partners in innovation

2006 CITIZENSHIP REPORT

Microsoft

about this report

SCOPE

In the 2006 Microsoft Global Citizenship Report, we discuss our key citizenship initiatives and activities worldwide, highlight some of our more significant accomplishments in fiscal year 2006, and share our goals for fiscal year 2007.

REPORTING PERIOD

This report focuses on Microsoft's fiscal year 2006 (which began July 1, 2005, and ended June 30, 2006). All data is for that period unless otherwise noted.

REPORT STRUCTURE

This report is organized to reflect the structure of our Global Citizenship Initiative and related activities, because we want our stakeholders—employees, customers, partners, shareholders, and others—to be able to compare our program goals and objectives with our results. The report is a combination of this print volume, which highlights and provides an overview of some key issues, and a more detailed online publication that we will update annually. In addition, both the print and online components of the report provide key links to more detailed information on Microsoft.com, Microsoft's corporate Web site.

CURRENCY

All money figures in this report are in U.S. dollars unless otherwise noted.

TERMINOLOGY

The terms "Global Citizenship" and "Corporate Citizenship," which are used throughout this report, are interchangeable with similar terms such as "Corporate Social Responsibility" and "Corporate Sustainability."

GLOBAL REPORTING INITIATIVE (GRI)

The function of the GRI performance indicators is to make it easier to compare organizational reports on the basis of economic, environmental, and social impacts. In the online portion of this report, we have included references to applicable GRI indicators to assist stakeholders in their review and assessment of our Global Citizenship Initiative.

More information ····>
about the GRI performance indicators is available at www.globalreporting.org.

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"We know that the most significant problems facing our planet cannot be solved without the close cooperation of the private sector. Microsoft is not only a leader in responsible business practices, but also works with us to ensure that other businesses will rise to a similar standard."

—RICH LEIMSIDER, THE ASPEN INSTITUTE

executive welcome

Microsoft's mission is to enable people and businesses throughout the world to realize their full potential. One way we fulfill our mission is by developing innovative software that transforms the way people work, learn, and communicate. Another way is by using our resources and expertise to help expand social and economic opportunities in communities around the world.

Our company's greatest strengths are our employees' passion, creativity, and dedication, and our strong partnerships with thousands of private, public, and community organizations. Our people and partnerships propel innovation at Microsoft, and they also guide our worldwide citizenship efforts.

A few years ago, we set a goal that, by the end of this decade, we would help bring the benefits of technology to one-quarter of a billion underserved people worldwide. We recognize that we cannot do this alone. That's why our two flagship digital inclusion programs, Partners in Learning and Unlimited Potential, build on the strength of partnerships with governments, schools, NGOs, and community organizations. Working together, we are bringing valuable technology skills to teachers, students, and others — more than 135 million people so far, putting us more than halfway to our goal.

Our innovative technology and partnerships are also helping meet some of society's toughest challenges: assisting law enforcement in the fight against online predators with the Child Exploitation Tracking System; helping industry and government to protect individual privacy and fight spammers and identity thieves; and enabling people with disabilities to develop job skills and live fuller lives through advanced tools that make technologies more accessible.

From the beginning, our community investments have been inspired by our employees, and it's their passion and commitment that continue to drive Microsoft's efforts to help people in need. This is especially true when disaster strikes. Our employees are often on the front lines, giving help wherever it's needed and devising unique ways to use technology to aid relief efforts.

Another important measure of a company's commitment to corporate citizenship is the way it conducts business and works productively with all its stakeholders. At Microsoft, everything we do is guided by corporate values, codes of conduct, and company policies that, for example, ensure diversity and fair business practices among vendors and suppliers, provide for good stewardship of the environment in the way we create and package our products, and support collaboration with governments

and industry on important technology issues such as interoperability and security.

We are constantly expanding our understanding of what we must do to be a responsible leader and a good corporate citizen, and we are always seeking new ways to put partnerships and innovation to work to really make a difference. Our global citizenship efforts represent our mission and values in action, and they underscore how creativity and a spirit of innovation can make a difference, not only in the products we create, but in the way we give back to communities worldwide.

By working together with our many partners to solve challenging problems, we are optimistic that Microsoft can continue to help make positive and lasting contributions to society.

Bill Gates

Steven A. Ballmer

Bill Gates
Chairman

Steven A. Ballmer
Chief Executive Officer

global citizenship at microsoft
PARTNERS IN INNOVATION

global citizenship at microsoft

At Microsoft, we bring the same spirit of innovation to global citizenship that we have always applied to our business. Our Global Citizenship Initiative combines innovative technology, partnerships, and programs to create economic, educational, and social opportunities in local communities worldwide, and to help foster a more secure computing experience for people everywhere.

Our mission is to enable people and businesses throughout the world to realize their full potential. For more than 30 years, we have built our company on that principle, providing innovative software and services that help people do more with technology, and creating innovative partnerships that extend those benefits to millions of people we never could have reached by working alone.

Innovation is an integral part of our business. It characterizes our technology platform, which enhances personal productivity and business performance while supporting accessibility that makes it easier for people with all abilities to see, hear, and use computers. Innovation also defines our partnerships. These partnerships strengthen communities worldwide by developing the workforce and helping to build local software economies. They provide relief in many areas devastated by natural disasters. And

they work to bring the benefits of technology to one-quarter of a billion underserved people globally by the end of this decade.

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"Technology is an extremely powerful tool, a grand enabler of human imagination, innovation, creativity, and productivity. Creating innovation with real impact, listening carefully to what our customers want, and creating amazing products that are going to benefit as many other people on the planet as possible — that's really the reason Microsoft exists. Innovation is the lifeblood of our business."

—STEVE BALLMER, CEO MICROSOFT

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We are proud of our achievements as an industry leader, a global citizen, and an active partner to thousands of governments, businesses, and community organizations around the world — but our work is just beginning. Our success in business has given us the opportunity, and the responsibility, to use our resources and influence to help change the world, to make it a better and more rewarding place for people everywhere.

We look forward to the challenges — and accomplishments—that lie ahead.

THE GLOBAL CITIZENSHIP INITIATIVE

As a global company, we recognize that every country and community where we do business has its own set of social, economic, and environmental challenges. With that in mind, we strive to nurture a spirit of innovation throughout our company that provides our employees and partners with the tools — and inspiration — to meet those challenges and turn them into opportunities.

The importance and integral nature of global citizenship at Microsoft were underscored by Kevin Turner, Microsoft Chief Operating Officer, at an internal meeting with employees: "Good citizenship is just good business. It's the right thing to do. It's who we are as a company. It's our commitment to communities around the world. It's really that simple."

Although our Citizenship programs are diverse and tailored to the specific needs of the people and communities they serve, they are all organized around one of the three central themes of our Global Citizenship Initiative:

Improving Security and Internet Safety

We address the societal challenges of information and communications technology — such as security, privacy, and children's safety on the Internet — through innovative technology and partnerships with industry, governments, and law enforcement agencies. We also work with our partners to provide consumer education and expert guidance about online safety to help people protect their PCs, themselves, and their families.

Advancing the Knowledge Economy

We advance the knowledge economy by partnering with governments and communities around the world on digital inclusion as well as on innovation that brings valuable technology and skills to more people and stimulates the growth of local economies.

Demonstrating Responsible Business Practices

We ensure integrity, transparency, and social accountability in our business practices, whether complying with the laws of the countries where we do business, supporting industry standards, adhering to the highest ethical and environmental practices, or making sure our products interoperate well with those of other companies — including our competitors.

Since issuing our first Global Citizenship Report in 2003, we at Microsoft have continued to strengthen our internal organizational structure. Just as important, we also are improving and extending our external programs to create a greater awareness of, and accountability for, the economic, social, and environmental issues that affect communities and individuals worldwide.

More information ····❯

about the Microsoft Global Citizenship Initiative and our progress on each of its three central themes is available at **www.microsoft.com/citizenship**.

Microsoft®

An Invitation to Our Readers
We appreciate frank and honest feedback, both positive and negative, because it helps us to improve. We invite you to offer your observations and suggestions about this report as well as Microsoft's global citizenship activities. Please send your comments to **citizenship@microsoft.com**.

a global citizen — examples of programs around the world

Canada: Providing Access and Training to Technology

The Community Access Program (CAP) is a Government of Canada initiative that provides Canadians with affordable public access to the Internet and the skills they need to use it effectively. Together with Pacific Community Networks Association, a nonprofit organization representing 22 CAP Networks in British Columbia, Microsoft will be supporting the creation of an online community focused on teaching the art and science of game development.

Philadelphia: Building the School of the Future

Microsoft and the School District of Philadelphia joined forces to create a 750-student high school—opened in September 2006—that embodies innovation and technology. The goal of the partnership is to create a technology-based educational model that can be replicated in communities around the globe. Learn more about the school at www.microsoft.com/education/schooloffuture.mspx.

New Mexico: Reaching Out to the Community

In April 2006, Microsoft took part in TechFest at the Gathering of Nations in Albuquerque, New Mexico, the largest Native American Pow Wow held in North America. Microsoft, in partnership with HP, helped bring technology to Native American youth by providing TechFest with free PCs and monitors.

Mexico: Supporting NGOs

In fiscal year 2006, Microsoft funding will support the Fortaleza program of Fundación Merced. The goal of the Fortaleza program is to build the professional capacities of nongovernmental organizations (NGOs) in the Mexico City metropolitan area by helping them adopt technology to enhance their productivity, efficiency, and management.

Peru: Removing Barriers for Speakers of Native American Language

In collaboration with three Peruvian universities, Microsoft developed the Quechua Language Pack to make Microsoft® Windows® and Office products more accessible. Released in June 2006, the Quechua Language Pack is expected to have a significant impact on improving technology access for the approximately 10 million Quechua speakers in South America, who are a traditionally underserved community in the region.

Brazil: Leading the Way to Innovation

Microsoft Innovation Centers (MICs), found throughout Brazil, are designed to foster strong, self-sustaining local software economies by providing customers and partners with a comprehensive set of programs and services. Based in part on the successes achieved in Brazil, an additional 30 MICs will open in 2006, with facilities planned in India, Korea, and South Africa.

Argentina: Fostering Social Inclusion

The Committee for Democracy in Information Technology (CDI) is a Latin American NGO that fosters social inclusion and active citizenship by promoting the use of information and communication technology (ICT) in low-income communities. In Argentina, CDI operates 40 community technology centers (CTCs) and has provided training to more than 2,000 people. Microsoft's 2006 Unlimited Potential (UP) grant will provide funding for 20 more CTCs and two regional offices to manage existing centers more efficiently.

Portugal: Ensuring Employability for Europe

In support of its 21st Century Skills for Employability initiative, Microsoft launched a new digital literacy curriculum. The new curriculum will be offered free to governments, academia, and NGOs, and will be accessible online. In addition, Microsoft announced that it will increase the number of Microsoft IT Academies from 1,900 to more than 8,000 by 2010, with the goal of providing local access to technology skills training for more than 6 million adults.

Belgium: Helping SMEs Find Funding

The European Union Grants Advisor (EUGA) program is a collaborative effort led by Microsoft to help small and medium-sized enterprises (SMEs), as well as local and regional governments, better understand and use EU funding opportunities. SME owners are able to find information on the EUGA Web site about what funding is available and which programs they may be eligible for. More information on this program can be found at www.microsoft.com/emea/euga/.

Italy: University Tours

In order to demonstrate Microsoft's commitment to innovation, facilitate communication, and strengthen the relationships between Microsoft and university students and professors, Microsoft held events at 11 universities throughout Italy. More than 1,500 students and professors have attended an event, which included a speech from a Microsoft executive.

Poland: Delivering Skills Training to the Unemployed in Rural Areas

The Your Chance for Employment program provides ICT skills training for the unemployed living in rural areas of Poland. The training is designed to help increase job opportunities for the unemployed, build the skills of those who have jobs but lack critical ICT skills, and teach entrepreneurial skills for those who want to start small businesses.

Russia: Leveraging ICT Curriculum

In Russia, a 2006 Unlimited Potential grant will support Project Harmony—a program supporting 21 select IDEA centers designed to provide improved technology access and skills training in underserved areas of the country. The program will offer 30 hours of introductory technology training each month by using Microsoft's UP curriculum. It is expected to train more than 8,500 people in one year.

Morocco: Developing IT Skills for Adolescents

In February 2006, Microsoft signed a partnership with the Moroccan Secretary of State in charge of Youth and the UNDP for the expansion of the Ajialcom project. This project is setting up 100 new CTCs throughout Morocco to help close the digital divide, and train and educate young people to use IT. It is expected that about 30,000 young people will be trained in IT skills over a period of one year through the centers.

Uganda: Aiding Child Refugees

The United Nations High Commissioner for Refugees recently launched ninemillion.org to bring attention to the plight of the world's refugee youth. Founded by Right to Play, the campaign aims to create a global community dedicated to giving the world's refugee youth the chance to learn and play. Microsoft supports ninemillion.org through MSN® by hosting and localizing the Web site content in nine languages. More information on the program can be found at **www.ninemillion.org**.

South Africa: Promoting Accessibility

QuadPara is a South African organization offering quadriplegics, paraplegics, and people with other disabilities a variety of services including helping to develop skills needed for employment. A Microsoft grant in fiscal year 2006 will further the availability of accessible technology in the QuadPara center, and through the use of Microsoft technology, the center's patrons will be able to use assistive devices better.

Afghanistan: Supporting Women and the Interim Government

In Afghanistan, the Interim Authority, the United Nations Development Programme (UNDP), and other organizations are driving the rebuilding of the country's basic social, political, and economic structure after years of instability. Microsoft is donating cash and software to help create 15 CTCs, where as many as 25 percent of the people expected to be served will be female.

India: Generating Self-Sustaining Employment

Grameen Sanchar Society (GRASSO) seeks to enable a self-sufficient rural West Bengal by establishing self-employment plans for generating opportunities in the villages. With the support of Microsoft, GRASSO will set up 1,500 Community Information and Services Centers to host for-profit IT services and provide free IT skills training over two years to more than 67,800 people across rural West Bengal.

China: Encouraging Skills Development

Migrant workers in China face many challenges and often lack the opportunity to acquire the skills needed to find better jobs. The Beijing Young Entrepreneurs' Association—in cooperation with Microsoft and government, community, and educational institutions—will establish CTCs in Beijing to provide IT skills training to more than 1,000 migrant workers. The training will help migrant workers improve their employment skills and better integrate into their community.

Hong Kong: Refurbishing Student PCs

Despite the affluence of the general population in Hong Kong, more than 1 million people live in poverty. The Hong Kong Council of Social Service is working to address this issue and, under the Microsoft Authorized Refurbisher program, plans to donate 20,000 refurbished PCs in 2006 to school-age children living in poverty.

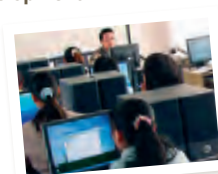**Japan: Removing the Digital Divide Between NPOs**

At the Non-Profit Organization (NPO) Day held this April in Tokyo, a new program supporting the elimination of the digital divide between NPOs was announced. The NPO Partnership Program will provide IT tools and templates needed for member and financial management, event operations, and daily work, as well as a digital literacy curriculum to help NPO users acquire vital IT skills.

