

Microsoft® 2010 Citizenship Report

Microsoft®



	Contents	2
	Introduction	3
Extending Technology	11 Education	14
	Jobs & Innovation	17
	Nonprofits	21
	Humanitarian Response	25
Operating Responsibly	28 Our People	30
	Environmental Sustainability	38
	Responsible Sourcing	44
	Online Privacy and Safety	46
	Governance & Compliance	53
	Public Policy & Advocacy	59
	About This Report	64

As a part of our Microsoft Unlimited Potential™ efforts, we are proud to support the *Global Give Back Circle* in Kenya. Pictured on the cover of this report are girls participating in the program, gaining IT skills to help them transition from high school to tertiary education and into employment. The program provides girls in Kenya with the resources, tools, and mentors they need to break the cycle of poverty and give back as global citizens.

Introduction

A Letter from Steve Ballmer Our Chief Executive Officer

Microsoft has a long tradition of taking on tough challenges on a global scale. It started with our original vision of a computer on every desk and in every home. It continues with our current mission, which is to help people and businesses throughout the world realize their full potential.



Today that mission is more important than ever. We operate in an increasingly connected world—one that is facing historic and persistent economic challenges as well as significant social and environmental ones.

In the face of these challenges, though, I am genuinely excited about the potential for information technology to create jobs, increase productivity, and launch a new era of sustainable economic growth. That vision is shared by government and civic leaders I meet, who consistently identify technology innovation as key to unlocking new opportunities and advancing important social priorities—from health care and education to science and environmental sustainability.

This Corporate Citizenship Report provides our assessment of how Microsoft is working to advance economic, social, and environmental progress, both where we are succeeding and where we have more work to do. This year we are publishing this report in tandem with our annual report for the first time. This reflects the interconnections between our Citizenship work and our business. We see our Citizenship strategies and business strategies as complementary, creating shared value for Microsoft shareholders, employees, stakeholders, and society.

The report covers Microsoft Fiscal Year 2010, which I believe was an important inflection point for our Citizenship activities. In the middle of FY2010, we arrived at a resolution for a number of long-standing competition law issues with the European Commission. At about the same time, the U.S. Department of Justice (DOJ) declared in court that Microsoft's work on documenting various Windows protocols was substantially complete. This recognition by the DOJ of the accomplishments of our protocol documentation teams is an important step in our compliance with the consent decree that terminated the competition lawsuit brought against Microsoft in the late 1990s.

Also in FY2010, we made it clear that Microsoft is "all in" when it comes to our commitment to cloud computing, which is Internet-based computing enabled through services such as Windows® Azure™, Microsoft® SQL Azure™, Windows®, Microsoft® Office Web Apps,

Bing™, Xbox LIVE®, and Windows Live®. This has important implications for our Citizenship work. Cloud computing offers new economic opportunities, enables small businesses and nonprofits to quickly scale innovative solutions to important challenges, and helps governments become more efficient and responsive. But with the cloud come new responsibilities. The world needs a safe and open cloud, so we are investing significant resources to ensure widespread access to the benefits of the cloud, while addressing privacy, safety, and security concerns.

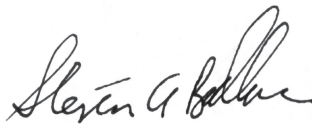
In a time of transformative change, Microsoft remains committed to our long-standing work to extend access to the benefits of technology more broadly. Launched in 2007, Microsoft Unlimited Potential continues to be our company-wide commitment to use technology to help create opportunities and solve societal challenges. We are on track to achieve our Unlimited Potential short-term goal to provide access to technology to an additional 1 billion people around the world by 2015.

This past fiscal year was also one of the strongest years in company history for the range and quality of product advances that Microsoft delivered. From Windows® 7, Windows Live, Microsoft® Office 2010, Windows Server®, Microsoft® SQL Server®, and Microsoft® Visual Studio® to Bing, we are redefining how people communicate, socialize, save time, reduce costs, and get things done at home and in the office. This holiday season we'll launch Kinect™ for Xbox 360®, Windows® phone 7, and Windows® Internet Explorer® 9.

Finally, in addition to thinking about the effects of *what* we do as a business, we remain firmly committed to thinking about the effects of *how* we do business, with a strong commitment to responsible business practices. As you'll read in this report, these commitments include promoting the well-being of our employees, reducing our environmental footprint, creating shared value with our business partners and suppliers, and many others.

We welcome your thoughts and suggestions and look forward to ongoing dialogue on how we can better harness the power of technology to continue to meet tomorrow's challenges.

Sincerely,



Steven A. Ballmer
Chief Executive Officer
Microsoft Corporation

About

The Microsoft mission is to help people and businesses around the world realize their full potential. We work to accomplish this mission through the development of innovative products and services that help people harness the power, opportunities, and benefits of technology.

The Microsoft business segments provide management with a comprehensive view of our key businesses. The segments enable the alignment of strategies and objectives across the development, sales, marketing, and services organizations, and they provide a framework for timely and rational allocation of resources within businesses. This structure also helps us ensure high product quality and foster innovation to meet the changing technology needs of our customers.

About Our Business

Microsoft Corporation is headquartered in Redmond, Washington, and is publicly traded on the Nasdaq. In Fiscal Year 2010 Microsoft employed about 89,000 people in more than 100 countries/regions and territories. In FY2010, our business was structured into the following five integrated operating segments:

For the fiscal year ending June 30, 2010, Microsoft reported record revenues of \$62.48 billion, a 7 percent increase from 2009. Operating income was \$24.10 billion, an 18 percent increase from 2009. Earnings per share were \$2.10, an approximately 30 percent increase from 2009.

Revenue by Business Group



Includes Windows products for personal computers, as well as online software and services through Windows Live



Includes Microsoft Office products, Microsoft Dynamics®, and Unified Communications business solutions



Includes server products and solutions such as Microsoft Windows Server, Microsoft SQL Server, Microsoft® Silverlight®, and Microsoft Consulting Service



Includes Xbox video game system, with Zune® digital music and entertainment device, Microsoft Mediaroom®, Surface computing platform, and Windows Automotive



Includes online advertising platform and online information offerings such as Bing and the MSN® portals and channels

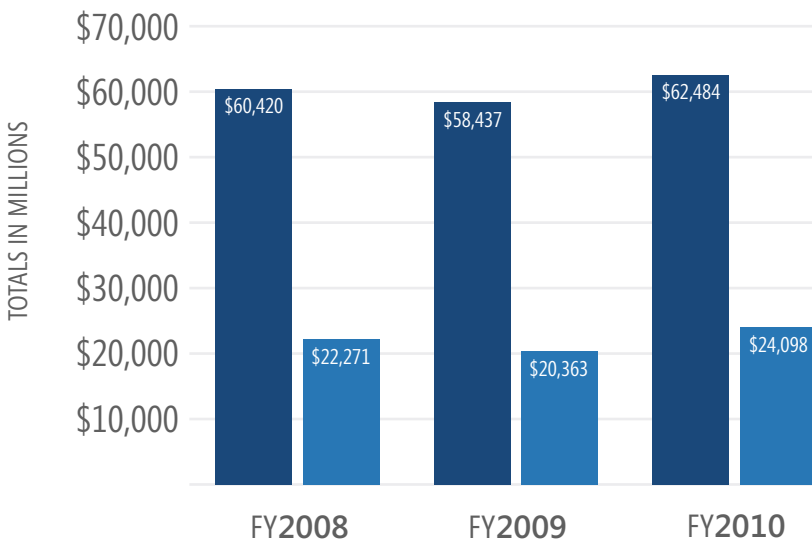
Customer & Partner Experience

The success of our company hinges on our ability to listen and respond to customer feedback about our products, programs, and services, and to increase customer satisfaction with all of our offerings. We continually engage with our customers and partners through third-party surveys and feedback mechanisms within our products, as well as through community-based websites. The information we receive helps us understand how people experience Microsoft and how we can make that experience better.

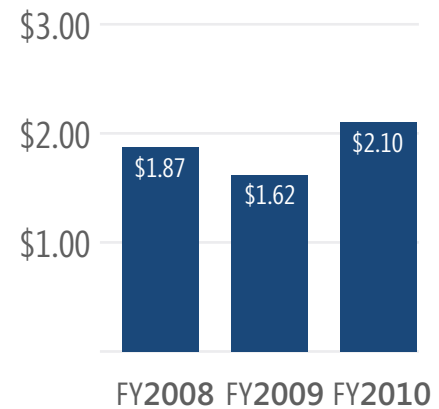
We take the feedback we receive through these channels seriously. Our customer and partner experience (CPE) strategy is sponsored by our chief operating officer and president of the Microsoft Business Division. Microsoft employees are held accountable for the ongoing success of CPE through annual objectives and performance evaluations. Compensation for key groups of top executives is influenced by the net satisfaction of Microsoft customers and partners.

For more information or to provide feedback to Microsoft, visit the Microsoft Customer and Partner Experience website at <http://www.microsoft.com/about/cpe>.

Revenue, Operating Income & Earnings per Share



REVENUE & OPERATING INCOME



EARNINGS PER SHARE

■ REVENUE ■ OPERATING INCOME

Further details about our business in FY2010 are available in the Microsoft annual financial report, which you can view or download at <http://www.microsoft.com/investor/AnnualReports/default.aspx>.

Learn more about Microsoft and our business model on the Microsoft Investor Relations site at <http://www.microsoft.com/investor/default.aspx>.

About Our Partnership Model

The Microsoft business model relies on a global network of more than 640,000 local business partners that develop, market, retail, and service our products. These partners are essential to the operation of our business, significantly extending our ability to reach and serve customers. They are also valuable to their own communities, generating local employment, innovation, growth, and opportunities. The vast majority of Microsoft partners are small to medium-sized, locally owned companies that serve local clients. Such companies are often the backbone of their economies and are responsible for economic growth across all types of markets far beyond the information technology (IT) sector.

A 2009 study by research firm International Data Corp (IDC) found that the software sector is making an especially significant contribution to the IT sector, which itself is helping stimulate economic recovery and job creation. Further, the study found that the community of Microsoft partners is at the heart of the global IT economy, employing up to 42 percent of all IT workers. According to the study, by the end of 2013, the worldwide IT industry will have created nearly 6 million new family-wage jobs—an annual rate of growth of 3 percent, almost triple the rate of growth of other sectors of the overall economy.

Supporting the development of our partners is good for their business, good for Microsoft, and good for the communities and economies that we both serve. We also encourage our partners to consider their own approach to corporate citizenship. We have created an incentive for this by recognizing a Citizenship Partner of the Year as part of our annual Partner awards, honoring exceptional partners that have made a sustained commitment to their communities and that demonstrate the impact of their work. Since we introduced the award in 2007, competition for it has increased greatly, representing the seriousness of our partners' investment in this area.

Microsoft 2010 Citizenship Partner of the Year: Computacion Olidata LTD

After a devastating earthquake hit Chile in February 2010, Computacion Olidata supported ChileConect@Chile to quickly restore public access to the Internet by using semi-permanent community technology centers (CTCs). These CTCs connected earthquake victims with their loved ones through digitally equipped mobile containers that were placed in some of the communities hit hardest by the earthquake.

This initiative was carried out under the National Digital Literacy Program executed by the Rural Life Training Foundation (Fundacion Vida Rural) and was supported by the Chilean government. Olidata, along with Microsoft and other local partners, has supported the technology skills training of more than 600,000 individuals since 2003.

