, responsibly, and with integrity. This is about doing the right thing and creating trust and not just about maintaining our license to operate.

Challenges

- It is complicated to mandate accountability for compliance standards among more than 90,000 employees and contractors who work in many languages and across more than 100 jurisdictions.
- The different legal standards and expectations of many different countries and jurisdictions can be challenging to integrate.

Opportunities

- Going beyond training to build a strong culture of accountability
- Building trust with governments and industry stakeholders by adhering to laws and operating by our own guidelines
- Spurring technology innovation by enabling companies to build on one another's products and platforms

What We're Doing

COMPETING RESPONSIBLY WITHIN OUR INDUSTRY

Supporting web standards: With the release of Windows® Internet Explorer® 9, we published more than 40 documents that explain its support for web standards, as required by the European Undertaking. No other browser vendor provides this depth of documentation regarding use of web standards.

Promoting innovation, choice, and opportunities: We adhere to a range of principles, including our [Interoperability Principles](#), to ensure that our products continue to promote innovation, user choice, and opportunities for developers. These principles have been kept front of mind in our development of new products and services, such as Microsoft Office 365.

Acquiring Skype: Our acquisition of Skype was cleared by the U.S. Department of Justice in June 2011 and will be reviewed in other jurisdictions over the coming months. We believe the merger will enhance competition and bring

a range of new communication services and choices to people around the world.

Responding to the i4i ruling: In June 2011 the U.S. Supreme Court ruled in favor of the Canadian company i4i, which claimed that Microsoft violated certain patent rights related to an XML technique that was implemented in Microsoft Word. Although Microsoft's arguments were supported by Apple, Facebook, Cisco, and many other leading companies, the U.S. Supreme Court ruled that the i4i innovation was patentable, enforcing a \$290 million award against Microsoft.

RESPECTING ANTITRUST LAWS AND PRINCIPLES

We have continued to comply with antitrust rulings and applied principles that support innovation, choice, and opportunities for developers in the development of new products and services. On May 12, 2011, the U.S. Consent Decree that ended the competition lawsuit against Microsoft in the late 1990s reached its termination date. The U.S. Department of Justice, various state attorneys general, and the court overseeing compliance concluded that no further extensions were warranted and that Microsoft had met its obligations under the decree, including its documentation obligations for various Windows protocols. The experience under these orders has shaped how we view our responsibilities and how we compete fairly in the market.

A broad range of competition exists in the market today. That includes new operating systems from Apple, Google, and other software developers for all kinds of devices, including PCs and smartphones.

VIEWPOINT

Huguette Labelle
Chair of the Board of
Transparency International



Strong leadership in corporate citizenship is invaluable. In recognizing the importance of accountability and responsibility, companies commit to live by them by developing Codes of Ethics or Conduct, and they demonstrate that commitment by reporting on their compliance with them.

The commitments of the IT industry to the principles of transparency and third-party assessment included in the [Global Network Initiative](#)—which brings together civil society, academics, and investors concerned with freedom and privacy in IT and of which Microsoft is part—are to be welcomed as further support of anticorruption efforts by business.

Unless a commitment to integrity is widespread, and a zero-tolerance approach enforced, companies face the risk that an employee or partner company will break trust and flout the rules to win business through bribery.

Compliance guidelines have become more common in the business world—more than four in five companies have a formal compliance programme, according to a recent KPMG survey. To make the code a practical part of a business, companies need to provide training programmes that are dedicated to helping staff. There is no lack of practical guidelines that help train personnel.

In addition, the [UN Global Compact](#) provides a template for [self-assessment](#). Further reporting and compliance guidance comes from other organizations like the [International Chamber of Commerce](#) and [Transparency International](#).

The true test of compliance is whether it happens where it is most needed: on the front line. A Code of Conduct gets a passing grade only after a culture of integrity, transparency, and accountability permeates an organization, from top to bottom.

Transparency International is the global civil society organization that is leading the fight against corruption.

TRAINING EMPLOYEES

In FY2011, more than 99 percent of Microsoft employees received training on our Standards of Business Conduct, which includes topics such as anticorruption, conflicts of interest, and financial integrity. This training was delivered in eight languages. It is authorized by our Board of Directors and is filed publicly with the U.S. Securities and Exchange Commission and NASDAQ.