Australia: Helping Seniors Participate in the Digital Economy

The percentage of Australia's population aged 65 and over is increasing, creating greater demand for accessible technology and training for seniors. The Australian Seniors Computer Clubs Association (ASCCA) is working to keep seniors engaged in the Australian economy by providing practical IT skills and knowledge training. With 110 Seniors Centers under the Microsoft UP umbrella, ASCCA will train 16,000 Australian seniors in 2006.
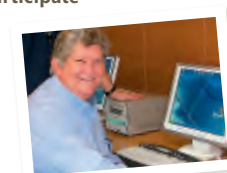
New Zealand: Creating New Tools to Preserve Ancient Cultures

The Maori language in New Zealand was on the verge of extinction until a revival in the 1970s and 1980s. Despite the revival, it remains an endangered language. In late 2005, Microsoft released a Maori Language Pack for Office 2003 and Windows XP to facilitate the use of computers by Maori speakers. Microsoft's work is an important step in preserving and promoting a vital piece of Maori culture for generations to come.

security road shows on the information highway

PC security check available to everyone in Germany, Microsoft organized a truck tour through major cities. At each stop, people could consult with IT professionals and perform a full security check on their PCs. To enable security checks for other Germans, Microsoft distributed CDs and videos, provided online and offline checklists, and worked with a network of certified consultants.

In Sweden, the Livstid (Lifetime) Project — a partnership between Microsoft, the Swedish Media Council, and the Swedish National Agency for School Improvement — educated teachers and students about the risks young people may face when they use the Internet.

And the Get Net Safe Tour — a joint initiative of a dozen business, government, and nonprofit partners — visited 12 major U.S. cities to raise public awareness about computer security and Internet safety.

This year, Microsoft took its security message on the road — from Asia to Europe and across the United States.

During a security tour through the Philippines, Thailand, Malaysia, Indonesia, and Vietnam, Microsoft discussed common security issues facing computer users. Tailoring the message to the specific challenges and needs of each audience, Microsoft shared its latest security strategies with more than 3,400 professionals.

Microsoft CEO Steve Ballmer traveled to Berlin for the second summit on security and the information society in Germany. As part of a broader commitment to help make a free

security and internet safety

A MORE TRUSTWORTHY EXPERIENCE

security and internet safety

In 2002, Microsoft Chairman Bill Gates announced a companywide commitment to make computing a more trustworthy experience for all of our customers by developing software that is more secure and reliable — software designed to help people protect their privacy and ensure that they and their families can have a safer online experience.

Trustworthy computing and online safety are ongoing priorities for us, and we are making progress toward those goals through a powerful combination of technology innovation and investment, collaboration and leadership on key issues through strategic partnerships, and prescriptive education and guidance.

We develop innovative technology to help parents monitor and control their children's Internet use, and to help consumers protect their privacy and personal data by blocking spam e-mail, phishing scams, and malicious software. We collaborate closely with industry, government, academic, and law enforcement partners on strategies to make computing safer and more trustworthy for all users, and to prevent and prosecute online crime. And we offer customers, teachers, parents, and children expert guidance and education to help them meet the ever-changing challenges of security and online safety.

PARTNERSHIPS WITH INDUSTRY, LAW ENFORCEMENT, AND NGOS

Microsoft recognizes its responsibility as an industry leader to help combat global cybercrime. We believe that working to make the Internet safer for today's users and future generations is, quite simply, the right thing to do. We also realize that no one group can tackle the challenge of Internet safety. Accordingly, we work collaboratively with industry partners, government agencies, law enforcement officials, NGOs, and other influential people and organizations to improve safety, privacy, and security through enforcement efforts, technology tools, and education and awareness campaigns.

Partnerships to Enhance Children's Online Safety

Microsoft worked with Canadian police and international law enforcement agencies to develop the Child Exploitation Tracking System (CETS), a unique and innovative software tool that helps protect children and reduce child exploitation online, and increases the effectiveness of investigators and police agencies. Using CETS, police agencies can manage, search, analyze, and share huge volumes of information and evidence, cross-reference obscure data relationships, and use social-network analysis to identify communities of offenders.

CETS began producing results almost immediately. In November 2004, while it was still being tested, CETS created a link connecting child pornography crimes across three continents, which led to the rescue of a four-year-old in Toronto, Canada. Since then, CETS has contributed to several investigations that have crossed police jurisdictions and international borders, creating connections that have led to the apprehension of more than 40 online offenders and the rescue of children in many different countries.

CETS was conceived after Sergeant Paul Gillespie, who was a detective with the Toronto Police Service's Child Exploitation Section, sent an e-mail message to Microsoft Chairman Bill Gates in 2003, explaining that he and other police officers were fighting a losing battle in their efforts to stop child exploitation online. Child predators were becoming increasingly adept at using technology to exploit children while keeping their identities hidden, but the police weren't keeping pace in their use of technology to identify, arrest, and convict these criminals. Gillespie asked for help, and Microsoft provided a solution.

To develop CETS, Microsoft worked with law enforcement agencies around the world, including the Toronto Police Service and the Royal Canadian Mounted Police. Microsoft contributed technical expertise and resources to develop a system that was designed by law enforcement, for law enforcement.

The success of CETS as a tool to help international law enforcement officials protect children has attracted widespread attention. In June 2006, Indonesia adopted CETS after sending Indonesian police officers to Toronto to see how CETS was being used in Canada. Several other countries are considering deploying CETS, and more countries are expected to adopt the system in the near future.

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"CETS puts together the work of hundreds of police agencies in one place. The tool can establish links from the different agencies that police wouldn't necessarily make."

—CORPORAL GARRY BELAIR, TECHNOLOGY MANAGER WITH THE ROYAL CANADIAN MOUNTED POLICE'S NATIONAL CHILD EXPLOITATION COORDINATION CENTER

Cambodia—Protecting Children from Predators

Cambodia has become an international trouble spot for child exploitation and human trafficking, fueled by foreign pedophiles who prey on poor Cambodian children and use the Internet to produce and disseminate child pornography. According to the UNICEF report "Children on the Edge: Protecting Children from Sexual Exploitation and Trafficking in East Asia and the Pacific," as many as one-third of sex workers in Cambodia are children under 18 years of age.

In October 2005, Microsoft joined Britain's National Criminal Intelligence Service and the National Crime Squad to offer a two-week seminar to about 150 Cambodian, Thai, and Indonesian law enforcement officials and humanitarian workers. The training included a range of computer skills, from Internet basics to network security, as well as how to trace sex offenders online.

Before the seminar, many of the Cambodian police and prosecutors who received the training had never used a computer or the Internet. This has contributed to Cambodia's difficulties in addressing the human trafficking in child sex workers. The training offered by Microsoft and its partners is, we hope, changing that.

staysafe.org

Child Safety—Employee Volunteering

"The impact was astonishing—all groups were attentive and engaged with the materials. Many had not made the link to strangers…the local PC was excellent and was able to connect my online world to their offline experiences."

"Anyway, thanks for giving me a chance to put something back. I have really enjoyed my day and will look to see how else I might get the message across through my school governor network."

"My final comment would be just to say that this was the BEST and most fulfilling community activity I have ever undertaken during my eight years at Microsoft."

"I've just—five minutes ago—finished three runs of this presentation to a total of 840 pupils in years 7, 8, and 9 at Philip Morant school in Colchester. The impact was astonishing."

"The children did you proud, and I can honestly say it was one of the most rewarding days I have had in the 12 years I have been at Microsoft."

"The school was enthusiastic; we did all three year groups—as well as a staff session at lunchtime and a parents session. The school will use the Know IT All resource kit almost immediately; they are doing Internet safety this week in IT."

—Microsoft UK employees at the Getting to Know IT All volunteer event

"In Cambodia, the Internet and child safety are deeply connected, but they are connected in a way that may not seem obvious when we talk about protecting our children online," said Charles Ray, former U.S. Ambassador to Cambodia. "The truth is, many Cambodian children have never used a computer and may never, in their lives, use the Internet … but Cambodian children are abused daily by the pedophiles that use the Internet and computers to plan, coordinate, and facilitate abuse of children in Cambodia."

Enfance en ligne — Children's Online Safety in France

Microsoft organized Enfance en ligne in partnership with the National Union of Family Associations (an important NGO that represents 120 local community organizations and is the French government's primary partner on family issues) and Defenseur des Enfants (the Children's Ombudsman Office under the patronage of the Prime Minister). Enfance en ligne was the first conference on children's online safety ever held in France.

Enfance en ligne brought together parent and family associations, public authorities, and industry representatives. The goals of the conference were to initiate public discussion about child safety in conjunction with the Family Ministry Conference in September 2005, and to teach parents how to keep their children safe online through smart online behavior and the use of technology that features built-in parental controls.

Approximately 300 people attended the conference, which featured roundtable discussions and workshops that focused on parental controls for computers, mobile phones, and video games. In a postevent survey, 93 percent of respondents said they felt better informed to guide children as a result of the conference. Approximately 20 journalists attended the event and published 25–30 positive news stories that helped to further inform the public about the issues of children's online safety and the resources available to families.

The conference sponsors developed a parents' guide to children's online safety. The National Union of Family Associations and other NGOs distributed 40,000 of these guides, another 1,700 were downloaded from the Microsoft.com site, and 250,000 were shipped with a popular family magazine. The sponsors also launched an educational Web site, Décode le Web (www.decodeleweb.com), which uses an online game to teach children 11–15 years old how to use the Internet safely. The site, a French adaptation of the MSN UK Websafe Crackerz site (www.websafecrackerz.com/), had 9,000 visitors the first month.

TECHNOLOGY INNOVATION

Security and Internet safety are top innovation priorities for Microsoft. We are committed to delivering software, services, and best practices that help protect customers' data, systems, and networks. We are investing in technology fundamentals that make our products more secure, and innovations that provide layered defenses against cybercrime and many other threats to security, privacy, and online safety.

Empowering Parents with Parental Controls

We are building parental controls into many of our most popular products and services, including Windows Vista™, Windows Live™, Xbox®, and MSN. These controls help parents protect their children from inappropriate content and unwelcome contacts online. Our parental control tools also incorporate guidance from recognized experts, including advice about age-appropriate content from the American Academy of Pediatrics in Windows Live and game ratings from independent ratings boards such as the Entertainment Software Rating Board in Xbox and Xbox 360™.

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"For Microsoft, family-safe computing is essential to what we do every day. We interact with parents and kids across all of our consumer products, because we want them to have a great experience with our technology. We want them to have fun and we want them to learn, so it is important that we provide the tools and information they need to make intelligent choices and to feel comfortable with the technology they're using."

**— ROBERT (ROBBIE) BACH, PRESIDENT,
ENTERTAINMENT AND DEVICES
DIVISION AT MICROSOFT**

Windows Live and Windows Vista Parental Controls

Microsoft is incorporating parental control tools into products like Windows Live and Windows Vista to help families create a safer, more secure, and more enjoyable online experience for children. These tools enable parents to control and monitor their children's Internet use by creating customized settings that are appropriate for each child and by reviewing reports on his or her Internet use.

Windows Live Family Safety Settings is a Web-based service that includes Web content filtering, activity reporting, and contact management features. These settings apply to online content and services, including other Windows Live services such as MSN Messenger and MSN Spaces. Microsoft will make Windows Live Family Safety Settings available at no charge and, because it is part of the Windows Live Web-based services, users can access settings and reporting functionality from any PC connected to the Internet — offering parents greater flexibility in how they monitor and manage their children's online activity.

Surfing Safely in Latin America
In Latin America, Microsoft teamed with the Ricky Martin Foundation to launch Navega Protegido to promote online safety for children. Martin, two-time Grammy Award winner and Goodwill Ambassador to UNICEF, taped three educational videos—each one in English, Spanish, and Portuguese—to provide children, teachers, parents, and other adult family members with the tools and information they need to protect children from online hazards such as sexual predators and inappropriate content.

The videos will be distributed over the Internet, at campaign events, and to millions of children throughout Latin America. Two of the videos address children 7 to 11 years old. The third video addresses parents, teachers, and other adult mentors. Both children and adults can find more information about Internet safety on the Navega Protegido Web site at **www.navegaprotegido.org**.

Martin, who is well-known for his commitment to child welfare, established the Ricky Martin Foundation to advocate for children around the world in critical areas such as social justice, education, and health. The online safety campaign has attracted support from more than 40 major sponsors such as Visa, Intel, HP, and Citibank as well as many Latin American governments and businesses. Microsoft and the foundation hope to expand the campaign globally.

The parental controls built into Windows Vista help provide security and safety functionality to the computer on which it is installed and provides functionality for the management of offline activity as well — such as PC games. Windows Vista's new parental controls can help parents feel comfortable that their children are using the Internet safely by:

- Limiting when and for how long their children use the computer.

- Controlling which Web sites their children can visit and limiting the programs their children can run.

- Restricting access to computer games (including online games with Xbox Live®) based on title, content, or independent ratings.

- Providing detailed reports about their children's computer usage.

Additional information ····>
about Windows Live Family Safety Settings is available at www.microsoft.com/presspass/ features/2006/mar06/03-13FamilySafety.mspx.

Windows Live Search

Parents can set the SafeSearch feature in Windows Live Search to Moderate (the default setting) to automatically filter out sexually explicit Web sites and images. For a higher level of protection, parents can increase the SafeSearch setting to Strict, which causes Windows Live Search to filter out sexually explicit text as well as sexually explicit images.

Xbox 360 and Xbox Live

Individual players can use Family Safety Settings in the Xbox 360 game console and the Xbox Live service to customize their own settings, and parents can limit the games their children play, whom they play with, the movies they watch, and their online and offline experience — even when they are away from home. The Family Safety Settings for Xbox 360 and Xbox Live support all major game ratings systems used in every part of the world — from the United States to Australia.

In addition to building Family Safety Settings into the Xbox 360 console, Microsoft has partnered with elected officials, nongovernmental agencies, and retailers to educate consumers about Family Safety Settings and other resources that parents can use to

protect their children from inappropriate video game content. The campaign includes a digital literacy curriculum for parents, a grassroots effort to reach families in their communities, and a toolkit for retailers. This initiative is part of Microsoft's ongoing commitment to promote responsible gaming.

Additional information ····>
about Microsoft Xbox 360 Family Settings is available at www.microsoft.com/athome/security/ children/xbox_360_family_settings.mspx.

Security by Design

The Security Development Lifecycle (SDL) is a process designed to train Microsoft developers, testers, and program managers to develop code that is more secure, and to test and review Microsoft products for security. SDL includes mandatory security checkpoints at each phase of software development for many of our products, and a rigorous security review that products subject to SDL must pass before they can be released. The SDL process is continually improved and updated with best practices and new information learned from the Microsoft Security Response Center, which provides rapid, targeted security responses whenever software vulnerabilities are discovered.

Windows Vista, Microsoft's next-generation operating system, builds on a 30-year legacy of technical excellence, industry collaboration, and customer-focused product development to deliver the most secure version of Windows ever. Built to be more secure from the ground up, Windows Vista introduces important new features and functionality designed to provide layered defenses against malware threats, intrusions, and data breaches. It provides corporate and personal data enhanced protection from hackers, malicious software, and theft.

One of the most recent security innovations from Microsoft is Windows Live OneCare, an all-in-one, always-on PC care service that is like a "pit crew" for PCs. Windows Live OneCare performs a wide range of maintenance tasks and provides automatic security updates, antivirus and firewall protection, and backup and restore features, so that customers can focus on enjoying their online experience without worrying about how to keep their PCs running smoothly.

SUPPORTING LEGISLATION

As an innovative technology company whose products are helping to transform many aspects of personal and professional life for millions of people worldwide, Microsoft has a responsibility to work with lawmakers and law enforcement agencies to develop laws and policies that help ensure online safety, security, and privacy.