To view the 2009 IDC report go to <http://www.microsoft.com/citizenshipreport>

For more information on the Microsoft partnership model, visit the Microsoft Corporate Citizenship Jobs and Opportunity site at <http://www.microsoft.com/economicgrowth>

	Employees	Percentage of IT Workforce (Gobal)	Revenues
Microsoft	89,000	0.25%	\$62.48 billion (FY2010)
Microsoft Partners Community	14.9 million *	42%	\$537 billion (2009)

* 2009 IDC Report: This figure includes both the Microsoft community of partners and the IT professionals in IT-using organizations whose jobs depend on Microsoft products and services.

Microsoft Corporate Citizenship Approach

The Microsoft Corporate Citizenship goals and strategy are based on our company mission to enable people and businesses throughout the world to realize their full potential. Our Citizenship approach focuses on activities that create value for both our business and society. Our commitments include the way we operate our company, our efforts to create opportunities through our technology offerings, the application of our research and development investments, and the power of our partnerships.

We have long partnered with governments, community organizations, and other businesses around the world to help solve some of the world's most pressing societal challenges. Our contributions include the expertise, knowledge, and involvement of our employees, as well as the financial and software resources of our company.

Microsoft manages Citizenship activities the same way that we manage our other business priorities. Our Citizenship strategy and key performance indicators are set each year as part of our business planning across our subsidiaries, under the direction of our country-level Citizenship leaders. We conduct quarterly business reviews with the Citizenship leaders for each country, in addition to regional areas. Citizenship metrics are incorporated into an extensive mid-year and end-of-year executive review process. We have also created technology tools—including an internal data aggregator called Collage and the externally facing Microsoft Local Impact Map—to measure and report our global citizenship activities and impact.

holders—our employees, investors, customers, partners, and communities—to identify the issues and opportunities that are important to them. We also regularly assess and prioritize issues that have the potential to affect our business and broader society. Our Citizenship and reporting strategies are also guided by internationally recognized priorities and frameworks, such as those laid out in the United Nations Global Compact, the United Nations Millennium Development Goals, the Global Reporting Initiative, the Global Network Initiative, and the Carbon Disclosure Project.

In FY2010, Microsoft focused on four primary interrelated and mutually reinforcing corporate citizenship strategies, which we have grouped into two main sections in this report:

Extending the Benefits of Technology

- Address Societal Changes
- Strengthen Economies

Operating Responsibly

- Promote a Healthy Online Ecosystem
- Operate Responsibly

For more information on Citizenship strategies at Microsoft, visit the Microsoft Corporate Citizenship site at <http://www.microsoft.com/citizenship>

To view the Microsoft United Nations Global Compact Communication on Progress and the Microsoft commitment to the United Nations Millennium Development Goals go to <http://www.microsoft.com/citizenshipreport>

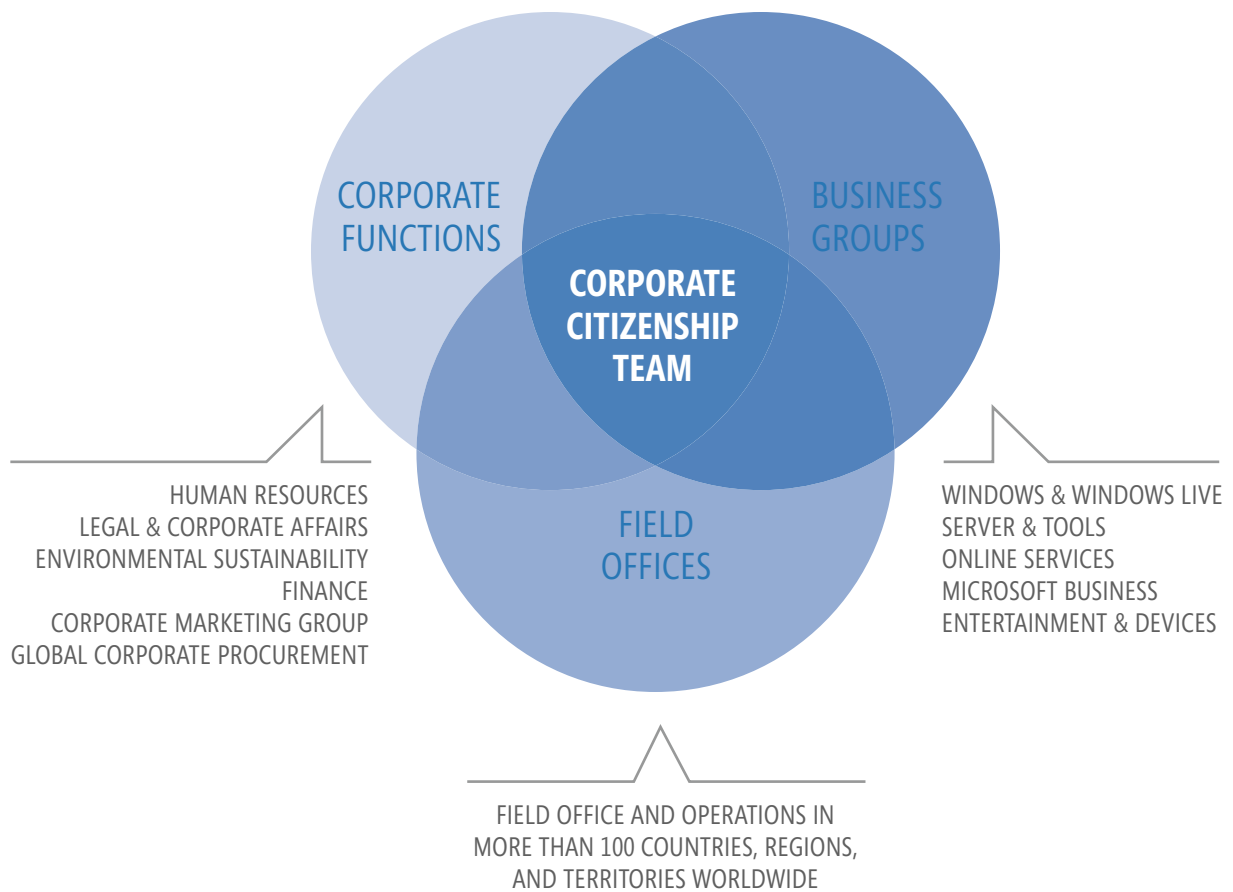
Our Corporate Citizenship Strategies

Citizenship strategies at Microsoft focus on the issues that we and our stakeholders view as most relevant for our global business. We regularly engage with our stake-

Our Corporate Citizenship Structure

Corporate Citizenship is integrated across the Microsoft business groups, corporate functions, subsidiaries, and country-level operations. Citizenship impacts are considered in the development of new product, program, and service offerings.

Microsoft's Citizenship Organization



We have a dedicated Corporate Citizenship team to help facilitate this integration and support the work of colleagues across the company. This corporate team within our Legal and Corporate Affairs Department coordinates, guides, and supports business units, operational groups across Microsoft, and a global Citizenship community of field staff in more than 100 countries and regions who help implement the Microsoft

Citizenship priorities within their local communities. The team also serves as a resource to business groups as they consider how Citizenship is affected in the development of new product, program, and service offerings.

Pamela Passman, Microsoft Corporate Vice President and Deputy General Counsel, Global Corporate Affairs, leads Corporate

Citizenship work at Microsoft. Ultimate oversight rests within the Microsoft Board of Directors Governance and Nominating Committee. That committee's charter includes a commitment to "Annually review the Company's policies and programs that relate to Corporate Citizenship, including environmental sustainability, the annual public policy agenda, and political activities and expenditures."

Outlook

At Microsoft, we regularly review our Corporate Citizenship strategy, focus, and performance to make sure that we are working on issues that meet the needs of our business and that matter most to our stakeholders. In FY2011, we plan a more significant review of our efforts to define the next generation of Corporate Citizenship activities at Microsoft.

We launched our Citizenship initiative in 2003 and significantly expanded it in 2007 with the launch of Microsoft Unlimited Potential, which focuses on increasing opportunities and helping solve societal challenges in communities around the world. With our Unlimited Potential commitments on track to be met in the next several years, the time is right to begin evaluating the next generation of our strategy, which will likely focus on expanding the impact of our products and services to address the world's most significant societal challenges, such as education inequalities and sustainable economic growth.

Extending Technology

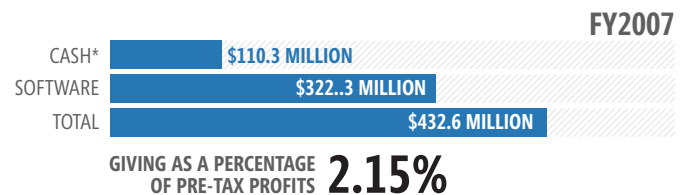
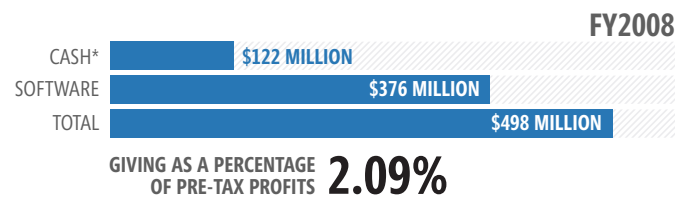
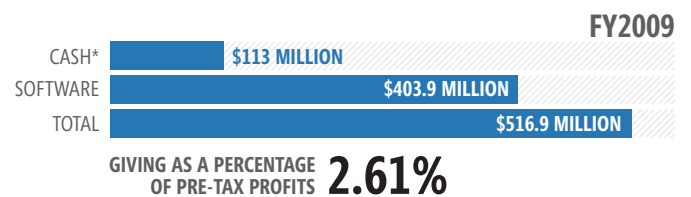
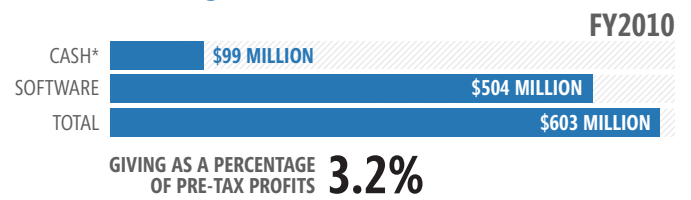
Broadening access to technology and technology skills is imperative in strengthening economies globally, unlocking the potential of individuals and communities, and finding solutions to some of today's most pressing societal challenges. Microsoft is working to turn our technology expertise into an engine that drives global progress.

The centerpiece of our mission to extend technology is Microsoft Unlimited Potential, a company-wide commitment to make technology more relevant, accessible, and affordable for all people everywhere. Through Unlimited Potential, we create new business models, partnerships, programs, and technology innovations to help create opportunities, jobs, and innovation and to help solve major societal challenges.

Our Unlimited Potential goal is to provide an additional 1 billion people with access to the benefits of technology by 2015. Our efforts to extend technology are all part of this commitment.

One of the most direct ways that we can extend the benefits of technology is by giving of ourselves and our resources. This chart shows our giving over time, most of which goes toward using technology for education, workforce development, and capacity building.

Microsoft Giving GLOBAL



*Includes Microsoft match to employee giving

Extending Technology Goals

This chart presents a snapshot of our most significant goals to extend technology to address societal challenges and strengthen economies; it also shows our progress against these goals last fiscal year. Further information on these and other goals and programs is available in the remainder of this section.