Each year, a survey measures employee satisfaction with the training provided. The FY2011 survey showed that employees were extremely satisfied with the training, scoring the program 167 out of 200. This was broadly consistent with the score achieved in 2010.

PROMOTING GLOBAL COMPLIANCE AND GOVERNANCE EFFORTS

We work with industry peers and global organizations to promote good governance and compliance practices. Our achievements have included:

- Promoting anticorruption initiatives among intergovernmental organizations and other multinational companies through our membership in the World Economic Forum Partnership Against Corruption Initiative. This engagement also shows our support for the United Nations Global Compact principles on anticorruption.
- Partnering with the United Nations Office on Drugs and Crime to develop a technology tool to help in the fight against corruption and organized crime. The effort is creating a tool

for transnational collaboration and enabling a new knowledge management portal.

- Supporting the International Anti-Corruption Academy in sharing private-sector expertise on compliance and anticorruption.
- Being recognized by and receiving awards from groups such as Ethisphere Magazine, Corporate Secretary magazine, and the American Business Awards for the effectiveness of our compliance efforts and quality of our online compliance and ethics training initiatives.

What's Next

OUR PRIORITIES FOR FY2012 INCLUDE:

- Working in partnership with governments around the world and intergovernmental organizations to achieve new compliance and ethical standards that create meaningful governmental guidance and industry practice.
- Adhering to our principles and releasing technical information about new Microsoft products to enable interoperability.
- Maintaining collaboration with international governance organizations and industry to promote good governance and compliance practices, particularly related to anticorruption.

Global Reporting Initiative Index

The **Global Reporting Initiative** (GRI) provides the leading framework for corporate sustainability reporting based on input from a wide range of civil society organizations, labor, businesses, academics, and other experts. This index provides our specific responses for many performance indicators recommended by the GRI.

For more information and downloads, view this report online at www.microsoft.com/citizenshipreport.

About This Report

Reporting Year

Unless otherwise stated, information in this report is related to fiscal year 2011 (July 2010 to June 2011).

Scope

As part of Microsoft's global Citizenship initiative, this report covers Microsoft nonfinancial performance and impact in FY2011 across our global operations.

The report covers our material Citizenship issues based on internal assessments, ongoing engagement with stakeholders ranging from socially responsible investors to our own employees, and requests for information by corporate responsibility rating agencies. In particular, this year we conducted a gap analysis between the information provided in our FY2010 Citizenship Report and the information requests that we received from stakeholders during FY2011 to enhance the information provided.

We also relied on the Global Reporting Initiative's Sustainability Reporting Guidelines

to help determine relevant content and metrics for this report. An index of our performance on GRI indicators can be found in the [GRI Index section](#) of this report.

As we committed to in our FY2010 Citizenship Report and based on feedback from our various stakeholders, we solicited external perspectives as part of this year's reporting process. In this year's report, seven external experts contributed their comments on the issues that affect Microsoft's business through "Viewpoint" columns in select sections. These experts did not participate in the writing or reviewing of the report itself.

Links are provided throughout the report for more detailed information.

Additional Reporting

This report was released at the same time that the Microsoft FY2011 Annual Financial Report was released. These reports complement each other and together provide a full picture of Microsoft over the past year.

Although these two reports are one of the most important ways that we report

to our stakeholders, there are many other ways in which we report on our actions throughout the year. These include:

- Ongoing direct dialogue with a broad range of stakeholder groups, as well as with industry and issue-advocacy organizations.
- Updates to our [Citizenship website](#), [blogs](#), [Facebook](#), and [Twitter](#) to reflect recent initiatives and progress.
- Research and white papers on specific issues.
- Economic impact data and hundreds of stories through the [Microsoft Local Impact Map](#).
- An annual submission to the [Carbon Disclosure Project](#).

In addition, you can find our annual [Communication of Progress to the UN Global Compact](#), the [UN Millennium Development Goals](#), and our [OneReport data](#) in the [GRI Index](#) section of this report.

Feedback

We welcome your feedback on this report and on the Microsoft Citizenship approach. Please email your comments to mcitizen@microsoft.com or write to us at the following address:

Microsoft Corporate Citizenship
Microsoft Corporation
One Microsoft Way
Redmond, WA 98052, USA



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