Because cybercrime crosses jurisdictional and international boundaries, Microsoft is working with governments around the world to enact legislation that prohibits the distribution of deceptive e-mail or spyware, protects individual privacy, empowers consumers, and preserves the health and vitality of legitimate e-commerce. And we're making progress. The worldwide proliferation of spam, phishing, malicious code, and spyware attacks has spurred numerous legislative bodies to adopt laws addressing these cybercrimes.

Helping Law Enforcement Officials Track Cybercriminals

Microsoft launched the Global Phishing Enforcement Initiative to expand its ongoing efforts to prevent and prosecute Internet fraud worldwide through consumer protection and innovative partnerships with governments, law enforcement agencies, and various industries. In fiscal year 2006 alone, Microsoft initiated legal action against more than 100 alleged online criminals in Europe, the Middle East, and Africa.

In January 2006, for example, the National Services to Combat Organized Crime (NSCOC) in Bulgaria arrested eight individuals for allegedly running an international phishing operation that stole more than $50,000 from MSN users in the United States, Germany, and the United Kingdom.

Nicknamed the MBAM (Microsoft Billing Account Management) Gang by investigators, the cybercriminals allegedly contacted MSN customers with e-mail messages that looked as though they were sent by MSN customer service representatives. The phishers, who launched attacks in 11 countries, asked MSN users to update personal financial data, and then used the stolen information to make purchases or initiate express money transfers. Microsoft assisted the NSCOC by providing investigative and technical support, enabling Bulgarian authorities to identify and arrest MBAM Gang members.

A Call for Federal Privacy Legislation in the United States

In November 2005, Microsoft Senior Vice President and General Counsel Brad Smith appeared before the U.S. Congressional Internet Caucus to advocate federal privacy legislation. The proposed legislation would not only coordinate privacy protections within the United States, but also harmonize and align U.S. protections with those offered by countries around the world. Smith said federal privacy legislation should establish baseline privacy protections for consumers and also provide organizations with a uniform standard on which they can build effective privacy policies and compliance efforts.

But the potential of information technology to drive further social and economic advances depends on building and maintaining a solid foundation of trust. Individuals will not take full advantage of the Internet or any other commercial medium if they believe their personal information could be compromised. Effective federal legislation will help provide consumers with the confidence and knowledge that the legitimate companies they do business with are following an established set of privacy practices. Smith told the caucus that Microsoft believes it is the right time for federal privacy legislation because it has become increasingly clear that a comprehensive approach is needed to help protect consumers from identity theft and other misuses of their personal information.

To learn more ····❯

about Microsoft's views on privacy legislation, see www.microsoft.com/presspass/features/2005/nov05/11-03Privacy.mspx and www.microsoft.com/presspass/press/2005/nov05/11-03DataPrivacyPR.mspx.

Privacy Legislation Worldwide

Asia-Pacific Economic Cooperation (APEC) is the premier forum for facilitating economic growth, cooperation, trade, and investment in the Asia-Pacific region. Microsoft has been a major sponsor of APEC for the past three years and has participated at the Leaders/CEO Summit and in a number of APEC committees and working groups on the issues of privacy, online safety, and security. Microsoft and other APEC members have endorsed the APEC Privacy Framework to encourage the development of appropriate information privacy protection and as a means to ensure the free flow of information in the Asia-Pacific region.

The proposed APEC Privacy Framework starts from the principle that the flow of information between countries is crucial to trade and economic development. It reflects the region's commitment to balancing privacy protections with the need to avoid unnecessary barriers to the flow of data. Based on a common understanding of the privacy protections consumers expect, and acknowledging the political and cultural differences between nations in the region, the APEC Privacy Framework provides guidance and direction to member countries.

Microsoft believes that the advantage of this approach is that it enables countries to adopt legislation that effectively protects their citizens' personal information while also maintaining some level of consistency throughout the region. Legislation based on this framework will make it easier for both local and multinational companies to efficiently and profitably offer products and services to any customer in APEC countries.

In May 2006, the International Association of Privacy Professionals (IAPP), the world's largest association in this field, brought its signature privacy networking program on a three-city tour to Sydney, Singapore, and Tokyo. The tour was cosponsored by Microsoft and Ernst & Young, and supported locally by public- and private-sector companies. The IAPP Asia-Pacific Tour attracted more than 250 privacy professionals from consumer, business, and government organizations.

The purpose of the tour was to create a dialogue about the increasingly important issue of privacy and data protection between a growing and nascent group of Asia-Pacific privacy professionals. The tour was timely for Singapore, where data protection legislation is expected to be announced by the Ministry of Information, Communication, and Arts (MICA) in the near future.

Many governments and regional organizations around the world have affirmed their commitment to privacy laws that do not unnecessarily impede e-commerce and international trade. Still, many of the differences between approaches to privacy protection around the world continue to create friction in the flow of data between, and within, nations and regions.

"Many privacy-related policy problems arise because we live in an increasingly interconnected world. Communication and collaboration are continuously expanding; online commerce and banking are growing at a rapid rate; and people are using computers in almost every aspect of their daily lives. As a result, we face increasing challenges in maintaining privacy and confidentiality. At Microsoft, we are building privacy-enabling technologies into our products that strike a balance between the collection, transmission, storage, and use of data."

—CRAIG MUNDIE, MICROSOFT'S CHIEF RESEARCH AND STRATEGY OFFICER

Microsoft Helps Neutralize Antinny Virus in Japan
Microsoft works closely with governments, law enforcement agencies, and industry partners around the world to limit the spread of computer viruses and the damage they cause. But the Antinny virus was an unusual case that illustrates the depth of our commitment to making computing a safe experience for all users.

The Antinny virus first appeared in Japan in March 2004, overloading Web servers at the Association of Copyright for Computer Software and forcing the group to shut down its site. The virus spread quickly through peer-to-peer connections to thousands of PCs that unknowingly attacked and overloaded servers at ISPs throughout Japan, threatening to make the Internet inaccessible to Japanese users.

After struggling for a year to neutralize the virus, the IT community in Japan asked Microsoft for help. Some people worried that Microsoft might not want to get involved, since the virus was not affecting users of Windows directly. But Microsoft responded immediately, working with Japanese companies to isolate 30 different strains of the virus and to create a remedy that was added to the company's Malicious Software Removal Tool for delivery to users.

When the new tool was released, approximately 40 percent of the damage caused by the virus was rapidly eliminated. Within a month, the virus had been removed from more than 200,000 PCs, and before long that number had doubled.

microsoft and the u.n. partner on children's online safety

- Building a legal framework to protect children by broadening each nation's existing laws to include online safety

- Involving many different stakeholders, from parents and teachers to government agencies and law enforcement officials

- Working through NGOs at the grassroots level

- Increasing public awareness and providing clear guidelines for keeping children safe online

In June 2005, Microsoft took part in the United Nations Middle East and North Africa (MENA) Regional Consultation on Violence Against Children. The consultation, held in Cairo, brought together more than 600 government representatives, NGOs, activists, media professionals, and young people from the region. It was part of a global study on violence against children commissioned by the U.N. Secretary General.

Microsoft explained how the Internet is transforming childhood worldwide, making online safety for children important to all nations. Microsoft proposed a strategic plan of action with four main pillars:

In addition, the U.N. and Microsoft jointly developed a toolkit that can help any country or organization set up and maintain an Internet Safety Program to educate and support children, parents, teachers, and community leaders. The toolkit includes training materials, educational resources, and activities. It was launched at the official presentation of the U.N. Secretary General's report on Violence Against Children in October 2006.

knowledge economy

REALIZING POTENTIAL

knowledge economy

In today's economy, knowledge is the new currency, and technology is the tool most commonly used to transfer, share, and apply that knowledge. As a result, technology access and skills have become the keys to economic viability for a growing number of people and communities around the world.

Through innovative partnerships with governments, educators, NGOs, and other industry leaders, Microsoft is expanding digital inclusion. We do this by providing technology access and skills training to a wide range of people in different life circumstances — from educators and students who teach and learn in traditional classroom settings to the unemployed and underemployed, women and youth, and people with disabilities who learn in community technology centers (CTCs).

We work closely with NGOs worldwide, finding ways to help them build their capacity and extend their services to more people.

We make sure our products are accessible to people who may have difficulty using standard technology because of physical or cognitive issues, whether they experience only mild impairments or severe disabilities. And we provide a platform that enables other companies to develop innovative devices that make it easier to see, hear, and use a computer.

We're also working with partners to grow the local software economy in thousands of communities across more than 100 countries worldwide, and to develop a workforce of highly skilled people who can support and benefit from those businesses.

The knowledge economy offers immense opportunity for people and businesses in all parts of the world to build better societies and better lives. As a global technology leader and responsible global citizen, Microsoft is committed to helping countries and communities advance their goals of human and technological development.

DIGITAL INCLUSION

At Microsoft, our mission is to help people and businesses throughout the world realize their full potential. We know that if people have the right tools, they can accomplish almost anything. But tools alone won't enable people to build a better life and reach their dreams. They also need the skills to use those tools.

It is that understanding, along with our experience and success in providing technology training to millions of people of varying circumstances and abilities, that has given us the confidence to make a bold commitment:

to bring the benefits of technology — and technology skills — to one-quarter of a billion underserved people worldwide by 2010.

Nations everywhere are striving to harness the opportunities and meet the challenges of the twenty-first-century knowledge economy. They are focused on promoting job growth and workforce training, encouraging the development of local industry, and enhancing their global competitiveness.

Governments around the world understand that addressing these issues today will provide a solid foundation for growth and prosperity tomorrow. And because computer operating systems and applications are the engines that drive the knowledge economy, many of these governments' economic development strategies center on increasing digital literacy and technology usage among all their citizens.

Microsoft is working in partnership with governments and leading companies in the United States and around the world to develop innovative solutions to the workforce problems we all share. We know that creating economic opportunities for nations, communities, and businesses worldwide begins by opening doors of opportunity for individuals.

Employability and Workforce Development

The readiness of American workers to compete in the global economy is a growing concern for Microsoft and many other companies. The United States is falling behind many other nations in various measures of workforce readiness:

- Only 13 percent of U.S. adults are proficient in the knowledge and skills needed to search for, comprehend, and use information—a decrease of 2 percentage points since 1992.[1]

- Despite efforts to improve math and science skills, only 13 percent of U.S. adults are proficient in the knowledge and skills needed to identify and perform computational tasks—the same percentage of adults who were proficient in 1992.[2]

- Only 5 percent of U.S. college undergraduates today are pursuing degrees in science or engineering, compared with 42 percent of university students in China.[3]

Meanwhile, the nature of work in the United States is changing rapidly. As we move from a manufacturing-based economy to an information-based economy, employers are demanding more skills that revolve around knowledge creation, collaboration, communication, and analysis.

Information workers now account for 72 percent of the U.S. labor force, and over the next decade, 6 out of every 10 new jobs will be in professional and service-related occupations. Even jobs as diverse as delivery driver, retail clerk, and manufacturing supervisor require at least a basic level of proficiency in computers.[4]

[1] *National Center for Education Statistics, 2003 National Assessment of Adult Literacy (NAAL), A First Look at the Literacy of America's Adults in the 21st Century (2005).*

[2] *Ibid.*

[3] *Committee on Science, Engineering, and Public Policy, Rising Above the Gathering Storm: Energizing and Employing America for a Brighter Economic Future (National Academies Press, 2006).*

[4] *Norman C. Saunders, "Employment Outlook 2004–2014: A Summary of BLS Projections," Monthly Labor Review Online (November 2005), p. 6.*

Technology Offers New Hope to Amputees
On New Year's Day 2005, Jonathan Kuniholm, a U.S. Marine officer, was wounded in Iraq and lost his right arm below the elbow.

Before his Marine reserve unit was called up, Kuniholm was a partner in a startup product design firm and working toward a PhD in biomedical engineering at Duke University. He was also a private pilot. On the day he was wounded, he wondered if his flying days were over.

Today, with the help of prosthetic devices and assistive computer technology, Kuniholm is back at work and in school, and he has regained his pilot's privileges.

"Technology is playing an enormous role in helping to mitigate the effects of my injury—from prostheses that help to simulate the functions of my lost hand and arm to Windows-enabled assistive computer technology that has made it possible for me to resume my career," Kuniholm said.

He has shifted the focus of his engineering work to creating innovative designs for prosthetic devices that can be shared with amputees and designers in impoverished or war-torn areas such as Bosnia, Iraq, and Sierra Leone—places where there are severe problems but few solutions.

"There are an estimated 650,000 upper-extremity amputees worldwide, most with no access to prosthetic devices," he said. "I want to help developing regions better serve their amputee populations by providing designs for devices they can build with materials they have on hand."

Microsoft has been working to foster workforce development through IT skills training and other programs for the past 10 years. For example, Microsoft Learning is a group at Microsoft that focuses on developing and delivering IT skills training and certification solutions. Working with hundreds of commercial training partners in the United States, more than 7 million American workers have received IT skills training on Microsoft technologies in classrooms, at corporate offices, and over the Web.

And our workforce development efforts don't stop at the U.S. border. Microsoft is a founding member of the European Alliance on Skills for Employability, a public-private initiative to provide 20 million Europeans with access to technology, content, certification, and training in computer technology and other skills by 2010, enabling the creation of new and better jobs in the European Union. The Employability Alliance was founded in January 2006 and launched at the Microsoft Government Leaders Forum in Europe

with the endorsement of European Commission President José Manuel Barroso, a keynote speaker at the forum.

"I welcome the creation of the European Alliance on Skills for Employability. The alliance is a leading example of how innovative business-to-business collaborations, working with different stakeholders, can provide opportunities to the European unemployed. Access to skills training, content provision, and certification can help older workers, people with disabilities, and the young to face the challenges of unemployment and the changing workplace, and so contribute to Europe's prosperity. I commend this initiative as it represents one of the best practices in this field."

— VLADIMIR SPIDLA, EU COMMISSIONER FOR EMPLOYMENT, SOCIAL AFFAIRS, AND EQUAL OPPORTUNITIES

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There are 18 million people unemployed across Europe,[5] many of them from disadvantaged groups that often have little access to good jobs. The training offered by Microsoft and its partners is designed to reach many of those people, including immigrants, young people with low levels of education, seniors, and people with disabilities.

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[5] *Eurostat, Unemployment rate total (accessed August 2006).*

Unlimited Potential and Partners in Learning

In 2003, we launched Partners in Learning and Unlimited Potential (UP), our two global flagship programs for education and digital inclusion. The early success of these two programs inspired us to set our ambitious goal of bringing the benefits of technology to one-quarter of a billion underserved people around the world by 2010.

Today, Partners in Learning and Unlimited Potential programs are under way in more than 100 countries around the world. Through innovative partnerships with governments and NGOs, we have trained more than 20 million people through UP, and 24 million teachers and students through Partners in Learning, reaching a total of 135 million people around the world.

Partners in Learning provides students, educators, and local governments worldwide with the resources they need to make technology an integral part of classroom learning and instruction. Partners in Learning programs provide the IT skills training, software, curriculum, and professional development resources that educators need to inspire and facilitate new ways of teaching and learning.

Unlimited Potential is designed to provide underserved populations with IT education and skills training through community-based technology learning centers around the world. In the three years since the UP program began, Microsoft has provided cash grants, software donations, and technical support and training to some 17,500 community technology centers in more than 100 countries, many of them specifically targeted at workforce development.