Strategy: Address Societal Challenges

Our Commitments	Key Areas of Progress in FY2010
Education Use technology to extend access to education	Expanded the Innovative Schools Program as a part of our Partners in Learning efforts to include 12 Mentor schools, 30 new Pathfinder schools, and 2,500 Breadth schools Reached 4 million people through Shape the Future, a program through which Microsoft partners with governments to develop technology solutions to foster economic growth through education
Nonprofit Effectiveness Enhance nonprofit effectiveness and capacity through technology	Donated \$504 million in software to almost 43,700 organizations worldwide Hosted 107 NGO Connection Days globally, training more than 9,200 professionals from more than 6,300 nonprofits in effective use of technology
Humanitarian Needs and Disaster Response Deploy technology to aid in disaster response	Developed new tools to help respond to disasters. Examples include the H1N1 Online Self-Assessment Tool, which reached almost 300,000 people, and the first Haitian Creole machine translation system to aid earthquake relief, providing about 250,000 translations a month
Accessibility Make technology accessible to everyone, regardless of age or ability	Included new accessibility features such as image magnification for the visually impaired in newly released products, including Windows 7, Office 2010, and Internet Explorer 8

Strategy: Strengthen Economies

Our Commitments	Key Areas of Progress in FY2010
Jobs & Economic Impact Create new jobs and economic opportunities	<p>Supported 14.9 million jobs worldwide through our community of partners and Microsoft-related IT professionals</p> <p>With our partners, generated \$537 billion in revenue and \$179 billion in new investment in local communities</p> <p>Generated an average of \$8.70 for our partners for every dollar of Microsoft revenue</p>
Workforce Development Retrain workers and the unemployed with workforce technology skills	<p>Provided technology training to more than 170 million people in more than 100 countries/regions since 2003, and more than 29 million people in FY2010</p> <p>Provided more than 880,000 technology training vouchers to individuals in more than 30 states in need of technology skills to grow their careers or find new jobs</p>
Innovation Support and invest in innovation, research, and development	<p>Invested \$8.7 billion in R&D, equivalent to 14 percent of revenue</p> <p>Opened 11 new Microsoft Innovation Centers, bringing the total worldwide to 100; reached 250,000 people and trained 130,000 by the end of FY2010</p>



Extending Technology

Technology for Education

As part of our Microsoft Unlimited Potential efforts, Microsoft is using technology to create access to quality education for everyone, everywhere—which we see as a fundamental human right. By educating people to use, create, and value technology, we are empowering them to participate in the global economy and contribute to their local communities. We are also creating a future workforce and customer base for our industry.



Students—regardless of their location and socioeconomic status—are our focus. With this focus, we build software and create programs to:

- Foster communication and collaboration among students, teachers, parents, and employers.
- Create opportunities to explore and share insight.

- Improve the economic and operational efficiencies of education systems.

We also partner with and support governments, schools, and parents. In FY2010 we increased our focus on educators.

Microsoft products, research, and programs all contribute to our education commitment. Cross-company efforts are guided by the Vice President of Microsoft Education and a multidisciplinary Education Advisory Council.

Commitments & Progress

In FY2010 Microsoft achieved progress across our many programs and products designed to further our Unlimited Potential focus on education. The following is a snapshot of some of the work that took place last fiscal year.

Microsoft Unlimited Potential: Education

Program Description	We Said We Would	We Have
<p>Partners in Learning</p> <ul style="list-style-type: none"> Helps schools gain better access to technology Fosters innovative approaches to learning and teacher development Provides education leaders with the tools to envision and implement change 	Reach 250 million students and teachers across 115 countries/regions through Partners in Learning by 2013 (2003 goal)	<p>Reached nearly 200 million students and teachers in 114 countries/regions since the program launched in 2003</p> <p>Expanded the Innovative Schools Program to include 12 Mentor schools, 30 new Pathfinder schools, and 2,500 Breadth schools</p> <p>Deployed the Partners in Learning Network to 39 countries/regions, making it one of the largest social networks for educators</p> <p>Introduced Innovative Teaching and Learning (ITL) research to understand the factors that transform teaching practices and outcomes</p>
<p>Imagine Cup</p> <p>Global student technology competition that inspires young people to apply technology to solve the world's toughest problems</p>	Grow the program to register 300,000 student competitors by 2010	<p>Registered more than 325,000 students from more than 100 countries/regions in FY2010</p> <p>Reached more than 1 million students in the past five years alone</p>
<p>Microsoft DreamSpark®</p> <p>Provides free student access to Microsoft professional design and development software</p>	Give students access to software	Expanded the program to 135 countries/regions
<p>Students to Business</p> <p>Connects students with Microsoft partner companies, providing skills training, industry insight, and job placement services</p>	Increase the number of students globally that benefit from the Students to Business program	<p>Trained 233,000 students in FY2010, 15,000 of whom have applied for jobs</p> <p>Registered more than 3,000 companies this past fiscal year</p>
<p>Local Language Program</p> <p>Provides people with native language interfaces that broaden the avenues to technology, reverse local "brain drain," and preserve local culture</p>	Reduce the language barrier to technology	<p>Translated Microsoft software into nearly 100 languages</p> <p>Used developers around the world, including localization hubs in the United States, Ireland, India, China, and Japan</p>
<p>Shape the Future</p> <p>Works with governments to develop smart, sustainable, and inclusive technology solutions for their citizens that are focused on economic growth through education</p>	Work with governments to reach 3 million citizens before the end of FY2010 to help them access technology	Reached more than 4 million citizens globally, through more than 150 public/private partnerships, providing them with relevant and affordable access to education technologies
<p>Advocating for Quality STEM Education</p> <p>Promotes science, technology, engineering, and math education</p>	Actively support policies and programs to improve academic performance and participation in STEM disciplines	<p>Joined Change the Equation, a joint effort of the Obama administration and corporate CEOs to improve STEM education in the United States</p> <p>Cofounded the Washington State STEM Center to catalyze innovation in the K-12 system, increase teacher effectiveness and student learning, and increase the number of students graduating ready for college and work</p>

Technology Innovations

Microsoft products, tools, and services also broaden access and engagement of students and are a part of our strategy. FY2010 included the releases of Windows 7 and Microsoft Office 2010, both of which have benefits for students. Additional product advances included:

- **Windows® MultiPoint® Server 2010:** Enables multiple students to connect to a single computer with their own monitor, keyboard, and mouse through USB or a video card. MultiPoint Server is designed for use in classrooms, libraries, and other learning environments to:
 - Increase the number of students who can access technology by decreasing the hardware costs
 - Enable shared learning experiences
 - Allow students to share information, but work at their own pace
- **Microsoft® Mouse Mischief™:** An engagement-enhancing, free product (as part of the MultiPoint family of products) that uses multiple choice, matching, and drawing questions. Students answer by using their own computer mouse on a shared screen in a classroom setting.
- **Kodu™ Game Lab:** A free visual programming language that enables students to design, program, and test their own games and virtual worlds, facilitating critical thinking through games. An Australian pilot showed that Kodu motivated students and improved critical thinking, creativity, and collaboration.
- **Live@edu:** Provides a familiar and reliable Microsoft® Office Outlook® Web App that can be cobranded with a school's name and logo. It helps build lifelong ties between students and their educational institution. Live@edu is more than just email—it includes access to calendars, document sharing, instant messaging, video chat, mobile email, and more. Live@edu has been adopted by

more than 10,000 institutions and 11 million students worldwide.

For more information on Microsoft and education, visit the Microsoft Education website at <http://www.microsoft.com/education>.

Outlook

While students remain central to our goals, in FY2010 we instituted a stronger focus on teachers, working to help improve teacher quality and to enable teachers to more effectively use technology in the classroom. In FY2011, we will continue this focus, expanding the virtual and physical communities of practitioners through the Partners in Learning Network and regional/worldwide Innovative Education Forum events. We will also work to extend Innovating Teaching and Learning research into more geographies.

Overall, we believe that there will be three main trends that affect education globally in FY2011:

- Mobile
- Games in learning
- Assessment-based teaching

In FY2010 we saw increased use of new technologies such as Kodu, Windows 7, Windows Movie Maker, and MultiPoint—as well cloud-based services like Live@edu and the Windows Azure platform—among students and educators. In FY2011, we believe hosted solutions, learning analytics, and mobile and games-based learning will become more prevalent. Most of these solutions share the benefit of having a lower barrier to entry for schools, although as with any innovation, change management, integration, and ensuring pedagogical relevance will be critical success factors.

Extending Technology



Technology for Jobs, Workforce Development & Innovation

Approach

Technology is a powerful engine of economic growth and competitiveness. By enabling innovation, technology can create new companies, industries, opportunities, and jobs. In addition to its societal benefits, technology-led innovation is a fundamental driver of Microsoft business. Therefore we look to foster innovation inside and outside our business, as well as to support technology-related jobs and opportunities, through:



and the benefits it brings communities—because we require strong technology-based economies to sustain our business.

- **Microsoft innovation and R&D:** Microsoft was founded on innovation, and we continue to rely on innovation to grow and strengthen our business. As such, Microsoft is investing in Research (MSR) and a variety of product development projects that give us both a competitive advantage and help solve some of the world's biggest challenges.
- **Microsoft Unlimited Potential:** Through Microsoft Unlimited Potential, we invest in programs, products, and partnerships that catalyze the creation of jobs, business opportunities, and innovation. We also train people in jobs skills that are needed inside and outside the technology sector. Employment is increasingly contingent upon proficiency in technology skills; supporting workforce skills development is good for society and good for our business.

The Microsoft jobs and workforce development initiatives are managed by the Community Affairs and Citizenship teams, which report to the Corporate Vice President, Global Corporate Affairs. Innovation is a cross-company endeavor, with specific programs run by individual business groups and Microsoft Research.

- Our business and community of partners: The daily workings of our partner-based business model create nearly 15 million family-wage information technology (IT) jobs in communities around the world. That accounts for 42 percent of the global IT workforce. We work to support this model—

Commitments & Progress

Our Business and Community of Partners

To understand and maximize our impact in stimulating the global technology economy, Microsoft conducted a study in partnership with International Data Corp (IDC). Released in October 2009, the findings showed that the IT industry, and Microsoft specifically, will be a key driver of economic recovery and job creation over the next few years.

global challenges. In FY2010 we invested \$8.7 billion (about 14 percent of revenues) on research and development, which is conducted by Microsoft Research (MSR) and within product development groups. In FY2010 we increasingly adopted a global approach to innovation. We believe that this will help us remain competitive in local markets and attract top global talent. Microsoft conducts research and development activities in 50 locations around the world. While most R&D employees are located in the United States, significant R&D activities are conducted in Canada, China, Denmark, the United Kingdom, India, Ireland, and Israel.

Some advancements made in FY2010:

- **Atlantic Rainforest Sensor Net:** Microsoft Research, in collaboration with researchers from Johns Hopkins University and the Universidade de São Paulo, has deployed a network of sensors to study the Serra do Mar rainforest in Brazil, with the goal of gaining understanding of the complex systems of rainforests and their effect on climate change.
- **WorldWide Telescope | Mars and Terapixel:** WorldWide Telescope, an immersive Internet environment from Microsoft Research that enables seamless panning and zooming across the entirety of Earth's night sky, now features unprecedented detail and clarity of images from Mars. The Terapixel project, available on WorldWide Telescope and on Bing Maps, created the largest, clearest image—a terapixel in size—ever produced of the night sky.
- **Greening Corporate Networks:** In corporate networks, most desktop computers are always on, even when they are not in use for extended periods. To address this wastefulness, Microsoft Research has designed a system that uses a "sleep server" to maintain the network presence of a sleeping machine and seamlessly awaken it on remote access.