Partners in Learning and Unlimited Potential are key components of Microsoft's worldwide employability and workforce development efforts. Both provide technology skills training that empower people to transform PCs into tools that can help them learn, build better livelihoods, and improve their lives.

Ireland — Helping the Long-Term Unemployed

Through the Unlimited Potential program, Microsoft provides critical resources for a number of employability and workforce development efforts in Ireland.

Fastrack to IT (FIT) is a workforce development program that provides technology and job skills training to Ireland's long-term unemployed. Starting as a one-time course for 25 people in 1998, FIT has since grown into an international role model for how to design and manage a community-based employability program.

FIT began in Ballymun as a Microsoft initiative called Tramlines, but later became an independent organization with board members drawn from many of the leading businesses and government agencies in Ireland. Today, FIT offers 19 full-time courses and has spread to other cities in Ireland, including Dublin and Belfast.

Of the 5,000 people FIT has trained, 3,000 are employed in jobs directly related to their training, and another 600 are engaged in further education or training. Many graduates are now teaching the subjects they learned through FIT, thereby increasing the effective reach of the program. And 47 percent of FIT graduates are women, an unusually high number for technology training programs.

Another UP-supported employability program in Ireland is the Dublin Inner City Partnership (DICP). Working with DICP, Microsoft is helping to equip computer rooms in four Dublin inner-city community centers to increase IT access and training for communities in their own neighborhoods.

Australia's School of the Air Goes High-Tech
The Katherine School of the Air was established in 1966 to educate children at isolated homesteads, remote schools, and indigenous communities in the Australian outback.

For four decades, the Katherine School used a combination of radio broadcasts and correspondence materials to provide distance learning to students scattered across 800,000 sq. km. In March 2006, Microsoft and the Northern Territory Government unveiled the Interactive Distance Learning (IDL) service to improve distance education in Australia.

Today, the program could be renamed the school of the future. Satellite feeds and laptop computers have replaced radio headsets and pencils. Teachers and students see and speak to each other in real time, and use a Web-based white board to collaborate on lessons. Students receive learning materials electronically instead of by mail, and they build strong social networks through interactive communication.

IDL is based on Conference XP, a special technology developed by Microsoft Research Asia and adapted for local conditions by M&S Consultants, an Australian company from the Northern Territory.

After its debut at the Katherine School, the IDL service was implemented at the Alice Springs School of the Air and the Northern Territory Open Education Centre. Eventually, the IDL service will be available to approximately 110 remote homesteads, 90 remote schools, four remote training centers, and a number of urban and regional schools.

Microsoft donated 110 refurbished PCs to equip the four DICP centers, along with a full range of software for the PCs, Unlimited Potential curriculum to support training efforts, and access to employee volunteers who wish to donate their time to work with the centers. Microsoft also committed a total cash investment of nearly €100,000 to cover equipment installation, technical support, IT skills training, and the purchase of peripheral hardware such as printers and scanners.

China — Extending Economic Benefits to Migrant Workers

One of the greatest economic migrations in history is happening in China. Although 60 percent of the Chinese population lives in rural agricultural areas, the country's rapid economic growth has left those areas largely untouched, according to a report by Progress Strategy, a market research and consulting firm. The average annual income of people living and working in China's cities is more than three times that of those in rural areas. As a result, more than 10 million people each year leave the country to seek better economic opportunities in the cities.

Because many of the migrating Chinese are uneducated and lack basic skills, they end up in low-paying urban jobs. According to the Progress Strategy report, if the migrant workers remain disenfranchised they could end up undermining "the sustainable and stable development of the national economy." To help prevent this outcome, the Chinese government is aiming to provide 30 million migrant workers with vocational training by 2010 — and Microsoft is committed to helping China achieve that goal.

The Xicheng CTC, located in the Xicheng District Library in Beijing, opened in June 2004 with 40 workstations. Through Unlimited Potential, Microsoft provided the computers, software, and additional funding. The Xicheng CTC was the first CTC in China, and the program has since been expanded to include four new rural CTCs and five new urban CTCs.

Africa — Offering Hope to Disadvantaged Women and Youth in 43 Countries

Through Unlimited Potential, Microsoft has collaborated with NGOs and IGOs, as well as local partners, to provide resources to more than 1,000 CTCs in 43 African countries. Microsoft has invested more than $7.5 million in cash and software to help train and empower thousands of Africans.

More than half of these projects are designed to help young people, who represent a majority of the population in Africa. Another third are aimed at training women, and the rest are focused on training refugees, children, and underserved communities. To further serve disadvantaged youth, women, and refugees in African communities, Microsoft is localizing the UP training curricula for the Arabic and Portuguese languages as well as English and French.

At the Microsoft Government Leaders Forum Africa 2006, Microsoft Chairman Bill Gates announced that Microsoft is collaborating with global and local organizations — such as the United Nations World Tourism Organization (UNWTO), the United Nations Industrial Development Organization (UNIDO), and the New Partnership for Africa's Development (NEPAD) — to help African governments create sustainable economic growth by providing ICT training to more than 45 million people in Africa by 2010.

India—Making Technology Part of Learning

India is a perfect example of the need for digital inclusion. Although there are thriving technology sectors throughout the country, state-funded schools in poorer areas have no computers and most teachers have little or no ICT training.

Project Shiksha, launched by Microsoft Chairman Bill Gates in 2002, is a Partners in Learning–sponsored IT Academy program designed to provide computer literacy for more than 80,000 teachers and 3.5 million students throughout India over a five-year period. Microsoft has made a $20 million investment in the project.

Teachers travel to Hyderabad for an intensive 12-day course in basic IT skills that includes instruction on how to use the Internet, e-mail, and popular software products such as Windows XP and Microsoft Word, PowerPoint®, Paint, and Excel®. The teachers also learn how to integrate technology into their lesson plans and classroom instruction.

Teachers who have taken the course say that both they and their students benefited from the program. The teachers gained more confidence and left the Microsoft IT Academy eager to share their new skills. Energized by the training, teachers are motivated, which, in turn, motivates students and improves attendance.

Central America—Certification for Competitiveness

Working with Microsoft Partners in Learning, many countries in the Caribbean and Central America (CCA) region are starting Peer Coaching Programs, which will become a fundamental part of professional development plans for public-school teachers. Peer Coaching allows public schools to have at least two teachers working as "coaches" for the rest of the teachers in that school. The program includes 10 sessions in 12 months, and during that time all coaches are expected to guide other teachers to discover how they can help students achieve academic success by making technology part of the learning process.

telecentre.org

telecentre.org

Many people around the world lack easy access to potentially life-changing information. Telecentres—public spaces equipped with computers, the Internet, and other technologies—equip users with the resources needed to tackle a wide array of social issues, from computer-based job training and health education to democracy building.

To help strengthen the effectiveness of telecentres worldwide, Microsoft, the International Development Research Center, and the Swiss Agency for Development and Cooperation developed telecentre.org, an initiative designed to strengthen the capacity of community-based telecentres to better serve their local needs. At its core, telecentre.org is built around collaboration and partnership—connecting telecentres, networks, innovators, and social investors.

The focus of the telecentre.org program is to provide social investments and services at the national and regional level to grassroots telecentre networks. These networks give telecentre managers the training, business planning, marketing, and technology they need to succeed. Through online information-sharing services, they also help local telecentre users learn and innovate together, making technology more useful for the communities they serve.

In November 2005, the first round of social investments was launched, offering financial support for telecentre networks in India, Sri Lanka, Uganda, Mozambique, South Africa, Chile, and other areas across the Americas.

To become more competitive, several CCA countries have started extensive certification programs. Partners in Learning, in cooperation with local partners, makes it easy for CCA countries to certify teachers and students. Using Partners in Learning resources, in 2006 Costa Rica plans to certify 10,000 people, El Salvador 22,500, and Panama and the Dominican Republic more than 5,000.

In El Salvador, the first country in Central America to implement the Free Trade Agreement with the United States, the Ministry of Education plans to make the Partners in Learning curriculum an official part of secondary education, and to make certification a requirement for high school graduation — a move that will lead to more than 60,000 students being certified each year starting in 2007. In January 2006, 27 teachers in Panama completed Master Teachers Office XP training and were certified, and they will now share their skills and knowledge with other teachers. This first class of 27 was the start of an ambitious project to certify 750 public-school teachers as Microsoft Office Specialists or Masters.

Asia-Pacific — Technology Training to Stop Human Trafficking

Throughout the Asia-Pacific region, low-income villagers frequently migrate from rural to urban areas in search of greater economic opportunities and a better life. Once away from their home communities, however, their lack of skills and job prospects often puts them at risk of falling victim to human trafficking.

In June 2006, Microsoft announced six Unlimited Potential (UP) grants, together valued at more than $1 million, to help combat human trafficking in the region. With the grants, NGOs in Cambodia, India, Indonesia, the Philippines, Singapore, and Thailand will deliver IT skills training to enhance the employment prospects and economic conditions of people most vulnerable to human traffickers, and those who have already been victimized. Through outreach efforts and subgrants, the network will provide resources to more than 40 NGOs, including several in Sri Lanka, Bangladesh, Nepal, and Vietnam.

"Microsoft is the first company to approach us with a vision of empowering OFWs (Overseas Filipino Workers) through technology, and we are very happy that we are able to sustain this partnership."

— MR. MARIANITO D. ROQUE, ADMINISTRATOR, OVERSEAS WORKERS WELFARE ADMINISTRATION, PHILIPPINE DEPARTMENT OF LABOR AND EMPLOYMENT

Microsoft will support more than 130 new community technology centers to provide the benefits of technology to those most at risk. In addition to financial support, Microsoft is providing software and the Unlimited Potential curriculum, which is available in 10 languages that are used in Asia.

ACCESSIBILITY

Microsoft has been a leader in accessible technology design and development since 1988. We develop software and tools that make it easier for people to see, hear, and use their personal computers, and we never stop working to make Windows an outstanding platform that other companies can use to develop accessible technologies.

Originally, accessible technology was viewed exclusively as a tool to assist people with disabilities, and that is still one of its most important functions. Today, however, the demand for accessible technology is expanding, as more people with mild or moderate impairments realize all of the ways accessible technology can help them adjust their computers to make them easier and more comfortable to use.

Although the benefits of accessible technology are not limited to people who experience physical or cognitive difficulties, addressing the needs of people with a wide range of abilities gives us deeper insights into the challenges all consumers face as they interact with technology. As a result, Microsoft is able to create software that is more functional for everyone while continuing to address the unique needs of people with disabilities.

Before technology can empower people with disabilities, or anyone else, they have to know how to use it. Microsoft has created innovative partnerships and programs throughout the world to provide the training and technology that people with disabilities need to transform their lives and realize their potential.

Innovative Accessibility in Windows Vista

Windows Vista, the newest version of the Microsoft Windows operating system, includes several new accessibility innovations.

A new Ease of Access center helps computer users identify, locate, and turn on the built-in accessibility settings and programs in Windows Vista. Also, by answering a few simple questions about their experience performing routine tasks, such as difficulty seeing faces on a TV or hearing conversation in a crowded room, users can receive a personalized recommendation for accessibility settings that may improve their computing experience.

Windows Vista also includes new technologies, such as state-of-the-art Speech Recognition and Magnification, which can assist users with a wide range of abilities.

Opening Doors in Latvia

On February 6, 2006, the Open Door center was founded in Riga, Latvia, to provide ICT training for people with disabilities and others in the community to help broaden their employment, educational, and communication opportunities. Four months later, on June 6, the Open Door Center graduated its first class of students, who became instructors in the program to help train others in the community.

A joint project of Microsoft Latvia and APEIRONS, a Latvian organization for people with disabilities, Open Door is supported by a Microsoft Unlimited Potential grant, along with donations of Microsoft software and curriculum materials. The center has a computer classroom with workstations for IT instruction, and it also offers computer and Internet access to people in the community.

With Windows Speech Recognition, users can dictate documents and e-mail messages, fill out forms on the Web using voice commands, and manage their PC and applications by saying what they see. Speech Recognition is designed to improve as people use it, adapting to their speaking style and vocabulary.

Magnifier makes a portion of the screen from 2 to 16 times larger to improve the readability of text for people with low vision. Instead of stretching an image to enlarge it, which often creates jagged edges and other distortions, Windows Vista enables users to enlarge buttons, icons, and other graphics to the size they find easiest to see with no loss of image quality.

A new accessibility and automated testing model in Windows Vista, called Microsoft UI Automation ("UI" refers to user interface), reduces development costs not only for accessible and assistive technology (AT) developers, but also for application developers who make their software compatible with AT products such as screen readers for people who are blind. Microsoft UI Automation also improves product quality by providing increased testing support and a new way of doing automated UI testing

for software developers. Microsoft Accessibility Resource Centers throughout the United States are available to help people with disabilities find the accessibility settings and assistive technology products that are right for them. These low- or no-cost centers offer consultation and training.

ECDL Barrier-free Access Project

The European Computer Driving Licence (ECDL) is an internationally recognized computer skills certification program with about 2.5 million participants in more than 90 countries. Because of a lack of dedicated resources, however, people

 with disabilities had difficulty attaining the certificate and were facing significant disadvantages in the job market.

To address this problem, Microsoft Austria and the Integrated Study Institute of the University of Linz worked with representatives from the public and private sectors to establish a new pan-European initiative called the European Computer Driving Licence for People with Disabilities (ECDL-PD), better known as the ECDL Barrier-free Access project.

ECDL Barrier-free Access is tailored to meet the unique challenges faced by people with visual, hearing, mobility, and cognitive disabilities. It allows them to work with assistive technologies — Braille displays or keyboard and mouse alternatives such as on-screen keyboards or hands-free mice for people who are paralyzed — although the standards of certification are the same as for everyone else. The possible benefits of ECDL Barrier-free Access include:

- Improved employment prospects for people with disabilities who earn the ECDL certificate.

- Reduced unemployment among people with disabilities, and less dependency on state benefits.

- Employer access to a larger pool of skilled workers.

- Local economic benefits derived from greater productivity.

Helping People with Disabilities in Latin America

Partnership in Opportunities for Employment through Technology in the Americas (POETA) is the latest program to emerge from the partnership between Microsoft and the Organization of American States, which began in 2001. POETA provides technology job training and job placement assistance at centers located throughout Latin America to young people and adults with disabilities.

At some centers, the program also serves other vulnerable populations, such as at-risk youth, women, and people from indigenous cultures. POETA is working with more than 10,000 people with disabilities and others in 29 centers that span 11 countries: Argentina, Colombia, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Panama, Peru, and Venezuela.

Job Training in Kazakhstan

The Namys Foundation is an organization in Kazakhstan for people with disabilities and those who support them in their everyday lives. Working together, the Namys Foundation and Microsoft Kazakhstan used Unlimited Potential cash, software, and curriculum to open a CTC to provide ICT training to people with disabilities and others in the community. During the first year, more than 130 people received computer skills training at the center. According to the foundation, nearly 70 percent of those trained had disabilities, and 43 percent of the trainees with disabilities used their new skills to find jobs immediately after completing their training.

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"All the telecentre.org partners have extensive experience of working in developing countries, but we know that we can achieve much more by collaborating and sharing information than by working independently. Microsoft's expertise in providing training materials and in introducing technology outside traditional office environments will play a particularly important part."

—MARK SURMAN, MANAGING DIRECTOR, INTERNATIONAL DEVELOPMENT RESEARCH CENTRE (IDRC)

Partnership for Technology Access
The Microsoft Partnership for Technology Access (PTA) program is an innovative initiative that draws on the expertise of governments, technology organizations, and financial institutions to make PCs more affordable.

Despite a high level of literacy and education, there is widespread poverty in Egypt. A majority of Egypt's 77 million people are considered "working poor," with average monthly incomes of about $100. Few have any credit history, which puts purchasing a home PC beyond their means.

The PC in Every Home initiative, a PTA program, has enabled Egyptians with no credit history to purchase PCs with low monthly payments. More than 250,000 PCs have been sold, and more than 1 million Egyptians have gained digital skills and the chance for a better life.

Similar PTA programs have been established in the Philippines and Nigeria. Konek ka diyan! is a PC-purchase program that gives 9 million overseas Filipino workers and their families the chance to own computers. The Computers for All Nigerians Initiative offers low-interest PC loans to government employees who use their paychecks as collateral. Over the next two years, the program will expand to include students, microenterprise owners, and pensioners.

According to *The Economist*, five of every six people on the planet have no access to institutional credit. With its private- and public-sector partners worldwide, Microsoft is working to eliminate that barrier to digital inclusion.

LOCAL SOFTWARE ECONOMY

Innovation and collaboration have always been hallmarks of Microsoft and the commercial software industry as a whole, a trillion-dollar market that helps to create and sustain local software economies worldwide.

Microsoft's success depends on its extensive partnerships with nearly 700,000 businesses worldwide—including independent software vendors, system integrators, resellers, and hardware manufacturers. Local software economies and the Microsoft partner network create jobs, generate tax revenue for governments, offer skills and workforce development programs, and make significant investments in innovative new technologies.

Building opportunities for economic development through local software economies is an important driver of growth in many countries. Evidence increasingly shows that countries with the best economic growth rates have invested in developing local IT industries and deploying IT across all sectors of the economy to foster social and economic development.

A 2005 global study by IDC, a market research firm, shows that IT continues to be a major driver of local and regional economic activity,

including job creation, company formation, local IT spending, and tax revenues. For example, the IT industries in Australia, India, Indonesia, Korea, Malaysia, New Zealand, the Philippines, Singapore, Thailand, and Vietnam will generate an aggregate of more than 1 million new jobs between 2004 and 2009, and account for the creation of more than 19,000 new IT companies. Over the same period, the IT industry will drive $11.3 billion in new tax revenues and contribute almost $350 billion to regional gross domestic product.

Software is a significant contributor to this growth. Currently, 38 percent of all IT employees in these 10 countries are engaged in creating, distributing, or servicing software. As further evidence that Microsoft helps to drive the success of the larger IT ecosystem, IDC estimates that for every dollar of Microsoft revenue in these countries, an average of $12.29 is generated by other companies selling hardware or software that runs on Microsoft operating systems or in servicing that software.

In countries and communities around the world, Microsoft is forging innovative partnerships with governments, NGOs, and local businesses to create new economic opportunities.

France — Initiative for the Economic Development of ISVs and Startups

In October 2005, Microsoft launched the Initiative for the Economic Development of ISVs and Startups (the French acronym is IDEES) to enable promising young companies in France to emerge and grow more quickly. Microsoft spent four months identifying and recruiting 25 companies to participate in IDEES, looking for businesses that offered innovative products with talented R&D and management teams that could bring value to Microsoft customers and partners.

To assist the IDEES startups and independent software vendors (ISVs), Microsoft provides funding for technical consulting and marketing, introductions to leading venture capitalists, and direct links to product groups and other resources within Microsoft.

A good example of the effectiveness of IDEES is Miyowa, a mobile instant messaging and infotainment platform provider that had 15 employees and no venture capital funding when Microsoft invited it to join IDEES. Microsoft provided Miyowa with €15,000 for technical consulting, introduced the company to MSN executives and IDEES venture capitalists, and presented the young firm to i-mode operators in

Holland and Japan. (Developed in Japan, i-mode is a wireless Internet service that is becoming increasingly popular in other parts of the world.)

Miyowa won a competitive contract to operate MSN Messenger services on Bouyges i-mode mobile devices. In 2006, Miyowa will generate at least €2 million in revenue thanks to the MSN deal, and the company closed a similar deal in Holland with another company. On the strength of those contracts, Miyowa was able to secure €7 million in venture capital and expects to recruit more than 20 new people. The company also plans to expand operations into the United States in 2006.

India—Quality Assurance Initiative

India has become a global leader in information technology services and support, but the nation's commercial software industry—which has the potential to reach $50 billion in revenue by the end of 2008—has not yet achieved the same level of success. The greatest barrier to growth is the lack of efficient software development processes, which are necessary to ensure consistent product quality and customer satisfaction.

To help the Indian software industry reach its potential, Microsoft has partnered with India's National Association of Software and Services Companies (NASSCOM)—the Indian software industry's chamber of commerce—to train and certify ISVs. The program uses the Microsoft Solutions Framework, a set of proven software development principles, processes, and best practices. This disciplined yet adaptable development approach provides companies with the information and tools they need to deliver high-quality software solutions faster, and with fewer people and less risk.

The ISV Quality Certification program guides software developers and IT managers through the entire life cycle of a software-engineering project. It consists of four stages: training, consultation, assessment, and certification. The Quality Assurance Institute India Ltd. (QAI), the largest software-process consulting organization in the Asia-Pacific region, provides independent certification to validate that proven and accepted methodologies have been used throughout the software design and development process. The goal is to assure customers that they are getting high-quality, reliable, and scalable products. The entire process takes three to six months. Twenty-four ISVs have completed the training, and 10 companies are on track to achieve QAI certification by the end of 2006.

NGO Days in Asia

In 2006, Microsoft conducted NGO Days in Australia, Hong Kong, Indonesia, Japan, Malaysia, the Philippines, Singapore, Sri Lanka, and Thailand to help nongovernmental organizations increase their technology capacity. An innovative hands-on approach, NGO Days offer Microsoft staff the chance to gain a deeper understanding of the NGOs in their country and provide NGOs an opportunity to learn more about Microsoft and its community investments, technology, and people.

Microsoft makes frequent software donations that benefit NGOs; the company also provides technology training and other resources through its Unlimited Potential program. In Asia, Microsoft employees volunteer their time and expertise to help organizations build capacity and improve performance.

NGO Days are tailored to the specific needs of the NGOs in each country where events are held. The needs are assessed in advance through surveys or input from cosponsoring organizations that work directly with the NGOs. Some NGO Days focus on NGOs that work in a particular sector, such as agriculture in Indonesia.

Feedback from NGOs attending these events has been so positive that Microsoft intends to expand the program. We are also pursuing follow-up activities: some offices are working more closely with select NGOs, and others are developing technology applications specifically for the NGOs in their country.

Argentina — Meeting the Growing Demand for IT Workers

In Argentina, a vibrant economy is creating huge demand for trained IT workers. Recent research from IDC indicates that IT spending is projected to increase at an annual rate of more than 20 percent through 2008 — nearly triple the pace for Latin America as a whole. The increase is driven not only by local companies that need skilled IT professionals, but also by businesses outside the country that are considering investing in new opportunities in Argentina.

To address the growing need for skilled IT workers in Argentina, Microsoft joined forces with the Chamber of Enterprise Software and IT Services (CESSI), 12 universities, and nearly two dozen software companies and technology incubation centers to create +MAS, a training and certification program that provides college students and recent graduates with the skills needed by local software companies.

+MAS is also designed to help newly trained graduates connect with prospective employers. In Argentina, Bolivia, Chile, Paraguay, and Uruguay more than 2,200 students have received scholarships for training and certification in Microsoft .NET technologies, and more than 250 were hired into new jobs by local software companies. Building on this success, Microsoft

and Argentina's Ministry of Labor agreed to cosponsor 1,000 additional scholarships in 2006 and, in partnership with CESSI and local IT companies, to create and fill 600 more new jobs.

Germany — Microsoft Founder Initiative

Creating jobs and developing a thriving high-tech industry are top economic priorities for the German government, yet the number of new high-tech companies in Germany has been decreasing steadily since 1995, according to a German economic research institute.

One goal of the Microsoft Founder Initiative is to support the business development of high-tech founders and startup companies, enabling them to achieve above-average growth and create good jobs in Germany. Another goal is to showcase these companies as examples of how technology innovations can become the basis for successful businesses and to encourage the founding of more high-tech companies.

The Microsoft Founder Initiative operates as a public-private partnership. Basic support for the startup companies is provided on a regional basis. Microsoft works closely with regional governments, and many of the startup companies receive some funding from public subsidy banks along with matching funds from venture capitalists or other private investors.

By June 2006, the Microsoft Founder Initiative was supporting 18 initiatives at both the federal and regional levels and had mentorships for 12 startup companies. The goal is to have 20 mentorships in fiscal year 2007.

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"In Bavaria we have been successful in the past years with our focus on innovation — and we also owe this to the support of companies such as Microsoft."

— EDMUND STOIBER, BAVARIAN STATE PRIME MINISTER

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Brazil — Microsoft Innovation Centers

To help fuel innovation and the development of strong, self-sustaining local software industries in communities worldwide, Microsoft is partnering with local governments, academic institutions, industry organizations, and software and hardware vendors to expand its network of Microsoft Innovation Centers (MICs). Today, these centers serve 100 communities worldwide. By the end of 2006, there will be MICs in 125 communities in 50 nations.

Microsoft and its partners in each community work together to operate the MICs, which are open to students, professional software developers, IT professionals, entrepreneurs, and academic researchers. Each MIC
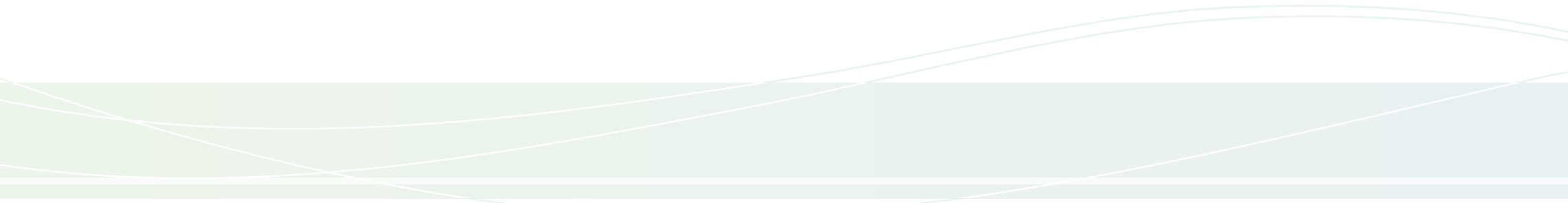
tailors its programs to local needs, but they all provide similar content and services designed to accelerate technology advances and stimulate local software economies through skills and professional training, industry partnerships, and innovation.

In Brazil, more than 14,000 students, university professors, and local software entrepreneurs have used the country's 20 Microsoft Innovation Centers to collaborate on new technologies, test software prototypes, participate in seminars on emerging technologies, receive advanced training, and prepare for jobs in Brazil's fast-growing high-tech sector. Since the Brazilian centers opened in 2002, more than 200 software projects and solutions have been developed around the XML open standard and other innovative technologies, in collaboration with 72 universities and numerous local governments and businesses.

Saksham—Rural Computing in India
Information and communications technology has spurred rapid socioeconomic development in developed countries and in urban areas in developing countries, but many rural areas[6] in developing countries have been left behind.

In India, more than 70 percent of the population lives in rural areas with either limited access to technology, or no access at all, which, in turn, limits access to government services and participation in the knowledge economy. Project Saksham is an initiative launched by Microsoft in partnership with governments in India to help energize the nation's rural economy by creating a sustainable IT infrastructure and an environment for economic growth.

For Project Saksham, Microsoft is partnering with government agencies and NGOs and taking advantage of resources, funding, and grants from rural development programs to provide microfinancing and to encourage kiosk-based microenterprises throughout rural India. Over the next three years, Project Saksham will establish 50,000 such businesses in India, which will be operated by village entrepreneurs.

6 *2001 Census of India, Office of the Registrar General, http://censusindia.net (accessed August 2006).*

Microsoft Research

Microsoft Research: Empowering Academic Researchers to Change the World
Besides working to solve complex computer science problems and developing innovative technologies, Microsoft Research (MSR) also finds ways to inspire and engage the academic community.

As part of the company's efforts to increase digital inclusion by expanding global access to technology and skills training, MSR created a $1.2 million funding opportunity for academic researchers. In October 2005, MSR issued a request for proposal (RFP) to encourage academic research that explores how technologies can help people around the world reach their potential by making computing more accessible, affordable, and relevant to their cultures, communities, and everyday lives.

Four months later, Microsoft named the 17 digital inclusion RFP winners from teaching universities in Argentina, Botswana, Canada, Chile, China, India, the Netherlands, Pakistan, the United States, and Uruguay.

Some of the research projects proposed by the RFP winners included delivering integrated Internet-based healthcare information and services for HIV/AIDS patients in Botswana; exploring whether WiFi-enabled phones and online chat services can boost cognitive development in Chilean children; and building a prototype of an early warning system for flood control in Honduras. Many of the winning research universities are partnering with NGOs to develop proof-of-concept applications.

Korea — Software Ecosystem Project

In May 2006, Microsoft expanded its partnership with the Korean government by signing a Memorandum of Understanding with the Korea IT Industry Promotion Agency (KIPA) to implement the Software Ecosystem Project and accelerate the growth of the Korean IT industry.

Under the agreement, Microsoft will invest an additional $30 million in the Korean IT industry, bringing its total investment to $60 million over the next three years. The money will be used in part to build two new labs — the ISV Empowerment Lab and the Web Engineering Lab — that will help local companies strengthen their ability to compete in the global marketplace through ongoing innovation. The two new labs will join the existing Microsoft Mobile Innovation Lab in the expanded Microsoft Innovation Center.

The goal of the ISV Empowerment Lab is to nurture 60 Korean ISVs, helping them create new products and technologies. In addition, Microsoft will help key ISVs gain access to the global market through export opportunities. The Web Engineering Lab is designed to foster collaboration between local companies in Web services and digital

content. The two labs will also support the training of 1,000 skilled software architects.

"Together with the Korean government's initiatives to build a stronger software industry, we expect Microsoft's contribution and commitments will help nurture a more globally competitive software industry for Korea."

— HYUN JIN KO, PRESIDENT OF KIPA

HELPING NGOS BUILD CAPACITY AND IMPROVE PERFORMANCE

Nongovernmental organizations enrich millions of lives worldwide and make vital contributions to the quality of life in communities everywhere, offering essential services that form a safety net in the gap between government programs and the private sector. Yet despite the critical services they provide, many NGOs lack the skilled staff, up-to-date technology, and other resources that would allow them to operate more efficiently and cost-effectively.

Microsoft has a long history of working with NGOs to help them streamline their logistics and internal processes, improve their performance, and extend their services to more people. Through our involvement in innovative programs designed to bring the power of technology to NGOs worldwide, we seek to strengthen, support, and empower the entire NGO community.

Ensuring Technology Access to Underserved Communities

Technology upgrades and organizational changes at many companies routinely add to a worldwide surplus of usable PCs, yet only a small number of these used computers are redeployed to serve the educational and training needs of people who lack access to life-changing technology. Millions of potentially useful PCs are literally going to waste, and millions of opportunities to empower people through technology are being lost.

The Microsoft Authorized Refurbisher (MAR) donation program, operating in scores of countries, facilitates community ICT access and learning by enabling more than 530 authorized PC refurbishers worldwide to install donated Windows operating systems and Microsoft Works 7.0 on PCs destined for NGOs, community centers, and K–14 schools (including community colleges and vocational schools).