IDC Study Findings Highlights

Job Creation	The IT industry will create nearly 6 million new jobs by the end of 2013. IT employment will grow by 3 percent a year in that period—more than three times faster than the growth of total employment.
New Companies	About 75,000 new IT companies will be formed globally between 2009 and 2013. More than 40 percent of these new companies will be in the Asia Pacific region.
Partner Revenue	For every dollar that Microsoft makes in a community, Microsoft partners make an average of \$8.70.
Local Investment	Microsoft partners generate \$537 billion in revenues for themselves, fueling their businesses and economic growth and employment in their communities.

For more information about the findings of the IDC study, visit the Microsoft Corporate Citizenship website at <http://www.microsoft.com/economicgrowth>

Microsoft Innovation & R&D

Microsoft invests heavily in research and development to bolster our pipeline of new products and to uncover new solutions to

Microsoft Unlimited Potential

Microsoft Unlimited Potential played an important role in FY2010 in spurring innovation and enhancing workforce development and job readiness.

One of the primary ways that Microsoft Unlimited Potential promotes innovation is through Microsoft Innovation Centers. These hubs around the world offer students, entrepreneurs, academic researchers, and IT professionals the resources and training that they need to learn and innovate for their communities and regions. Use of Microsoft

Innovation Centers continued to grow in FY2010.

Through Unlimited Potential, Microsoft also put a significant focus on workforce development in FY2010. Unemployment continued to be a primary concern for many nations in FY2010 and will likely continue to be in FY2011. To address this issue, we enhanced our workforce development efforts, developing nationally based programs to retrain unemployed job seekers and help current workers sharpen their technology skills. These included Elevate America, Britain Works, On My Way in Australia, Russia Your Course, and Elevemos Mexico.

Microsoft Unlimited Potential: Jobs, Workforce Development & Innovation

Program Description	We Said We Would	We Have
<p>Microsoft Innovation Centers Hubs that offer courses and resources in technology and business skills for entrepreneurs, IT professionals, and students</p>	Double Microsoft Innovation Centers' capacity so they can reach 1 million people by 2012	Reached 250,000 people and trained 130,000. In FY2011, our goal is to reach an additional 250,000 and train 150,000.
<p>Microsoft® BizSpark™ Provides startups with access to software to help grow their businesses</p>	Increase the number of people reached	Reached approximately 40,000 people. In FY2011, our goal is to reach 60,000.
<p>Community Technology Skills Program (CTSP) Supports technology training ranging from basic computer skills to advanced business applications</p>	Reach more than 20 million people globally per year	Surpassed our goal and reached more than 170 million people through CTSP participation since 2003—over 29 million in FY2010. In FY2011, our goal is to reach 23 million people through CTSP.
<p>Elevate America Elevate America Provides technology skills training and resources to help people in the United States find employment</p>	Reach 2 million people with technology skills training by 2012	Offered more than 880,000 free technology training and certification vouchers to equip individuals with the technology skills that they need to grow their careers and find new jobs
<p>Britain Works Equips British workers and job seekers with the technology skills that they need to grow their careers or find a new job</p>	Reach 500,000 people with technology training by 2012	Launched the program in FY2010 and partnered with three organizations that will help provide training

Outlook

In FY2011, as the global economy continues to recover, Microsoft will keep a sharp focus on jobs and workforce development. Over the next two years, through our various technology skills training programs, we anticipate reaching 50 million people, helping them develop the skills that they need to find work or advance their careers.

In terms of research and innovation, Microsoft will work with our partners, particularly in the area of cloud computing, to uncover its potential for individuals and economies worldwide. Recent research indicates that during the next few years, cloud computing and its resulting innovations will help lead to the formation of more than 100,000 new companies in all sectors of the economy, creating 1 million new jobs inside and outside the IT industry and pumping \$800 billion in new revenues into local economies around the world.



Extending Technology

Technology for Nonprofits

A key part of our work through Unlimited Potential is equipping nonprofit organizations with technology and technology skills to enable them to better achieve their missions. Microsoft has worked with thousands of nonprofits around the world, using our expertise and our resources to help them operate more efficiently, build capacity, and deliver more services through the use of technology.



In FY2010, Microsoft refocused its work in this area into a formalized strategy with three elements:

- 1. Technology adoption:** We work to make technology relevant, affordable, and accessible to the nonprofit sector through software donations, technology trainings, and designing or adapting products to solve challenges that are unique to nonprofits.
- 2. Technology services:** We connect nonprofits with information technology (IT) services, training, and support to help them build capacity so that they have greater reach and effectiveness in their missions.
- 3. Technology innovation:** We work with select nonprofit partners to develop and pilot innovative ways to adapt technology for nonprofit use, and we create models that can be replicated by others in the nonprofit sector.

Microsoft implemented this strategy in FY2010 at our corporate headquarters and our field offices. We will continue to work with this strategy in FY2011.

Our efforts to bring IT to the nonprofit sector are led by the Microsoft Senior Director for Community Affairs, who reports to our Corporate Vice President, Global Corporate Affairs.

Boys & Girls Clubs of America

Boys & Girls Clubs of America has been one of our signature partners for more than 10 years. Key elements of our partnership include:

- Club Tech:** A program that provides technology access and skills training to kids and programmatic support and training for Club staff. The more than 3,600 Club Tech locations serve 1 million kids each year. Microsoft has donated more than \$150 million in software and cash and trained more than 7,000 Club staff since the program launched.
- Centers of Excellence:** A new program launched in FY2010 that creates learning spaces equipped with the latest technology to foster critical thinking and problem solving skills. Five Centers of Excellence were opened in FY2010, and more are planned for FY2011.

Commitments & Progress

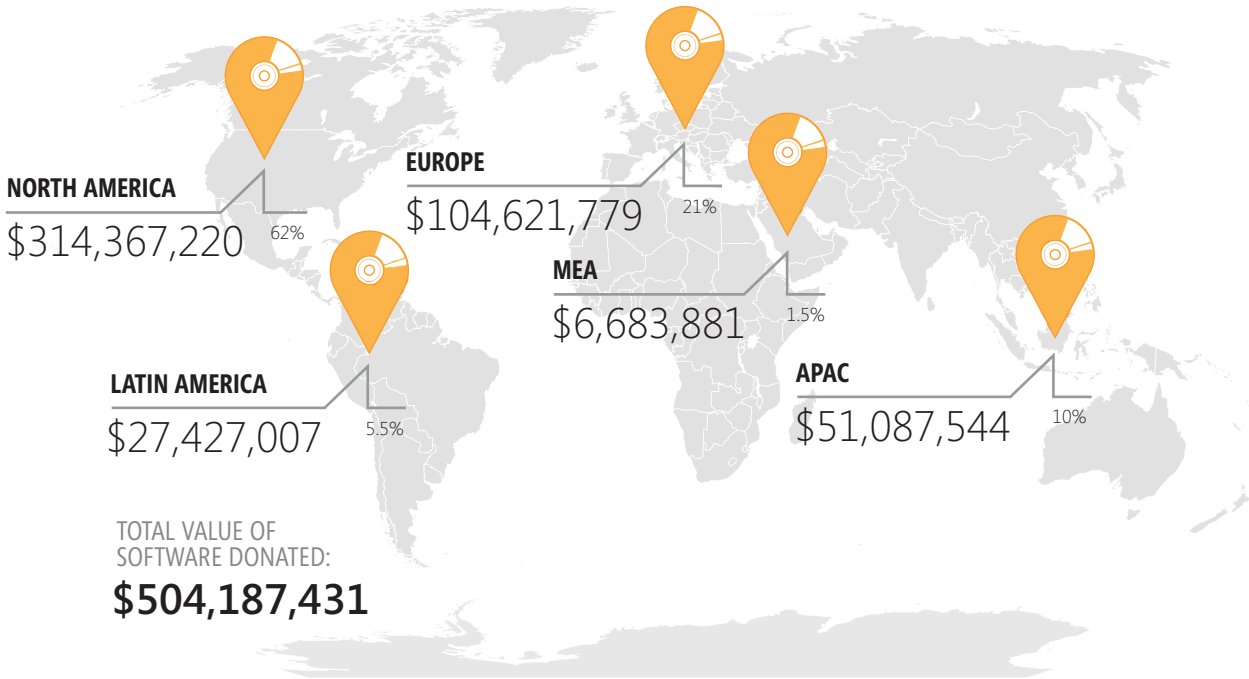
Microsoft Unlimited Potential: Nonprofit Effectiveness

We Said We Would	We Have
<p>Increase nonprofit technology access and understanding</p>	<p>Donated \$504 million (fair market value) in software to 43,650 organizations worldwide</p> <p>Launched Microsoft Dynamics CRM for Nonprofits, a custom tool to help nonprofits effectively manage data about their donors, volunteers, and members</p> <p>Hosted webinars to help nearly 600 nonprofit professionals understand cloud computing and how to use certain Microsoft products</p>
<p>Connect nonprofits to relevant technology services to build capacity</p>	<p>Held more than 100 NGO Connection Days around the world, training more than 9,200 nonprofit professionals from more than 6,300 organizations on technology solutions for nonprofits, with the help of 700 Microsoft volunteers</p> <p>Supported the NPower Network in delivering IT services, support, and training to more than 1,400 nonprofits</p>
<p>Pilot and scale innovative ways for nonprofits to use technology</p>	<p>Partnered with Ashoka to demonstrate how mobile technology can combat tuberculosis in India</p> <p>Worked with two NetHope members to do early testing of a product that enables organizations to more easily compile important data from remote field workers by using mobile phones</p> <p>Worked with public radio station KEXP to move their media infrastructure to the cloud, which will allow for richer interaction with their listeners and new and innovative ways to build and strengthen their audience</p> <p>Supported the website redesign and e-commerce platform for TechSoup.org to help scale their mission of helping every nonprofit access technology resources</p>