Microsoft provides Windows operating systems—approximately 150,000 in fiscal year 2006 alone—to NGOs that refurbish thousands of surplus PCs every year. We provide software, certificates of authenticity, and end-user license agreements to the MAR program, and the authorized MARs distribute those donations to qualified recipients. By reducing the refurbishers' costs, the MAR program makes refurbished technology more affordable and increases the availability of low-cost usable PCs to communities most in need.

More information ····❯

on MAR programs around the world is available at www.microsoft.com/mar.

Helping NGOs Help Themselves

In 2000, Microsoft helped to establish NPower, a network of independent, local nonprofit organizations that help NGOs use technology to operate more efficiently and serve their communities more effectively. We started with a five-year commitment of $25 million in cash and software; in 2003, we extended our support through 2007. Microsoft employees also support NPower as onsite volunteers and trainers, and serve as board members for NPower organizations throughout the United States.

"NPower provides a tremendous resource that enables NGOs to get the expert technology assistance they need when they need it," said Kevin Johnson, Co-President, Platforms & Services Division at Microsoft, who serves on the national NPower board. "NGOs play a vital role in society, providing critical services that strengthen communities. Directly or indirectly, we all rely on the work of these essential organizations for the quality of life we enjoy."

Microsoft is also a founding partner of TechSoup, which is operated by CompuMentor, one of the oldest and largest NGO technology assistance agencies in the United States. TechSoup.org is a Web site that offers NGOs a one-stop shop for their technology needs by providing free information, resources, and support. TechSoup gives NGOs access to donated and discounted technology products that are provided by TechSoup's ICT industry partners. Currently, we are working with CompuMentor to replicate this model worldwide.

Microsoft software donation programs represent the primary method for engaging the broader NGO community, offering valued tools to small nonprofits in an open and accessible manner. In fiscal year 2006, Microsoft donated more than $307 million in software worldwide. Through our partnership with TechSoup, we are expanding our North American program to key markets worldwide.

TechSoup not only provides the administration required for our donations, but also supports the NGOs with online content and services to help them effectively implement our donations. In addition, TechSoup helps them receive donations of technology tools from other corporate donors (such as Cisco, Adobe, and Symantec) to complement our donations and provide a holistic technology solution.

Technology Solutions to Improve Disaster Response and Humanitarian Relief

Microsoft works closely with a number of major NGOs on relief efforts in many parts of the world, either in direct response to natural disasters or as part of ongoing efforts to address the needs of refugees.

Microsoft and its employees made significant contributions to relief efforts in response to recent natural disasters, such as the Indian Ocean tsunami, Hurricane Katrina, and the earthquake in Pakistan. In 2006, to help improve humanitarian relief efforts worldwide, Microsoft donated $41 million in software and cash to NetHope and the Interagency Working Group on Emergency Capacity Building (ECB).

NetHope is a membership organization that includes the chief information officers and/or chief technology officers of 17 global NGOs engaged in international development. ECB comprises seven of the world's most active relief agencies, including Catholic Relief Services, Mercy Corps, and Save the Children. The focus of both NetHope and ECB is to improve collaboration and capacity in disaster response, including improving the use of information and communications technology to assist in their work.

The grant is part of our ongoing effort to provide NGOs with tools that enable them to increase their capacity and fulfill their missions more effectively. By partnering with leading nonprofit organizations like NetHope and ECB, Microsoft is helping to create innovative technology solutions that strengthen NGOs and relief agencies worldwide.

Earlier, when civil war sent thousands of refugees fleeing Kosovo in 1999, many were stripped of their identity papers and became separated from family members. Hundreds of Microsoft employees reached out to help by applying their knowledge of technology and volunteering their time. The Refugee Field Kit, developed by Microsoft employees, provided displaced people with official identity cards and an easier method for finding missing relatives. Our employees have continued to refine the kit and to work with the United Nations High Commissioner for Refugees to address similar refugee needs in many different countries.

As technology evolves, and innovative software products are developed that make businesses and consumers more mobile and productive, some of these solutions can help NGOs and volunteers meet the challenges of providing disaster relief. Groove, a Microsoft product that enables flexible peer-to-peer collaboration, is a good example.

A team of Microsoft employees was working with a group of NGOs to help doctors deliver medical care to remote areas of Afghanistan that had no power, no water systems, and no mobile-phone connections. The local clinic was a two-day drive from the nearest hospital.

"Before introducing technology into the equation, it took between two and six weeks to coordinate getting the results of tests based on tissue samples that were taken locally and flown to Pakistan. Doctors had to communicate back and forth over long distances however they could, a process that often took weeks," said Ray Ozzie, Microsoft's Chief Software Architect. "The goal was to use Groove and other technologies in a pilot program to help the NGOs reduce the coordination time among doctors from weeks down to two days."

imagine cup: inspiring students to dream

Microsoft Imagine Cup, an annual technology competition for university students, encourages young people to develop software solutions that address real-world problems. The event rewards the students' innovative work with cash prizes and international recognition.

When Imagine Cup began in 2003, 1,000 students from 25 countries competed for $50,000 in prizes in one invitational division: Software Design. Imagine Cup 2006 drew 65,000 students from more than 100 countries, competing for more than $125,000 in prize money in six invitationals. The competition challenged students to "imagine a world where technology enables us to live healthier lives."

One of the many innovative entries in the 2006 competition was from a team of Brazilian university students, who combined GPS technology with vibrating wrist bands to create a mobile map to help blind people navigate.

The winners were announced in a gala awards ceremony in Delhi, India. First place winners in each invitational were:

Software Design — Italy.
Team Even .ctor: Giorgio Sardo, Massimo Paternoster, Silvia Perrone, and Andrea Sossich

Algorithm — Poland. Piotr Marek Mikulski

Short Film — Canada.
Team Forest: Sam Chow, Nick Haffie-Emslie, Ryan Marr, and Meg Majewski

IT — Austria. Andreas Tomek

Interface Design — Brazil.
Team Virtual Dreams: Roberto Sonnino and Eduardo Sonnino

Project Hoshimi (Programming Battle) — France. Team Atomnium: Manon Gaucher and Flavien Charlon

innovation days in asia and europe

Microsoft is committed to helping nations and communities worldwide build vibrant local software economies. As part of that commitment, we establish and operate regional research centers to support and inspire technology innovation among local companies, and we regularly host Innovation Day events in different parts of the world. Two events in fiscal year 2006 — the Microsoft European Research and Innovation Day and the India Is Innovation summit — illustrate the strength of our commitment and the value of our ongoing involvement with local economies and industries around the world.

The India Is Innovation event took place in Bangalore, India, in April 2006, just four months after Microsoft Chairman Bill Gates opened the city's new Microsoft Innovation Center. The center provides startup companies with resources, guidance, and end-to-end tools to help them become commercially successful

and transform innovative ideas into intellectual property. The India Is Innovation event built on that theme by focusing on Indian startup companies and how they can design and build world-class software products and solutions.

More than 150 Indian companies participated in the event, which brought together software entrepreneurs, venture capitalists, academic incubators, researchers, and industry analysts. Microsoft also provided a startup showcase, where fledgling software companies could present their ideas and proposals to a panel of venture capitalists in the hope of securing funding.

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"We hope that initiatives such as these not only create greater respect for intellectual property rights creation among Indian companies, but also serve as an impetus to helping them create intellectual property out of great ideas, and realize their true potential."

—**RAVI VENKATESAN, CHAIRMAN, MICROSOFT INDIA**

The annual Microsoft European Research and Innovation Day, held this year in Brussels, achieved two key goals. First, it served as a showcase for some of the world's most exciting next-generation technologies in areas such as mobility, security, and interoperability. Second, it gave European software companies and entrepreneurs an opportunity to interact with leading researchers, academics, and policymakers; to get a glimpse of emerging technologies; and to see how innovation leads to economic growth and job creation.

In his keynote address at the event, Jean-Philippe Courtois, President of Microsoft International, said that Microsoft has been conducting R&D in Europe for nearly a decade because Europe consistently produces "some of the brightest thinkers, most dedicated universities, and most innovative partners in the world.

"In this global age, Europe will need to be not only a good place to do business, it must be a great place to innovate, too," Courtois said. "The products and ideas coming out of our European research laboratories illustrate that Europe still has great potential and is not only thriving, but is at the forefront of thinking in the IT sector."

"This agreement [Microsoft's collaboration with the UNWTO to support tourism in developing countries and on the continent of Africa] is a huge leap forward for tourism-driven job creation, export income, and capacity-building for the world's poorest countries — especially in Africa, where it will be integrated into our programmes to alleviate poverty through sustainable tourism. It links Microsoft's technology and solutions with UNWTO's central role of advancing the sector as an instrument of development."

—**Francesco Frangialli, Secretary General of United Nations World Tourism Organization (UNWTO)**

disaster relief: rapid response and long-term recovery

for real-world problems, and we also apply that knowledge and experience to disaster relief.

In disaster relief, as in business, we work in partnership with others. When Hurricane Katrina hit the Gulf Coast of the United States, Microsoft worked with the American Red Cross to create a "people finder" solution called Katrinasafe.org, now Safe and Well (**disastersafe.redcross.org**). This Web-based solution reunites families and communities and has registered more than 300,000 Katrina evacuees. It is also being used to help provide relief to victims of the Pakistan-India earthquake.

"Creating a Web site and database like Katrinasafe .org would normally take months, and our teams put it together in less than four days," said Gerri Elliott, Corporate Vice President, Worldwide Public Sector at Microsoft. "In the first 24 hours, more than a thousand people checked the site for information on their loved ones."

Like many corporations around the world, Microsoft and its employees are generous with donations when disaster strikes. Our employees drive and direct the company's relief efforts and often serve as volunteers on the front lines of disaster relief.

What really distinguishes our approach to disaster relief, however, is the use of business and technology expertise to address some of the critical challenges faced by individuals and communities following a natural disaster. Our business is developing technology solutions

responsible business practices
MAINTAINING THE HIGHEST STANDARDS

responsible business practices

As a global corporation, Microsoft has its decisions tracked and evaluated by industry analysts. Governments in 100 different countries monitor our activities. And millions of other businesses — from partners to competitors — keep a close eye on everything we do.

Yet our commitment to integrity, transparency, and social accountability in our business practices goes far beyond meeting the expectations of professional observers. People care about our business. Microsoft products are in homes and offices all over the world, where millions of people rely on them for work, entertainment, and personal fulfillment. Our shareholders and employees are invested in our vision and continuing success, and a growing number of people worldwide are being empowered by innovative Microsoft programs that bring them the benefits of technology.

The foundation for all of the work we do is our unwavering commitment to responsible and ethical business practices — and we strive daily to maintain the highest possible standards in every aspect of our business.

ENABLING IP OPPORTUNITY AND INNOVATION

At Microsoft, intellectual property (IP) is at the heart of what we do. Our belief in the value of IP and the opportunities it creates is a clear strategic priority for Microsoft, as indicated by the company's R&D investment of more than $6.6 billion in fiscal year 2006. IP is a great incentive system that fosters innovation and provides a framework that promotes business growth and allows innovators to effectively bring their ideas to market.

Enabling IP opportunity confers tremendous benefits on society: consumers benefit from innovation in the form of new products; new business and employment opportunities are created; local economic growth is enabled; productivity gains are achieved; and governments gain opportunities for increased tax revenue. For example, improved IP incentive systems over the past two decades have contributed directly to the dramatic growth of the IT sector, which consists of

over 1.1 million businesses, supporting 11 million high-skill, high-wage IT jobs, and adding $1.7 trillion per year to global economic prosperity.[7] And these figures do not even take into account the tremendous efficiency and productivity gains that other businesses and organizations realize by using IT and through the indirect contributions of IT firms. Studies have shown that for every dollar of revenue generated by these firms, additional revenue is generated upstream and downstream in supporting supplier and service industries.

Enabling IP opportunity is based on acting responsibly and ethically, respecting the IP rights of others, and fostering a climate in which IP rights are respected by all. One of the most fundamental IP rights is the right for those who create something to decide how it is used.

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[7] *IDC, Expanding the Frontiers of Our Digital Future: Reducing Software Piracy to Accelerate Global IT Benefits, December 2005 (commissioned by the Business Software Alliance).*

In 2006, Microsoft worked with Creative Commons, a nonprofit organization that offers a flexible range of copyright licenses for creative works, to develop and release a free copyright licensing tool. The new downloadable tool makes it easy for people who use Microsoft Office applications to embed Creative Commons licensing information in their work, and thus specify how it can be shared or reused. By working with the community and Creative Commons, Microsoft enabled a simple method for creators and users of IP to share and build upon ideas, while recognizing and respecting the legitimacy of IP.

Microsoft takes a similar approach to patent licensing by respecting the rights of other IP holders and licensing its products' innovative technologies as needed. Microsoft also makes a wide range of its technology available to customers and the industry, including competitors, through numerous IP licensing programs.

JBoss and Microsoft: Responding to Customer Demands

In September 2005, Microsoft and open source company JBoss announced plans to explore enhanced interoperability between Microsoft Windows Server and JBoss Enterprise Middleware System (JEMS), and to deepen JBoss support for the Windows Server operating system. The goal of the collaboration is to provide improved functionality, better integration, and lower cost of ownership to customers.

"JBoss is experiencing tremendous growth and is a driving force of consolidation of the Java space," said Bill Hilf, Director of Platform Technology Strategy at Microsoft. "So it makes sense to work with them on interoperability and optimizing for the Windows Server platform."

Under the agreement, the two companies are working together to improve the integration of directory services, database software, Web services, and systems management tools, which will enable customers using both Java and .NET-based programs to link and manage their systems more easily. While JBoss and Microsoft will continue to compete for software developers with their separate Java and .NET offerings, they are responding to customer and market demands by exploring opportunities to integrate their open source and proprietary software platforms to improve interoperability and ensure an optimized experience for their customers.

INTEROPERABILITY — CUSTOMER-FOCUSED AND BY DESIGN

In today's heterogeneous IT marketplace, interoperability — the ability of diverse IT applications or systems to exchange and use information — is considered by customers to be an increasingly important software feature, ranking almost as high as security and reliability. Innovative interoperable solutions are valued by customers as they seek to reduce costs and complexity, and increasingly pick and choose the best products from multiple vendors to meet their IT needs. Whether it is sharing data between applications written in different programming languages, or trying to log on across multiple systems, Microsoft is committed to delivering innovative interoperable solutions that enable technologies to work together without compromising their distinctive underlying capabilities.

Microsoft takes a very customer-focused approach to providing translation tools and interoperability, and is committed to meeting customer and market needs. Because the best way to meet customer interoperability needs will depend on many factors and circumstances, Microsoft does this in a range of ways, including:

- Designing our software to be interoperable "out of the box," without the need for expensive consulting services

- Working with the community, including partners and competitors

- Providing access to technology

- Implementing and participating in industry standards

Better Understanding Customer Needs

In June 2006, we formed the Interoperability Customer Executive Council as part of our commitment to listening to customers better and meeting their needs. The Council will identify areas for interoperability improvements in our own products and throughout the software industry. It will focus on interoperability issues that are of primary importance to customers, including document archiving and management, heterogeneous management, directory management and synchronization, virtualization, and data integration and exchange. Council members, who are Microsoft customers, will have direct contact with Microsoft executives and product teams.