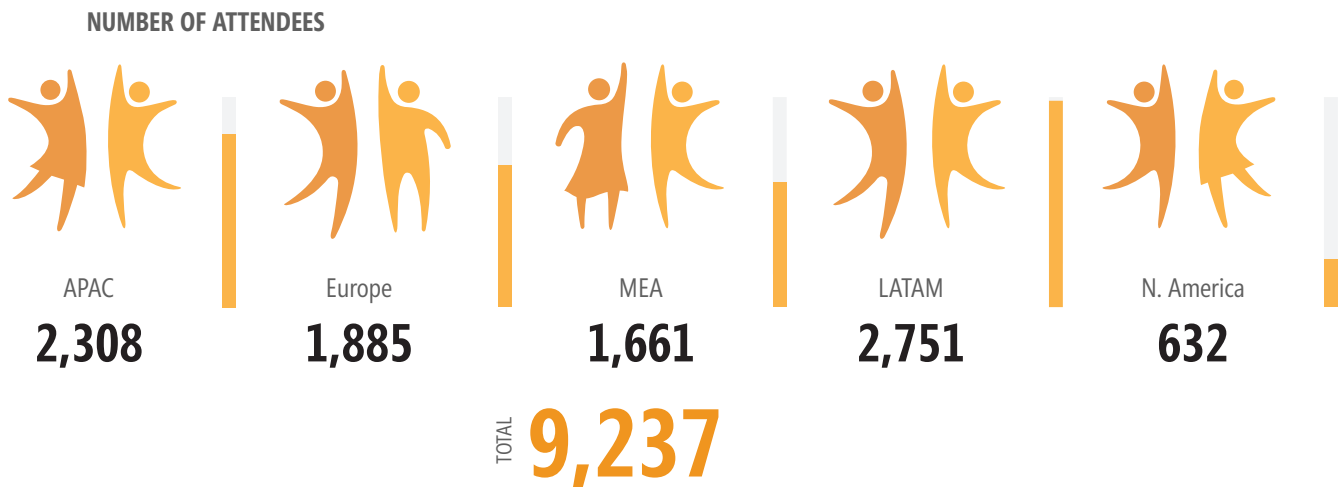
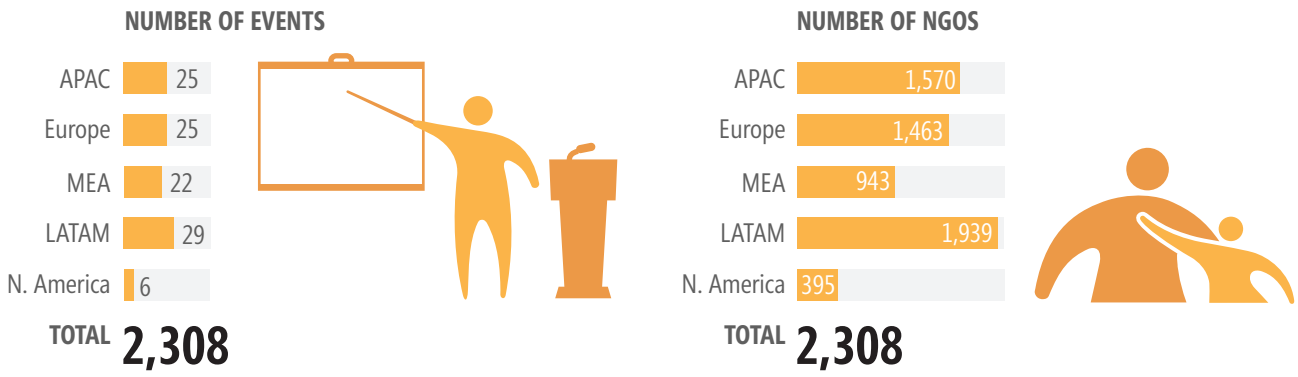


\$504 Million in software to 43,650 organizations worldwide

Software Donated by Region



NGO Connection Days



Outlook

In FY2010 Microsoft began to integrate information on cloud-based solutions into our nonprofit trainings. This will continue to be a significant focus for FY2011. We see cloud solutions as a way to give even small nonprofits the ability to use the same technology that the world's most sophisticated enterprises use, and we have hardly begun to scratch the surface of what this could mean. Plans to increase nonprofit access to cloud and related services in FY2011 include:

- Delivering cloud offerings, such as Microsoft Business Productivity Online Standard Suite and Microsoft Dynamics CRM for Nonprofits, to enhance nonprofit operations.
- Focusing on Bing Maps online mapping tool as a way for nonprofits to visualize and share information and better engage their communities.
- Developing new nonprofit-targeted software tools and applications.
- Researching the potential of Microsoft Silverlight, a multimedia development platform, to help nonprofits easily create interactive video experiences to share with their stakeholders.
- Exploring how new mobile technologies such as Tag (mobile barcodes that guide users to additional online information) can help nonprofits have increased reach among users of handheld smartphone devices.

Extending Technology



Technology for Humanitarian Assistance & Disaster Response

Natural disasters strike all too often, affecting our communities and our employees around the world. Information and communications technology are critical in emergency and disaster response situations, and Microsoft is committed to using our unique resources and expertise to reduce the consequences of tragedies and to help communities become more resilient.

- Driving global donations and awareness through social media.
- Coordinating the response with partners—including nonprofits, intergovernmental organizations, governments, and other businesses—to apply technology solutions and subject-matter expertise to address key disaster response challenges.

Microsoft humanitarian assistance and disaster response efforts are overseen by our Senior Director of Disaster Response, who leads a core team. When a disaster occurs, the core team is supported by a broader cross-functional team at Microsoft to provide around-the-clock support to affected areas.



We offer a portfolio of solutions to aid disaster response and recovery efforts worldwide, supporting the public, nonprofit, and private sectors. The portfolio includes:

- Providing information and communications technology and expertise to lead response organizations.
- Encouraging employee giving and volunteering.

Commitments & Progress

In the past year, natural disasters around the world have affected millions. Microsoft, our partners, and our employees provided support and assistance. At the corporate level, we coordinated responses to three major humanitarian emergencies, outlined in the table. At the local level, we were involved in many more.

At the end of FY2009, the Microsoft Corporate Disaster Response Team distributed a playbook to enable Microsoft subsidiaries around the world to more effectively respond to disasters in their respective regions. The playbooks were piloted in FY2010 and were used by dozens of

subsidiaries to support their regions in times of need.

Technology for Humanitarian Needs & Disaster Response

Disaster	Information & Communications Technology Support	Partnerships	Community Involvement
<p>H1N1 Outbreak <i>May to December 2009</i></p>	<p>In partnership with Emory University, created the H1N1 Online Self Assessment Tool to help people determine whether they have the symptoms of H1N1 and what actions to take if they do</p> <p>Provided guidance on technologies that enable individuals to work from home to reduce the spread of the disease</p>	<p>Worked with Harvard Medical and Mayo Clinic on MSN Health H1N1 Information Center</p> <p>Helped government and health organizations coordinate their response efforts and provide information to the public through technology</p>	<p>Provided information to the public through multiple Microsoft communication channels, including the MSN Health H1N1 Information Center, MSNBC, MSN Home, MSN Health, and Bing</p>
<p>Haiti Earthquake <i>January 2010</i></p>	<p>Supported nonprofit responders with technology solutions</p> <p>Developed a Haitian Creole translation system to help volunteers and organizations break the language barrier to helping survivors</p>	<p>Worked with organizations—including NetHope, the UN Office for the Coordination of Humanitarian Affairs, and the U.S. Department of Homeland Security—to facilitate information sharing and coordination</p> <p>In FY2011, we are working with the Inter-American Development Bank and our technology partner Infusion to develop the Haiti Integrated Government Platform, which will host information systems and recover databases that were lost in the earthquake.</p>	<p>Donated \$3.25 million in cash and in-kind contributions, more than \$1 million of which was from Microsoft employees</p> <p>Helped raise public support for aid through multiple Microsoft channels, including MSN, Bing, and Xbox LIVE</p>
<p>Chile Earthquake <i>February 2010</i></p>	<p>Helped customers and partners resume operations</p> <p>Used Bing Maps to provide before and after imagery of the affected areas to help aid organizations focus their responses</p>	<p>Partnered with the Chilean government, Entel, Olidata, and Fundación Vida Rural to increase access to the Internet in the affected areas</p>	<p>Communicated opportunities to aid relief efforts through multiple Microsoft online properties</p> <p>Microsoft employees in Chile volunteered, conducting food, clothing, and donation drives to help their neighbors</p>

In FY2010 Microsoft also made a commitment through the Clinton Global Initiative to work with the UN Refugee Agency and other private-sector partners to bring technology to remote refugee camps. We completed development of 3 pilot centers, 1 in Rwanda and 2 in Bangladesh, and we are working on 10 new centers in Georgia.

Outlook

In FY2011, Microsoft is continuing to work with developers to find new ways to use mobile and cloud-based technologies to create innovative disaster response solutions that streamline operations and increase the capacity and capabilities of response organizations. We are also working to ensure that these solutions can be deployed quickly and effectively, and can be hosted in the cloud, as we face new humanitarian crises in the coming years.

Also in FY2011, we will be giving special attention to how we help businesses restart and recover after a disaster. When businesses can resume operations more quickly, the effect on individual livelihoods is reduced, and communities can once again become self-sufficient again. In the past, Microsoft has extended free support to customers and partners in affected areas. This year, however, we are working to provide increased guidance to unmanaged customers and partners to help them build resiliency into their business systems.

Operating Responsibly

Operating our business responsibly is essential to our long-term growth. Continued business success for Microsoft depends on the prosperity and health of communities, the strength and stability of economies, and the shared (and limited) resources of our planet. Therefore, operating our business in a way that is conscious of our social and environmental impact is a core tenet of the Microsoft business strategy. This not only maintains our license to operate and grow, but also helps us manage our business more efficiently, which in turn creates value for our shareholders and for society.

In seeking to operate responsibly, Microsoft is guided by our mission and adheres to our values, principles, and policies—from reducing our environmental footprint to ensuring that we compete responsibly in the global marketplace. We are also guided by the UN Global Compact and have committed ourselves to aligning our business operations with 10 established principles, spanning human rights, labor, environment, and business ethics.

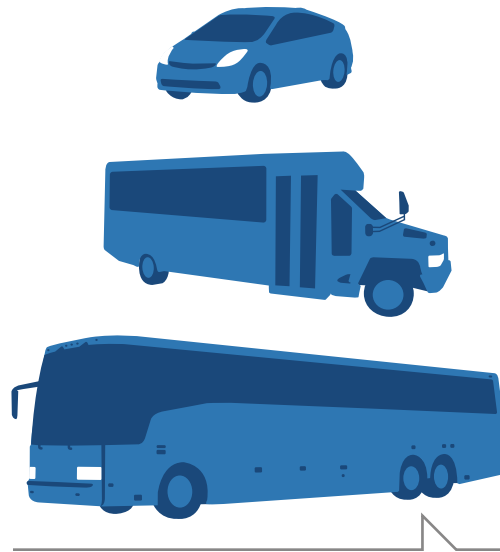
But Citizenship is not just how we do things—it's also what we do and the effect we have. We continue to keep responsibility in focus in the products and services that we develop. This ranges from making Microsoft products more energy efficient to providing privacy and parental controls to help protect children's safety online.

In this section, we will discuss our specific work in FY2010 to operate responsibly, the targets we have set, our progress so far, and our plans for the future.

Operating Responsibly: Goals

We see it as our responsibility to operate a responsible business in both the virtual and physical worlds. In this section we will discuss our goals to operate responsibly and to promote a healthy online ecosystem. As we continue to shift our focus to cloud computing, the online ecosystem goals become even more core to our future as a business.

The following represent some of our most significant goals to operate responsibly and promote a healthy online ecosystem. Further information on these and other targets is available in the remainder of this section.



Microsoft Connector Service uses a series of transports which eliminate 4.2 million miles per year.

Strategy: Promote a Healthy Online Ecosystem

Our Commitments	Key Areas of Progress in FY2010
<p>Privacy & Freedom of Expression Empower individuals to manage their information confidently and safely</p>	<p>Worked with leading human rights groups and industry peers to promote and follow the Global Network Initiative, an organization dedicated to advancing Internet freedom</p> <p>Supported the 2010 Data Privacy Day, working with governments, advocates and industry across the United States, Europe, and the Middle East</p>
<p>Security Help ensure that data and information is secure and confidential</p>	<p>Released the Internet Fraud Alert tool to inform financial and online companies about compromised customer accounts</p> <p>Collaborated with law enforcement agencies around the world to fight cybercrime, including filing the first lawsuits against malicious advertising, supporting action against fraudulent "scareware," and gaining court orders to disconnect domains spreading Waledoc and other botnets</p>
<p>Safety Make computing and the Internet safe for all users, including children</p>	<p>Trained 50,000 people in 25 countries/regions in how to stay safe online as part of the 2009 International Safe Internet Day</p> <p>Enhanced parental controls with the launch of Windows Live® Family Safety Wave 4</p>

Strategy: Operating Responsibly

Our Commitments	Key Areas of Progress in FY2010
<p>Environment Manage our business footprint and minimize the environmental impact of technology</p>	<p>Built two new data centers that use 50 percent less energy to produce the same output as those designed three years ago</p> <p>Reduced carbon emissions from corporate travel by 35 percent</p> <p>Funded the collection of 9.3 million tons of e-waste, equivalent to 27 percent of total sales volume</p>
<p>Social Support the welfare, diversity, and development of our employees and suppliers</p>	<p>Spent more than \$1 billion with women- and minority-owned suppliers and vendors</p> <p>Received multiple honors for creating a diverse and inclusive workplace, such as Working Mother's 100 Best Companies for Working Mothers and the Human Rights Campaign's 100 Best Places to Work</p> <p>Invested \$299 million in employee training programs and \$45 million in employee wellness programs</p> <p>Achieved a 91 percent employee satisfaction rating on our Corporate Citizenship work in annual employee survey, which had an 85 percent worldwide response rate</p>
<p>Governance Manage an accountable and well-governed business</p>	<p>Outperformed 99 percent of S&P 500 companies as measured by Institutional Shareholder Services, a leading independent ratings firm</p> <p>Proactively adopted "Say on Pay" policy, giving shareholders a voice in executive compensation</p> <p>Reached a resolution with the European Commission on a number of long-standing competition law issues</p> <p>Reaffirmed our commitment to refrain from making corporate contributions to noncandidate or nonparty political committees despite the Citizens United v Federal Election Commission U.S. Supreme Court decision allowing such contributions</p>

Operating Responsibly



Our People

Achieving the Microsoft corporate mission relies on our diverse and talented employees around the world—they are critical to the company's long-term success. Located in more than 100 countries/regions, our employees drive our businesses; develop the products, services, and solutions that our customers want and need; and apply their talents and passion toward making a difference on the things that matter to them. In FY2010, we directly employed nearly 90,000 full-time staff worldwide—about 55,000 in the United States and about 35,000 internationally.

All of our employee efforts are overseen by our Senior Vice President of Human Resources, who reports to our CEO.



Employee Satisfaction Survey

Each year, Microsoft conducts a satisfaction survey among all employees to help us better understand their experiences. We take the responses to this survey extremely seriously. Management teams across the company create specific action plans based on the results to address areas for improvement. These plans are communicated to employees throughout the year, metrics are tracked with transparency, and senior leadership is held accountable for improvement against those plans. Action plans have ranged from small changes to very significant changes, such as adding to our multi-million dollar investments in employee development.

About 85 percent of Microsoft employees responded to the FY2010 survey. According to its results:

- 89 percent of employees feel proud to work for Microsoft.
- 86 percent would recommend Microsoft as a great place to work.
- 91 percent feel that they are treated with respect and dignity by their managers.
- 83 percent feel that their work groups value diverse perspectives.
- 82 percent have positive opinions of the degree of flexibility that they are given in doing their jobs.

These results are well above the median benchmark for peer companies.

Compensation, Benefits, Learning & Development

Approach

As Microsoft strives to operate responsibly and face a fiercely competitive market for highly skilled workers, we are trying hard to attract and retain the best people by creating a work environment that rewards, develops, and fosters the well-being of our people. We have created a dynamic workplace, and we continuously review and evolve our benefits and compensation structures to best reflect the interests, needs, and talents of our employees.

Commitments & Progress

Training & Development

Microsoft encourages employees to take part in shaping our business and their careers. The company offers multiple, customizable opportunities for employees to further their professional growth. We encourage a 70-20-10 philosophy for learning and development: 70 percent on the job, 20 percent learning through others such as mentors and teammates, and 10 percent in formal online or in-person training.

FY2010 Employee Training

Investment in training	\$299 million
Number of employee training courses offered through Microsoft	Nearly 3,300
Number of employees participating in mentoring program	More than 22,000 employees participated in our formal mentoring program; many more participate informally
Number of employees participating in learning courses	Nearly 86,300
Number of employees who received tuition assistance for external education and training	More than 1,500 employees (totaling nearly \$8.5 million in assistance)

We measure the success of employees' growth through our annual performance management process, which focuses equally on career management and performance. The process encourages employees and their managers to focus on near-term delivery on goals and business outcomes, as well as on the longer-term cultivation of an enriching career.

Benefits

The Microsoft benefits programs extend from the workplace into homes and communities. We offer a zero-contribution health plan, a 401(k) savings with corporate match, a discount purchase plan for Microsoft stock, and the Stay Fit health club and reimbursement offerings.

Microsoft encourages balance between work and life, providing benefits such as referral services, proactive health programs, financial education, maternity and parental leave allowances, flexible work arrangements such as part-time and telecommuting, and other programs. The offerings are continuously reviewed and

updated to reflect the interests and needs of our employees around the globe.

FY2010 Investment in Employee Benefits

Total FY2010	
Employee retirement accounts	\$275 million
Wellness programs	\$45 million
Life & disability insurance programs	\$50 million

Compensation

Microsoft manages a pay-for-performance approach to compensation that is designed to attract and reward the talent we have. We also provide additional recognition (for example, awards and bonus opportunities) to reward exceptional work.

Outlook

Microsoft will continue to evaluate ways to invest in the training, development, and future of our employees. We will also look for ways to further support work/life balance, such as extending our use of technology for telecommuting and collaboration with colleagues, customers, and partners around the globe.

Diversity & Inclusion

Approach

Microsoft strongly believes that a diverse workforce brings greater perspective, knowledge, and experience to Microsoft making it the company of choice for talent from around the world. Being able to attract, develop, and retain this talent enables us to be more innovative in the products that we develop, in the way that we solve problems, and in the way that we serve the needs of an increasingly global and diverse customer base. Our global diversity and inclusion (GD&I) approach has three elements:

- **Representation:** The diversity of our people is a critical link in our ability to anticipate and respond to the unique needs of our increasingly diverse customer base.
- **Inclusion:** Cultivating a work environment where employees are truly engaged and their contributions are fully valued helps us sustain our diversity gains.
- **Market innovation:** Building the best software means incorporating the talents and insights of our varied workforce into our products and services, and recognizing the needs and priorities of our diverse customer, supplier, and partner bases.

Our GD&I approach is overseen by the Microsoft General Manager of Global Diversity and Inclusion, who reports to our Senior Vice President for Human Resources.

Commitments & Progress

Microsoft currently employs people from more than 100 different countries/regions. We have written policies that cover equal opportunities and anti-discrimination for

all employees globally, and we are a widely recognized leader in workplace diversity and inclusion.

The following table details some of our progress against the three elements of our GD&I strategy in FY2010.

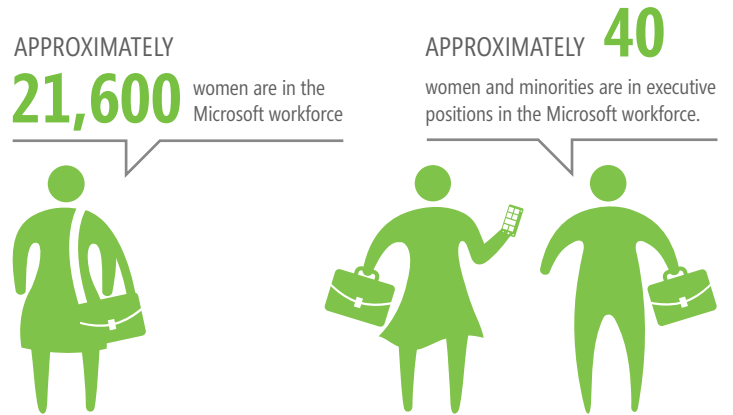
We Said We Would	We Have
<p>Elevate the talent pipeline conversation to the Microsoft senior leadership team regarding retaining, advancing, and hiring senior-level women and minorities in the United States</p>	<p>Engaged the senior leadership team in a pipeline discussion on senior-level women globally and minorities in the United States, resulting in an increased focus on retaining strong performers, advancing internal talent, and identifying strategic external employees for hire</p> <p>Continued to support employee-driven Diversity Advisory Councils. In FY2010, these councils were restructured into about 50 Employee Resource Groups and Employee Networks to align with Microsoft business needs and enhance our focus on inclusion</p> <p>Encouraged minority students to pursue careers in technology. Programs included the nineteenth annual Blacks at Microsoft Employee Network student day and the DigiGirlz technology programs that give high school girls the opportunity to explore careers in technology</p>
<p>Develop and highlight manager behaviors that encourage inclusion to strengthen teams and help achieve organizational performance</p>	<p>Trained almost half of our workforce on diversity and inclusion topics (in the past two years)</p> <p>Held a six-week Diversity and Inclusion “Back to Basics” program for employees in Asia. The program included a series of tips to help demystify what Diversity and Inclusion is all about, as well as to help participants understand how they can bring it to life within their teams</p> <p>Held a variety of women’s networking events in Belgium, China, Denmark, Ireland, Israel, and the United Kingdom. The events raised awareness for issues of advancement for women in high technology, encouraged networking, and enabled sharing of best practices</p> <p>Held the 2010 Microsoft China Women’s Leadership and Development Conference in Beijing and Shanghai</p> <p>Received numerous honors for fostering an inclusive workplace, including recognition as one of America’s Top Corporations for Women’s Business Enterprises, Working Mother’s 100 Best Companies for Working Mothers, the Human Rights Campaign Foundation’s Best Places to Work, and annual Great Place to Work awards from the Great Place to Work Institute for locations throughout the United States, Asia, and Europe. In 2010, Microsoft was named a Great Place to Work in Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Japan, the Netherlands, Norway, Portugal, and Sweden</p>
<p>Begin focus on market innovation and develop a fact base to evaluate key opportunities to market to diverse populations.</p>	<p>Spent more than \$1 billion with women- and minority-owned suppliers, an achievement for which we were inducted into the Billion Dollar Roundtable, an organization that recognizes companies for engaging with diverse suppliers</p> <p>Made products such as Microsoft Office and Windows available in 100 languages through our Local Language Program</p> <p>Provided a customized Hispanic theme pack for Windows 7 that enables Hispanics/Latinos to personalize their experience through audio and artwork</p>

Diversity Outreach at Microsoft

Microsoft diversity outreach programs worldwide are geared toward promoting technology-related careers among minority groups, youth, and women. We will continue to partner and support organizations that strengthen diversity and inclusion in our industry and in the marketplace. In the United States, these organizations include the National Urban League, Catalyst, the Women’s Business Enterprise National Council, and the Minority Business Development Agency. Programs on which we collaborate with these organizations include technology seminars that target minorities, youth, and women. Microsoft focuses on programs that can elevate visibility of industry opportunities to minorities and that can cultivate the talents of young students to stimulate their interest in technology careers. We also partner with and support premier national organizations such as the National Society of Black Engineers, the National Black MBA Association (NBMBA), and the National Association of Minority Engineering Program Administrators. Over the past few years we have invested hundreds of millions of dollars in dedicated outreach to attract minorities and women to high-tech careers. This financial support was in the form of grants, scholarships, event sponsorships, and partnerships with universities and organizations that serve women globally and minorities in the United States.