The Council will include Chief Information Officers, Chief Technology Officers, and System Architects from leading corporations and governments worldwide. Members include the European Commission, Société Générale, American Express, Siemens AG, Toyota Motor Corporation, LexisNexis, Kohl's Department Stores, Denmark's Ministry of Finance, UNICEF, Brazil's São Paulo State Court of Justice (Tribunal de Justiça do Estado de São Paulo–Brazil), Bell Canada, The Boeing Company, and NATO's Communications and Information Systems Services Agency (NCSA).

"As part of our commitment to Trustworthy Computing, we design our products with interoperability in mind so our customers can connect to other platforms, applications, and data easily," said Bob Muglia, Senior Vice President of the Server and Tools Business at Microsoft, who will host the council meetings. "The Interoperability Customer Executive Council will help us prioritize areas where we can achieve greater interoperability through product design, collaborative agreements with other companies, standards, and effective licensing of our intellectual property."

Partnering with Communities for Greater Interoperability

To serve customers well, competitors must also work together. Microsoft is a leader in forging strategic partnerships with the community, including competing companies and technologies, to provide customers with increased interoperability.

In February 2006, for example, Microsoft and the open source software company SugarCRM announced that they would work together to enhance interoperability between Microsoft Windows Server® and SugarCRM products. SugarCRM provides customer relations management applications for companies of all sizes worldwide.

Microsoft and SugarCRM are working on a broad technical collaboration project intended to help their mutual customers obtain the maximum benefits from both companies' products, including the increased reliability and simplified administration available on the Windows® platform. (For another example of a recent Microsoft interoperability partnership, see the JBoss story on page 43.)

Enabling Interoperability by Providing Access to Technology

In addition to delivering interoperability by design through customer-focused products, community collaboration, and standards implementation, Microsoft fosters interoperability by making available a wide range of its technology to customers and the industry, including competitors, through:

Commercial Licenses

Community Licensing. Enables no-cost access to technologies that allow others to add-on to our products or build their own unique solutions.

The Open Specification Promise. Developed with feedback from customers and the open source community, it is a simplified method for sharing technical assets while recognizing the legitimacy of IP. It further highlights Microsoft's commitment to customers and meeting their interoperability needs.

For more information ····❯

Office Microsoft®
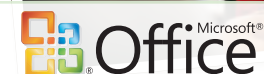
Open XML Translator: Customer-focused Interoperability
Microsoft takes a customer-focused approach to product features such as interoperability, responding to customer needs for products and solutions that work well with those of other companies or the open source community.

A good example is the new Open XML Translator project to create a technical bridge between the Open XML and OpenDocument (ODF) formats. Microsoft undertook this project in response to requests from government agencies that work with constituents who use the ODF format.

We are sponsoring the French IT solution provider Clever Age and several independent software vendors, including Aztecsoft in India and Dialogika in Germany, to develop the translators. The tools will be developed as open source software projects and housed for development work on Sourceforge, the open source software community Web site.

We are making the translator tools available as free, downloadable add-ins for Microsoft Office 2007 and several older versions of the Microsoft Office System, which will enable our customers to read and write ODF files easily. Many Microsoft Office products already include built-in support for dozens of formats, which allows widespread interoperability.

The new tools also will be licensed as open source software and made broadly available to the industry for use with other individual or commercial projects. These tools will accelerate the creation of innovations based on Open XML and expand customer choice.

ENVIRONMENTAL SUSTAINABILITY

Environmental stewardship is an important part of our business. Over the past 30 years, we have translated our personal beliefs and corporate philosophy into meaningful environmental action. This year, we have furthered our commitment to the environment, focusing our efforts on sustainability and continuing innovation.

As of December 31, 2005, we eliminated PVC (polyvinyl chloride) from all our packaging. We also have reduced our overall use of plastic clamshells by 70 percent, and continue to explore the use of sustainable packaging and biodegradable materials. We reduced fuel consumption and greenhouse gas emissions through a variety of strategies, including employee commuter programs and replacing nearly half our fleet of passenger vans with fuel-efficient hybrid cars.

We also continued to create productivity and communication software that contributes to lowered greenhouse gas emissions by reducing the need for business travel, as well as operating systems with features that can decrease PC energy use by more than 50 percent. In Windows Vista™, for example, users can choose any of three preconfigured power plans that balance performance and power consumption in different ways — in effect, creating a custom power plan tailored precisely to meet their needs.

In February 2006, we adopted the Microsoft Environmental Principles, which formalized our ongoing commitment to protect our environment and natural resources as well as the health and safety of our employees, our customers, and local communities. Every Microsoft employee shares the responsibility of helping the company fulfill these principles.

To learn more ····❯
about the Microsoft Environmental Principles, see www.microsoft.com/citizenship/ businesspractices/environmentalprinciples.mspx.

"Green" and Energy-Efficient Buildings

For many years, Microsoft has been committed to constructing energy-efficient and eco-friendly buildings at its corporate facilities. But recently we took big steps forward at our campuses in Silicon Valley, California, and Hyderabad, India, and our newest data center under construction in Quincy, Washington.

At an Earth Day celebration in April 2006, employees at the Microsoft Silicon Valley Campus (SVC) unveiled a new solar panel power system — the largest in Silicon Valley. The system has 2,288 solar tiles covering 31,000 square feet on building roofs across the campus. It generates 480 kilowatts per hour at peak capacity — enough to power nearly 500 homes — and will provide 15 percent of the energy used at SVC.

That same month, Microsoft opened the doors to Building 2 on our new campus in Hyderabad, India. Building 2 is a state-of-the-art structure that incorporates sound environmental design and furniture made by local Indian companies.

The east and west ends of the building, where the sun is strongest, are made of solid masonry to cut down on heat penetration. The building is designed to be protected from direct sunlight more than 70 percent of the time. Double-glazed windows allow natural light to enter, but sunshades cut glare and save money on air conditioning. Lights automatically turn off if offices are unoccupied for more than 10 minutes. Microsoft also built a reservoir that will capture and recycle some 36,000 cubic meters of rainwater to serve the irrigation needs of the 48-acre campus and run energy-efficient, water-cooled air conditioning units.

In May 2006, we broke ground on our newest and largest data center to date. The facility, located in Quincy, Washington, will be powered by hydroelectricity from the Columbia River Basin, a renewable and clean air resource. The building design prioritizes energy efficiency, water conservation, and the use of green building technologies under the Leadership in Energy and Environmental Design (LEED) rating system.

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"The solution to global warming involves everybody doing their part, whether riding a bike to work, putting solar power on their houses, or buying energy-efficient appliances. Microsoft is really a leader by choosing clean power that will reduce emissions."

—KURT NEWICK, SIERRA CLUB MEMBER

AND SOLAR ADVOCATE

Avian Influenza Readiness

At Microsoft, the health and safety of our employees are top priorities. In answer to worldwide concerns over avian influenza, also known as bird flu, Lisa Brummel, Senior Vice President, Human Resources, established a cross-company global team dedicated to raising employee awareness and developing preparedness and response plans.

To keep our employees informed, we have compiled extensive resources on the Microsoft intranet. There, our employees can learn about avian influenza and how to stay healthy, keep current on relevant news, and get travel advisories.

Preparedness and response plans—created with guidance from the World Health Organization (WHO), other health agencies, and local governments—are being developed for all WHO-identified pandemic alerts and for specific regions.

Our pioneering approach to avian influenza preparedness has led to a number of engagements with other companies and government agencies. We have participated in simulations, provided expertise to businesses creating their own plans, and worked with local health departments to develop community plans.

human rights and the internet

At Microsoft, we recognize that Internet companies have a valuable role to play in the realization of human rights, including free expression. It is important to our business that the Internet be fostered and protected as a worldwide vehicle for reliable information and communications, personal expression, innovation, and economic development. Accordingly, we are deeply concerned about issues of individual security, privacy, and government control of Internet content.

We believe the availability of Internet services provided by Microsoft and other U.S. companies has increased the ability of people worldwide to engage in free expression. Just in the past few years, there have been repeated examples of the ways in which official responses to domestic events have been affected by the availability of information and opinions communicated over the Internet.

At the same time, we continually review the overall value of our services in the countries where we provide them, and the conditions created by local government policies and practices. And we are actively engaged with concerned parties in developing principles to help guide companies in managing these difficult issues.

Our perspective is that we will be served best as a company, as an industry, and as a worldwide community if we can be guided by clear principles and policies that address human rights and free expression not only in the case of blogging, search, e-mail, and other services that exist today, but also in the variety of technologies that almost certainly will be offered in the years ahead.

As an example, in late 2005, the Chinese government requested that we remove a well-known blogging site on MSN Spaces written under the pseudonym of "Michael Anti." The details of that case have been carefully reviewed, and although we do not think we could have changed the Chinese government's determination to block this particular site, we have since clarified the manner in which we will deal with similar requests in the future by adopting a policy that applies worldwide and is intended to promote three principles:

Explicit Standards for Protecting Content Access. Microsoft will remove access to blog content only when it receives a legally binding notice from the government indicating that the material violates local laws, or if the content violates the service's terms of use.

Maintaining Global Access. Microsoft will remove access to content only in the country issuing the order. When blog content is blocked due to restrictions based on local laws, the rest of the world will continue to have access. This is a new capability Microsoft is implementing in the Windows Live Spaces infrastructure.

Transparent User Notification. When local laws require the company to block access to certain content, Microsoft will ensure that users know why that content was blocked, by notifying them that access has been limited due to a government restriction.

For additional information ····⟩
about our views on this issue, please see our written testimony to the House International Relations Committee's Joint Hearing, posted at www.microsoft.com/presspass/exec/krumholtz/02-15WrittenTestimony.mspx.

Microsoft Government Leadership Forums
Microsoft Government Leadership Forums (GLFs) are regional events for government, industry, and academia to explore the use of information and communication technologies (ICT). GLFs provide a medium for government delegates to formulate successful strategies related to connected government, digital learning, employability skills, and the transition to the knowledge economy.

In fiscal year 2006, GLFs were held on three continents. Bill Gates gave keynotes at each event, focusing on technology trends that affect governments and their citizens.

In New Delhi, at GLF Asia, Microsoft announced a worldwide network of 90 Microsoft Innovation Centers designed to fuel long-term economic growth in regions where the centers are located.

The Honourable José Manuel Barroso, President, European Commission, was among the speakers at GLF Europe, in Lisbon. Jean-Philippe Courtois, President, Microsoft International, announced the formation of the European Alliance on Skills for Employability as part of Microsoft's 21st Century Skills for Employability initiative.

Microsoft formalized its commitment to the Partnerships for Technology Access initiative (see the PTA story on page 29) during GLF Americas, held in McLean, Virginia.

Fiscal Year 2007 began with GLF Africa, held in Capetown. Bill Gates and former U.S. President Bill Clinton highlighted the critical role that ICT and public-private partnerships play in creating a strong, vibrant future for Africa.

changing the world: microsoft volunteer policy

At Microsoft, we value partnership. Our success as a business is built on partnerships and collaboration. By far, our most important and dynamic partnership is with our employees.

Microsoft employees are smart, passionate people who want to change the world. Over the past 30 years, Microsoft and its employees have donated more than $2 billion in communities around the world. And that doesn't even count the value of the time our employees have volunteered.

We encourage our employees to get involved in their communities, and we make it easy for them to volunteer their time. In many locations — including Canada and most of our subsidiaries in Europe, the Middle East, and Asia — we allow full-time employees to take three to five days of paid volunteer leave each fiscal year.

In the United States, each employee's charitable matching benefit — which matches employee donations up to $12,000 every

year—includes a match for gifts of time as well as money. When employees volunteer their time in the community, Microsoft donates $17 per hour to the eligible organizations they serve. It's a double benefit for the nonprofit groups that our U.S. employees support.

In 2005, Microsoft launched Volunteer Connection, an online program that enables Microsoft employees in the United States to register their volunteer preferences, track their volunteer activities, and find volunteer opportunities that best match their interests, skills, and availability. More than 76,000 volunteer hours have been reported by U.S. employees so far. Eventually, this system will be rolled out to Microsoft employees worldwide.

Most of our employee volunteers donate their time to projects in or near their home communities—talking with children about careers in high-tech, advising new NGOs on business strategy, building homes for low-income families—but a growing number are following their interests abroad and volunteering in other countries.

In March 2006, Sandra Palmaro, a Microsoft Canada employee, took her entire family to Tanzania to volunteer at an orphanage. Palmaro also volunteers closer to home, working with the Boys and Girls Clubs of Canada, where she has chaired the board for three years.

Sybille Fleischmann is passionate about the outdoors and kayaking. This passion led her to Outdoor Recreation Opportunities, an organization providing education and training to encourage outdoor recreation for people who may have difficulty accessing these opportunities. She is an Adaptive Paddling Instructor and leads kayak tours for paddlers with disabilities.

Employee commitment to the community is evident at all levels of the company. Jeff Raikes, President, Business Division, and his wife, Patricia, are the co-chairs of the United Way of King County 2006 Community Campaign. The couple will be leading the fundraising drive for the next fiscal year, with the goal of raising $108 million in order to drive the organization's key priorities: eliminating homelessness and preparing all children for school.

Our employees also combine their efforts to make a difference as a team. A small project team in the Microsoft corporate leadership program spent four months as advisors to the Grameen Technology Center. The center is an initiative of Grameen Foundation, a world-renowned microfinance NGO. This team worked on business strategy and a scalable technology solution to manage microlending around the world.

windows principles—a principled approach to product development

Recognizing the important role that the Windows operating system plays in the global knowledge economy, Microsoft has created a set of voluntary, self-regulating principles that will help guide the future development of the Windows desktop platform worldwide, beginning with Windows Vista.

In announcing the Windows Principles, Microsoft General Counsel Brad Smith said, "Our goal is to be principled, transparent, and accountable as we develop new versions of Windows. These voluntary principles are intended to provide the industry and consumers with the benefits of ongoing innovation, while creating and preserving robust opportunities for competition."

Smith said that the Windows Principles will make Microsoft's approach to Windows development clear to customers, partners, and governments around the world. The Windows Principles exceed the provisions of the U.S. Antitrust Ruling and will continue to apply after major parts of the ruling expire in November 2007.

The Windows Principles, which consist of 12 tenets, are divided into three categories:

Choice for Computer Manufacturers and Customers. Microsoft is committed to designing Windows, and licensing it on contractual terms, to make it easy to install non-Microsoft programs and to configure Windows-based PCs to use non-Microsoft programs instead of, or in addition to, Windows features.

Opportunity for Developers. Microsoft is committed to designing and licensing Windows (and all the parts of the Windows platform) on terms that create and preserve opportunities for applications developers and Web site creators. This encourages the development of more innovative products on the Windows platform — including products that directly compete with Microsoft's own products.

Interoperability for Users. Microsoft is committed to meeting customer interoperability needs and will do so in ways that enable customers to control their data and exchange information with improved security and reliability across diverse computer systems and applications.

Smith said it is critical for Microsoft and regulators to engage in discussion with a goal of resolving issues during product development and before the release of new products. "We are committed to providing information about new technologies to regulators, so we can pursue an open and constructive dialogue before the launch of these new products. Given the global nature of the knowledge economy, we recognize the importance of providing this information on a global basis."

Smith also stressed that the Windows Principles are not intended to supplant the continued application of antitrust law or the important role of government agencies and courts in applying and enforcing this law.

To make certain that the Windows Principles continue to reflect current technological, business, and legal developments, Microsoft intends to review them at least once every three years to determine if any new tenets should be added or existing ones revised. To ensure transparency, any changes will be published on the Microsoft Web site.