Woman & Minorities at Microsoft FY2010

35



Outlook

In today’s highly competitive business environment, our success depends on our ability to anticipate technology and market trends and then respond quickly by delivering innovation that creates new opportunities for Microsoft, our customers, and the industry as a whole. Our emphasis on diversity and inclusion has enabled us to build a diverse employee base and create a work environment that fosters talent and creativity. Microsoft welcomes different experiences, perspectives, and capabilities, and we consider these differences an organizational asset and a key enabler for innovation. If we are to effectively build a diverse and inclusive workforce, we must link diversity to our business strategy and hold our leaders accountable for achieving specific goals. As a result, in FY2011 Microsoft is intensifying its GD&I focus on increased leadership accountability and fostering inclusive behaviors in the workplace.

Women & Minority Statistics

FY2010	
Women globally in the Microsoft workforce	24%
Minorities in the United States Microsoft workforce	34%

Employee Community Involvement

Approach

One of the most valuable ways that Microsoft can contribute to our communities is by supporting our talented employees in giving their time, passion, and expertise to their neighbors. Not only does this help us make a strong social impact, but it also helps us provide employees with opportunities outside work to engage with one another and develop their team-building and leadership skills.

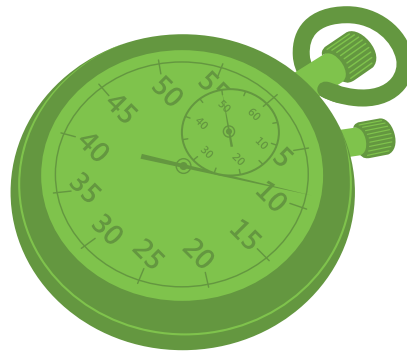
Microsoft provides employees with a variety of community involvement opportunities. A global volunteer program, localized to meet the needs of each geography and culture, encourages employees to use their skills and time to support community efforts. In addition, Microsoft manages a matching gifts program for U.S. employees' direct cash and software donations up to \$12,000 annually to thousands of eligible 501(c)(3) and educational institutions. Similar matching gift programs are administered worldwide by participating subsidiaries.

Microsoft supports employee community involvement through:

- Paid time off for employees to volunteer
- Opportunities to participate in Microsoft team volunteer activities, including company-wide community volunteering days or weeks and organized group volunteer activities
- Use of corporate facilities and resources for charitable activities
- Board service training and placement assistance
- Grants to organizations for which employees volunteer (U.S. only)
- Payroll deductions and gift-matching donations (U.S. and some participating subsidiaries internationally)

Our employee giving and volunteer program is overseen by the Microsoft Senior Manager for Employee Engagement, who reports to the Senior Director of Global Community Affairs.

FY2010 Employee Volunteer Program US Only Data



363,396 HRS.



4,200 NUMBER OF EMPLOYEES
VOLUNTEERING

Commitments & Progress

Since the launch of our giving program, Microsoft employees, with corporate match, have donated more than \$750 million to nonprofit organizations. Since 2005 in the United States alone, employees have volunteered more than 1 million hours in their communities. Microsoft has matched each of those hours with a \$17 contribution to the nonprofit of the employee volunteer's choice.

In FY2010, Microsoft employees again made an extraordinary impact working together for our communities.

The following are examples of our employees' efforts in FY2010.

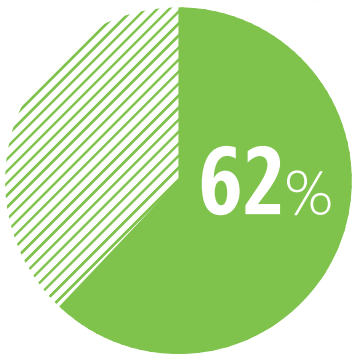
- In partnership with the United Arab Emirates Ministry of Education and the Center for Women and Technology for the Arab Region, Microsoft volunteers held the region's first Di-giGirlz Day. This event introduced more than 200 high school girls to the many careers available to them in the technology sector. The attendees participated in workshops with Microsoft volunteers and used Microsoft software in hands-on projects.
- Microsoft volunteers formed a team to take employee donations to the next level during our annual giving campaign. These volunteers created an auction tool built on the Windows Azure platform and Microsoft Silverlight to enable all employees to donate or bid on auction items. Over 700 items were contributed, raising more than \$450,000 for United Way.

FY2010 Employee Giving US Only Data



\$84 MILLION

MORE THAN **34,500** EMPLOYEES



Outlook

The economic climate this past year made the year challenging for fundraising. Despite the challenges, Microsoft employee giving raised more than \$84 million, including the corporate match. In addition, we celebrated a major milestone with our employee volunteer program, reaching over 1 million hours of volunteer service since the program was started in FY2006.

In FY2011, Microsoft is focusing on increasing our giving and volunteering efforts and on enabling our employees to better contribute their technology skills in the communities where those skills are most needed.



Operating Responsibly

Environmental Sustainability

Microsoft is committed to software and technology innovation that helps people and organizations around the world improve the environment. Our goals are to reduce the impact of our operations and products and to drive responsible environmental leadership.



Environmental efforts at Microsoft are overseen by our Chief Environmental Strategist, who reports to our Corporate Vice President for Trustworthy Computing. They lead a cross-functional environmental sustainability team that is responsible for governance of environmental impacts across our operations and products. This management team reports to an executive steering committee that includes the Chief Operating Officer, Chief Technology and Strategy Officer, and a dozen other senior leaders from across the company. Ultimately, governance for environmental sustainability rests with our Board of Directors Governance and Nominating Committee, whose charter includes oversight of environmental sustainability, public policy, and citizenship issues.

The most comprehensive and recent information on environmental efforts at Microsoft is available on the Microsoft Environment website at <http://www.microsoft.com/environment>.

Microsoft Environmental Sustainability Strategy focuses on three core areas:

- Using information technology to improve energy efficiency: We are working to unlock technology's potential to enable a more energy-efficient economy.
- Accelerating research breakthroughs: We are researching and developing technologies to help solve environmental challenges.
- Demonstrating responsible environmental leadership: We are focused on incorporating sustainable practices into our operations and minimizing our own environmental footprint, while growing our business.

Using IT to Improve Energy Efficiency

Approach

At Microsoft, we see information technology (IT) as a key tool to help address the daunting energy and climate challenges that the world faces. Microsoft envisions a clean energy ecosystem in which IT empowers people and organizations with software tools and information that help increase energy efficiency and accelerates innovation and deployment of clean energy sources. In particular, we are focused on improving the energy efficiency of IT itself and working in partnership with customers and others to accelerate the use of IT to enable energy efficiency across all sectors of the economy.

To deliver on this responsibility, we are working to:

- Improve the energy efficiency of our products and services
- Create new products and services to help solve environmental problems
- Collaborate with our partners and our industry peers to increase energy efficiency

Outlook

In FY2010 we significantly increased our focus on working with partners inside and outside the IT sector to promote the energy saving potential of IT on the world stage—particularly through our involvement in COP15. We will build on this momentum in FY2011 by helping create new energy efficiency guidelines for our own product groups and for the software industry as a whole. We will also focus on developing energy efficiency software, catalyzing more environmental solutions in the Microsoft partner ecosystem, and co-chairing the ICT4EE forum in the European Union to set standards for measuring the contribution IT is making to carbon reductions.

This work is becoming increasingly important because the growth of cloud computing is putting pressure on data center energy consumption. We will work with our industry peers and third-party organizations to find solutions to allow for the future of cloud computing, while reducing environmental impacts.

We Said We Would	We Have
<p>Improve the energy efficiency of IT in our own products and working in partnership across the IT industry</p>	<p>Launched Windows 7, our most energy efficient operating system to date, designed to use less energy when idle or active.</p>
	<p>Developed new power management tools that IT administrators can use to view, manage, and reduce energy consumption as part of Windows 7, Windows Server 2008 R2, and the latest R3 beta release of Microsoft® System Center Configuration Manager.</p>
	<p>Opened and operated new data centers that consume 50 percent less energy than those built just three years ago. In FY2011, we will continue to work to reduce the Power Use Effectiveness (PUE) of our new data center designs. Our goal by 2012 is to construct new data centers that average 1.125 in PUE (the industry average is currently 2; optimal energy use is 1).</p>
	<p>Created a “power savings calculator” within the Microsoft Assessment and Planning Toolkit, a free resource that is available to customers. The calculator provides a report of potential savings from adopting energy-efficient computing technologies. More than 215,000 customers and partners downloaded the toolkit in FY2010.</p>
	<p>Helped develop the EU Code of Conduct for Data Centers, a voluntary commitment to implement energy efficiency best practices within data centers.</p>
	<p>Continued to work with the Climate Savers Computing Initiative (CSCI) to reduce the IT industry’s carbon footprint by over 50 million metric tons a year by 2010. This past year we chaired CSCI’s Power Down for the Planet college campaign, hosted the summer board meeting, and recruited several new companies to the CSCI board. Since 2007, the global IT sector has reduced annual carbon emissions from computing equipment by 32 million to 36 million metric tons. We are on target to achieve the goal of 50 million tons by June 2011.</p>

We Said We Would	We Have
<p>Use IT to reduce energy use and address environmental problems</p>	<p>Launched Microsoft® Hohm™, a free, cloud-based application to help consumers better understand their at-home energy use and get recommendations to save energy and money. In FY2011, Ford will integrate Microsoft Hohm into its electric vehicle models, beginning with the Ford Focus Electric, to help drivers track their energy usage.</p>
	<p>Launched the Microsoft Smart Energy Reference Architecture, a roadmap to help utility companies solve integration issues that are associated with smart grid development and energy ecosystem advancement.</p>
	<p>Expanded our partnership with the European Environment Agency (EEA) to launch Air Watch, a new application that enables EU citizens to access up-to-date, easy-to-understand information on air quality.</p>
	<p>Participated in the UN Climate Change Conference 2009 (COP15) in December 2009 to share best practices on how IT can address energy challenges. At COP15, in partnership with the European Environment Agency, we launched the Environmental Atlas of Europe, an online storytelling platform with videos, photos, and data illustrating the local impact of climate change in Europe. We also highlighted the Microsoft technology that powers Bend the Trend, an innovative online pledging program that enables individuals to reduce their carbon emissions.</p>
	<p>Partnered with the Carbon Disclosure Project (CDP), Accenture, and SAP to help the CDP enhance its reporting infrastructure to enable companies to report more detailed and standardized information about their environmental impact.</p>



Responsible Environmental Leadership Approach

For Microsoft, operating responsibly with respect to the environment does not end with our products. To retain our license to operate, Microsoft ensures that our own operations fully comply with international environmental regulations and the specific environmental requirements of each country/region where we do business. But our goal is to go beyond compliance—we seek to reduce the impact of our operations and to function in a way that will be sustainable over the long term.

The following environmental principles guide Microsoft operations:

- Conserving, reusing, and recycling
- Reducing and disposing of waste
- Developing safe and sustainable products
- Making environmental stewardship part of our business relationships
- Continually improving our environmental performance
- Demonstrating responsibility to our stakeholders

Commitments & Progress



Microsoft Connector Service uses a series of transports which eliminate 4.2 million miles per year.