A complete list ····>
and detailed explanation of the Windows Principles are available at www.microsoft.com/presspass/newsroom/winxp/windowsprinciples.mspx.

"You, Mr. Bill Gates, are a friend of China, and I'm a friend of Microsoft." **—Chinese President Hu**

"Technology has expanded opportunities of millions of people around the world and—whether expanding access to information, education, or healthcare, or increasing the collective power of individuals—it has an important role to play in creating a thriving, competitive Africa. The efforts I've seen from Bill Gates and companies like Microsoft, in partnership with governments, NGOs, and other private-sector organizations, are helping Africa in its push to achieve the United Nations Millennium Development Goals."

—Bill Clinton, Former U.S. President

"The Commonwealth is very pleased with Microsoft's progress in creating an open document format. If Microsoft follows through as planned, we are optimistic that Office Open XML will meet our new standards for acceptable open formats."

—Tom Trimarco, Massachusetts Administration and Finance Secretary

"In Bavaria we have been successful in the past years with our focus on innovation—and we also owe this to the support of companies such as Microsoft."

—Edmund Stoiber, Bavarian State Prime Minister

our company

When Microsoft was founded in 1975, even the most visionary among us could only begin to imagine what computers could become or predict the extent to which they would transform our world. Yet, today, software is providing exciting opportunities for people everywhere.

For more than 30 years, Microsoft has been a global leader in creating innovative software that enhances nearly every aspect of our personal and professional lives. And now we're working on the next wave of breakthrough technology solutions.

OUR MISSION

At Microsoft, our mission is to enable people and businesses throughout the world to realize their full potential. Everything we do reflects our mission and the values that make it possible.

OUR VALUES

As a company, and as individuals, we value:

- Integrity and honesty

- Passion for customers, for our partners, and for technology

- Openness and respectfulness

- Taking on big challenges and seeing them through

- Constructive self-criticism, self-improvement, and personal excellence

- Accountability to customers, shareholders, partners, and employees for commitments, results, and quality

BUSINESS OPERATIONS

Microsoft does business all around the world. We have offices in more than 90 countries, which we group into six corporate regions:

- North America
- Latin America
- Europe, the Middle East and Africa
- Japan
- Asia Pacific
- Greater China

We also have operational centers in Dublin, Ireland; Humacao, Puerto Rico; Reno, Nevada; and Singapore. The operational centers are responsible for licensing, operations and logistics, and manufacturing, although not every center performs all of these functions.

Microsoft generates revenue by developing, manufacturing, licensing, and supporting a wide range of software products and services, including:

- Operating systems for servers, personal computers (PCs), and intelligent devices

- Server applications for distributed computing environments

- Information worker productivity applications

- Business solutions

- Software development tools

- Consulting and product support services

- Training and certification for system integrators and developers

- Xbox and Xbox 360 video game consoles and games, PC games, and peripherals

- Online communication and information services through our MSN portals and channels around the world

We also research and develop advanced technologies for future software products. Delivering breakthrough innovation and high-value solutions through our integrated platform is the key to meeting our customers' ever-changing needs and ensuring our future growth.

We have laid a solid foundation for long-term success by making global citizenship an integral part of our business, consistently delivering innovative new products, improving our internal processes, creating opportunity for our partners, and increasing customer satisfaction. We are continuing to build on this foundation through the work we do every day.

FINANCIAL REPORT

On July 20, 2006, Microsoft announced revenue of $44.28 billion for the fiscal year that ended June 30, 2006, an 11 percent increase over the previous year. Operating income for the fiscal year was $16.47 billion, or 13 percent over the previous year. In fiscal year 2006, Microsoft returned more than $23 billion to shareholders in the form of dividends and share repurchases and invested $6.58 billion in research and development.

For additional details ····>
see the 2006 Microsoft Annual Report at www.microsoft.com/msft/ar.mspx.

Revenue and Operating Income
as reported in the 2005 annual report

Revenue
Operating Income
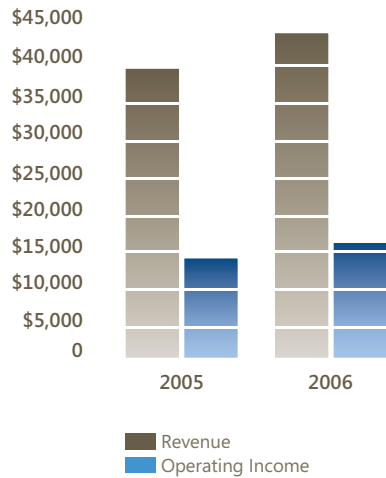
LEGAL DISPUTES

In fiscal year 2006, Microsoft continued working to resolve existing legal disputes in an effort to clear the way for new opportunities and more innovative products for our customers worldwide. At the same time, a few ongoing issues evolved significantly.

Additional information ····>
about Microsoft's active involvement in legal issues, whether specific to Microsoft or more generally applicable to the software industry, is available at www.microsoft.com/about/legal/.

A more detailed explanation ····>
of Microsoft's legal issues in fiscal year 2006 is available in the Notes section of the 2006 Microsoft Annual Report at www.microsoft.com/msft/ar.mspx.

2006 Revenue by Segment
as reported in the 2005 annual report

$4,256
$377
$2,298
$919
$13,209
$11,467
$11,756

Client
Server and Tools
Information Worker
Microsoft Business Solutions
MSN
Mobile and Embedded Devices
Home and Entertainment
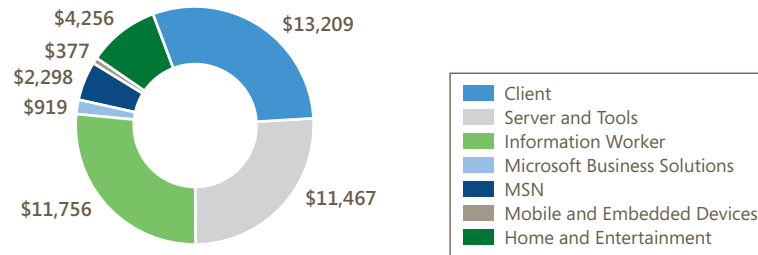
CORPORATE GOVERNANCE

At Microsoft, we believe strong corporate governance is a fundamental component of our business success—and we operate the company on that basis.

Our Board of Directors establishes the standards and policies for corporate governance, ethics, and compliance throughout Microsoft. The Board's role is to oversee the work of management in conducting the company's business and to serve the long-term interests of shareholders. The Board believes that taking account of the interests of other stakeholders such as employees, customers, partners, suppliers, and the many communities around the world where we do business is an important component of achieving shareholders' long-term interests.

For a list of Board members ····>
more information about Board responsibilities, or copies of Board committee charters, see www.microsoft.com/about/companyinformation/corporategovernance/default.mspx.

looking ahead

Global citizenship is not a task to be completed — it is a process that requires continuous action and engagement to move it forward and help it grow. We are pleased with the progress we have made and the positive changes our citizenship work has brought about in communities and individual lives worldwide. Those achievements are the result of the extraordinary dedication and innovative thinking of Microsoft employees around the world.

To guide us as our citizenship work continues, we have set five goals for fiscal year 2007 and beyond:

Innovation. To improve technology access to underserved populations by developing new products and supporting the growth of local software economies.

Responsible Business Leadership. To further the integration of responsible business practices into the core elements of our business, including product development, product life cycle planning, environmental impacts assessments, employee accountability, and advocacy of responsible industry policies.

Security and Internet Safety. To work collaboratively with partners in industry, nongovernmental organizations, and governments worldwide to make computing safer, to improve and enhance the security features of our products, and to increase consumers' awareness of how they can protect themselves and their families online.

Digital Inclusion. To continue to make progress toward our goal of providing technology access and skills training to a quarter of a billion people by 2010.

Employee Engagement. To increase employee awareness of and involvement in each of our global citizenship efforts.

We have learned much over the years about our role and responsibility as a global corporate citizen, and how we can use our resources and influence to create opportunities for more people worldwide. We don't have all of the answers. No one does. By working in close collaboration with our government, NGO, and industry partners, however, we can continue to improve and refine our approach to global citizenship and make a meaningful difference in the world.

awards

Over the course of the fiscal year, Microsoft has been recognized for its citizenship activities around the world. This recognition includes awards for business ethics, labor practices, diversity, accessibility, innovation, corporate citizenship, and Internet safety. A partial list includes:

INTERNATIONAL RECOGNITION

Corporate Voices of Courage, Women's Commission for Refugee Women and Children

World's Most Respected Company (ranking = 1), *Financial Times* and PricewaterhouseCoopers

Global Most Admired Companies 2006 All-Stars (6), *Fortune*

Argentina

Best Companies to Work for in Latin America 2005 & 2006, Great Places to Work Institute Latin America

Best Companies in Argentina 2005 (6), Great Places to Work Institute Argentina

Sadosky Award, Top foreign business supporting the local industry in the investment in Argentina, Chamber of Software Businesses and Information Services (CESSI)

Australia

Longevity Award, Prime Minister's Awards for Excellence in Community Business Partnerships

2005 CSC Enabling Technology Award, Australian Computer Society (ACS) and Australian Information Industry Association (AIIA NT)

Austria

Best Workplaces in Austria 2006 (19), *Die Presse* and Great Places to Work Institute Austria

Trigos Award 2006, Association of Industrialists and the Austrian Chamber of Commerce

Brazil

Best Companies to Work for in Latin America 2005 & 2006, Great Places to Work Institute Latin America

Best Employers in Latin America, Hewitt Associates and *América Economía*

Recognition Award for contributing to the first job program in the city of Guarulhos, Brazilian Ministry of Labor and Oxigênio

Most Admired Companies (top 10), *Carta Capital*

Best Government Suppliers (top 10), *TI & Governo*

Best Companies to Work For (top 10), *Você S/A*

Canada

Most Respected Corporations (14), *Globe & Mail* and KPMG report on business

Recognition in Heroes & Builders section of Canada Day special feature, *Maclean's*

Chile

Good Corporate Citizenship 2005, Camara Chileno Americana de Comercio

Outstanding Support to the Software Industry Award, Grupo de Empresas Chilenas de Software (GECHS)

China

Best Corporate Citizenship Practice Award (finalist), *21st Century Business Review* and *21st Century Business Herald*

Trustworthy Platform Award and Trustworthy Personal Security Service Provider Award, State Council IT Office, Ministry of Public Security, and State China National Computer Emergency Response Team

Colombia

Best Companies to Work for in Latin America 2005 & 2006, Great Places to Work Institute Latin America

Best Companies in Colombia 2005 (12), Great Places to Work Institute Colombia

Recognition for continuous support to Computers for Education program, First Lady of Colombia Lina de Uribe and Ministry of Communications and Education

Social Responsibility Award in the Community Support Category (nomination), *Portafolio*

Costa Rica

Contribution to the Community Award for Corporate Social Responsibility 2005, Costa Rican–American Chamber of Commerce (AMCHAM)

Most Admired Multinational Company Working in the Region (top 10), Estrategia & Negocios Survey

Finland

100 Best Workplaces in Europe 2006, *Financial Times* and the Great Places to Work Institute Europe

Best Workplaces in Finland 2006 (1), *Kauppalehti* and Great Places to Work Institute Finland

France

100 Best Workplaces in Europe 2006, *Financial Times* and Great Places to Work Institute Europe

Best Workplaces in France 2006 (3), Great Places to Work Institute France

Guatemala

Award for Corporate Social Responsibility in the education category, Guatemalan-American Chamber of Commerce

India

IT Ratna of the Millennium, in recognition of work in the field of localization and education, Government of Maharashtra

WISTEX Award, in recognition of large contributions towards the government's IT literacy program for schools, Government of Uttaranchal

Ireland

O2 Ability Award

Italy

100 Best Workplaces in Europe 2006, *Financial Times* and Great Places to Work Institute Europe

Best Workplaces in Italy 2006 (1), Great Places to Work Institute Italy

Japan

MIC Minister's Award 2006, Ministry of Internal Affairs and Communications

Most-Respected Brand (1), Nikkei Brand Perception Survey

Mexico
Best Companies to Work for in Latin
America 2005 & 2006, Great Places
to Work Institute Latin America

Best Companies in Mexico 2005 (11) & 2006 (13),
Great Places To Work Institute Mexico and
Grupo Editorial Expansión

Ethics and Values in the Industry,
National Confederation of Industrial
Chambers (CONCAMIN)

Socially Responsible Business Award, Mexican
Center for Philanthropy (CEMEFI)

The Netherlands
100 Best Workplaces in Europe 2006,
Financial Times and Great Places
to Work Institute Europe

Best Workplaces in Netherlands 2006 (2),
Great Places to Work Institute the Netherlands

Norway
100 Best Workplaces in Europe 2006, *Financial
Times* and Great Places to Work Institute Europe

Best Workplaces in Norway 2006 (1),
Great Places to Work Institute Norway

Peru
Best Companies in Peru 2005 (9),
Great Places to Work Institute Peru

Recognition for Ethics and Values
in the IT Industry, Bitacora

Philippines
Anvil Award of Excellence, Public Relations
Society of the Philippines (PRSP)

Gold Quill Award of Merit, International
Association of Business Communicators (IABC)

Poland
Environmentally Friendly Best Practice,
Responsible Business Forum

Best Employer 2005, Hewitt Associates

Portugal
100 Best Workplaces in Europe 2006,
Financial Times and Great Places
to Work Institute Europe

Best Workplaces in Portugal 2006 (2), *Publico*
and Great Places to Work Institute Portugal

Singapore
Work-Life Excellence Award,
Ministry of Manpower

Spain
Best Workplaces in Spain 2006 (4),
Great Places to Work Institute Spain

Sweden
100 Best Workplaces in Europe 2006, *Financial
Times* and Great Places to Work Institute Europe

Best Workplaces in Sweden 2006 (1),
Veckans Affärer and Great Places
to Work Institute Sweden

United Kingdom
100 Best Workplaces in Europe 2006, *Financial
Times* and Great Places to Work Institute Europe

Best Workplaces in the United Kingdom
2006 (5), Great Places to Work Institute

United Kingdom Business for Age Award,
Help the Aged Living Legends Awards

Best Practice and Business Award for
Excellence, Business in the Community
Awards, 2006, *Financial Times* and
Department of Trade and Industry

United States

America's Most Admired Companies
2006 (10), *Fortune*

100 Best Companies to Work
For 2006 (42), *Fortune*

100 Best Companies to Work For with Over
10,000 employees 2005 (12), *Fortune*

Circle of Humanitarian Award,
American Red Cross

Summit Award for Employee Community
Engagement in the Spirit of America Award
program, United Way of America (UWA)

100 Best Companies 2005, *Working Mother*

Best Workplaces for Commuters,
U.S. Environmental Protection Agency and
United States Department of Transportation

2005 Corporate Equality Index
[gay, lesbian, transgender, bisexual] (1),
Human Rights Campaign

Top 50 Employers (1),
CAREERS & the disABLED

Ideal Employer (16),
American MBA Edition of the 2006 Universum
Survey, Universum Communications

Ideal Employer (6), Undergraduate
Edition of the 2006 Universum Survey,
Universum Communications

Ideal Employer for IT Graduates (2),
Undergraduate Edition of the 2006 Universum
Survey, Universum Communications

Ideal Employer (5), American Diversity
Edition of the 2006 Universum Survey,
Universum Communications

Ideal Employer by Undergraduates (3),
American Diversity Edition of the 2006
Universum Survey, Universum Communications

Ideal Employer by Hispanic Americans (4),
American Diversity Edition of the 2006
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Venezuela

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