Reducing Carbon Emissions

Each calendar year, Microsoft measures its global carbon footprint and reports it publicly to the Carbon Disclosure Project. For calendar year 2009, we reported emissions of 1,299,356 metric tons of CO₂ equivalent (Scope 1, Scope 2, and Scope 3 employee travel). To reduce this level to meet our 2012 goal, we have identified four major areas of our business operations for particular attention: data centers, travel, buildings, and computer labs. The reductions outlined below are not enough to achieve our goal on their own, but we believe they are the areas that will make the biggest difference.

Data Centers

Target: Increase data center efficiency

- Our new data centers consume 50 percent less energy for the same level of output than data centers built just three years ago, and we have aggressive goals for further improvements by 2012. In FY2010, Microsoft centers in Chicago and Dublin received industry awards for energy efficiency.

Travel

Target: Reduce corporate travel by 20 percent in FY2010

We Said We Would	We Have
Reduce carbon emissions per unit of revenue by 30 percent by 2012 compared with 2007	Taken steps to reduce our carbon footprint. In FY2010 we achieved a 35 percent reduction in carbon emissions from travel. We are working toward our 2012 goal

- We are continually working to reduce our corporate travel through the use of travel alternatives, including Microsoft technology to enhance remote communication. Last year, we reduced our carbon emissions from travel by nearly 35 percent.

We have also given attention to emissions from employees' commutes. We now operate a private bus system for employees that eliminates 4.2 million miles of employee travel each year.

Buildings

Target: Reduce building energy use by 10 percent in FY2010

FY2010 progress in building energy reduction included:

- An expanded green campus in Shanghai that has projected electricity savings of up to 47 million kWh.
- New Microsoft-owned buildings designed to silver or greater LEED standards that consume 20 percent less energy than traditional buildings.

Approximately 25 percent of our total energy purchases come from renewable sources, and over half of the energy used at Microsoft headquarters comes from hydroelectricity.

Computer Labs

Target: Achieve a 6 percent reduction in carbon emissions by consolidating computer labs

- In FY2010, we finished our first purpose-built Research & Development Support facility. It is designed to consolidate computer labs and servers, and ultimately to deliver an overall carbon savings of 12,000 metric tons per year.

Reducing Other Environmental Impacts

In addition to reducing our carbon footprint, Microsoft continues to work to reduce our

other environmental impacts. The following is a sampling of some of these efforts in FY2010.

Recycling

Microsoft is working to increase recycling of our products and of all consumer electronics after use. In calendar 2009, we funded the collection and recycling of more than 9.3 million kilograms of electronic materials—27 percent of worldwide sales volume. We expect that number will reach 28 percent by the end of calendar year 2010.

As part of this effort, in April 2010 Microsoft joined Dell and Goodwill Industries International in the Reconnect computer recycling program, which lets consumers recycle used personal electronics at no cost. By supporting the program, the 1,900-plus participating Goodwill locations in the United States and Canada will now collect Microsoft entertainment products, including Xbox, Zune, and accompanying accessories.

Waste Reduction

In FY2010 at Microsoft headquarters (which represents about half of our total office space), we diverted 63 percent of our solid waste from landfills through recycling and composting programs—up from 59 percent in FY2009. As a result of this effort and others, the dining program at our main campus in Redmond this year became a Green Restaurant Association 2-Star Certified Green Restaurant—the first and only corporate dining program to earn this recognition.

We are also working on recycling and waste reduction in the offices outside our headquarters, and in FY2011 we will be improving our tracking of these efforts.

Supply Chain

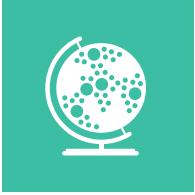
Microsoft is focused on reducing the environmental impact of our supply chain. For more information on these efforts, see the Responsible Sourcing section of this report.

Outlook

43

In all of these areas, Microsoft will continue working to reduce energy use, carbon footprint, and other environmental impacts. In FY2011 we are working to enhance the systems that we use to track energy use and our carbon footprint globally to also cover our water consumption and waste; we plan to publicly report those for FY2011. In regard to our FY2012 emissions goal, the shift to cloud computing complicates our carbon reduction efforts by requiring us to expand our data center operations. We are currently evaluating options to address this issue.





Operating Responsibly

Responsible Sourcing

At Microsoft, we view our supply chain as an extension of our business. As a result, part of our commitment to operate responsibly means working to ensure that our 62,000 contractors, suppliers, and vendors understand and share that commitment. All vendors doing business with Microsoft must agree to abide by our Vendor Code of Conduct, which sets out our expectations about ethical business practices, employment practices, and compliance with environmental and worker safety requirements. For some types of suppliers, such as those providing contract manufacturing of our Microsoft-branded hardware, we go beyond the Vendor Code of Conduct with additional requirements and an on-site audit program.



We also work to promote positive environmental and social outcomes from our sourcing practices, ranging from increasing market demand for greener computers and local organic food to supporting diverse suppliers.

Our sourcing initiatives are largely decentralized across Microsoft business groups, with central resources provided by our Corporate Global Procurement Group, Legal and Corporate Affairs Department, and subject matter experts such as our Director of Supplier Diversity.

Commitments & Progress

The following are some of the areas of focus within our supply chain.

Labor, Safety, and Human Rights

The Microsoft Vendor Code of Conduct sets workplace and human rights standards for our suppliers. We seek to ensure conformance to these standards through direct engagement and training of our contracted direct material suppliers. We conduct informal and formal risk-based third-party monitoring based on the Electronics Industry Citizenship Coalition (EICC) Code of Conduct, laws, and regulations. This performance and capability assessment lets us identify performance gaps and improve processes to reduce risk and ensure a robust and sustainable supply chain.

In FY2010, a report from the international nonprofit organization National Labor Committee (NLC) pressed us to take a hard look at our existing standards and how we implement them. The report charged

employee mistreatment at a supplier factor in Dongguan, China, that assembles and packages hardware products for Microsoft and a range of other companies. This supplier has signed our Vendor Code of Conduct and already faced quarterly audits from Microsoft personnel and annual audits from an independent auditor. During the past two years, worker overtime has been significantly reduced and worker compensation is in line with the EICC standards for the Dongguan area. Nevertheless, we took the NLC report extremely seriously, initiated a special on-site audit, and are now working with this supplier to ensure full compliance with the provisions of our Code of Conduct. This experience has also prompted us to look for ways to enhance our Code of Conduct and monitoring processes to ensure the fair treatment of all workers in our supply chain.

Environment

Suppliers are part of our business, and so we take suppliers into account in addressing our environmental footprint. There are numerous ways that we work to address environmental issues with our suppliers, from measuring the greenhouse gas emissions of our Tier 1 contract hardware manufacturers to seeking more locally sourced and organic food for our cafeterias. To increase the demand for greener computers, Microsoft recently updated our corporate computer purchasing standards to make sure that all computers that we buy for our employees meet the latest energy efficiency standards from the U.S. Environmental Protection Agency's Energy Star 5.0 requirements. We also require that computers that we buy meet the Gold level requirements of the Electronic Product Environmental Assessment Tool (EPEAT), an environmental rating initiative.

Diversity

The Microsoft Director of Supplier Diversity leads a team dedicated to providing the opportunity to effectively compete for our business to certified Minority and Women Business Enterprises and veteran-owned businesses, Small Disadvantaged Businesses, and HUBZone business concerns.

In FY2010, we spent over \$1 billion with suppliers that are woman-owned, minority-owned, or veteran-owned. This puts us among the top 15 companies worldwide in supplier diversity spending. We are one of only about a dozen other U.S. corporations that spend a similar amount with such businesses. The team also worked with the Microsoft Treasury Department to increase our deposits in 20 local, minority-owned banks. Finally, as part of our commitment to supplier diversity, Microsoft made a \$3 million contribution to the Business Consortium Fund of the National Minority Supplier Development Council.

Supplier Satisfaction

Microsoft seeks to ensure that we treat our suppliers fairly and responsibly. In FY2010, the Global Microsoft Vendor Program (MSVP) Team surveyed more than 2,000 vendors in the United States, Asia, Latin America, Europe, the Middle East, and Canada, and had a response rate of 35percent. (MSVP vendors constitute our preferred supplier base and represent about 80 percent of our overall procurement spending). We're gratified that more than 90 percent of MSVP vendors reported their Microsoft business relationship to be better than that with their other clients.

Outlook

Microsoft has worked for decades to manage our supply chain responsibly and was among the first wave of information technology companies to develop common codes and practices to promote human rights and workplace rights in its supply chain. Allegations of unsafe and unethical working conditions in at least one of our suppliers' factories have prompted us to review and enhance our standards and audit processes and to consider what other parts of our supply chain may pose similar risks. In FY2011, we will be updating our Vendor Code of Conduct as part of an all-up review and assessment of our supply chain management policies and practices.

Operating Responsibly



Online Privacy and Safety

People use information technology (IT) to convey information and ideas in novel and creative ways. IT gives us new opportunities to express ourselves, to be heard, to connect with each other, and to access even obscure information easily. Cloud computing enhances these capabilities for all of us—individuals, businesses, governments, and nonprofits—creating more access and presenting a host of exciting new opportunities for users everywhere.



These technologies yield great benefits, but they also create significant responsibilities for those who design and operate them. New uses of technology put privacy, security, online safety, and freedom of expression at the forefront as today's critical business and societal issues.

As more people move their data to the cloud in the coming years, these issues

will only grow in importance. Microsoft launched the Windows Azure cloud service in November 2009, and by June 2010 there were 10,000 paying Windows Azure customers. Today there are more than 360 million active Windows Live® Hotmail® users, all of whom entrust their data to Microsoft cloud services. Microsoft is working hard to honor this trust. Our goal is to remain an industry leader in privacy and security.

Operating in a global technology market brings many complex, and sometimes competing, responsibilities. In addressing these responsibilities, we have learned that we must engage with all our stakeholders and develop cross-sector partnerships to adapt our products, policies, and actions to help keep consumers safer and more secure online. We have also learned that we must constantly evolve as the online environment continues to grow and change.

Privacy, Data Security & Online Safety

Approach

Promoting a healthy online ecosystem—which includes consumers, content publishers, advertisers, network operators, and service providers—is both a business imperative and a key Microsoft Citizenship goal. In pursuing this goal, Microsoft promotes privacy, data security, and online safety in our products, services, programs, and partnerships. We support technology, design, and public policy approaches that help make computing and the Internet safer, more trustworthy, and more customer-friendly. How we handle user privacy, data security, and online safety affects all of our users and society as a whole. To ensure that we have input from various constituencies, Microsoft engages with consumers, advertisers, publishers, law enforcement agencies, and our shareholders. We constantly listen to the concerns and perspectives of each group, and we strive to balance and integrate their viewpoints in our work to create a safer online environment.

To address the issues of privacy, data security, and online safety, Microsoft brings together a broad network of personnel from across the company who have expertise in these areas. As part of that network, a core group of experts in our Legal and Corporate Affairs team is responsible for engaging with stakeholders and developing Microsoft policy. The Microsoft Corporate Vice President of Trustworthy Computing, who reports to the Microsoft Chief Research and Strategy Officer, oversees privacy, data security, online safety, accessibility, and environmental sustainability efforts. Our Trustworthy Computing Group is a global team of more than 400 professionals.

Commitments & Progress

Microsoft takes seriously our responsibility to promote healthy competition, innovation, and choice, as well as privacy and safety. The following are some recent examples of our actions.

Products & Services

Microsoft released several products and services in the past year that promote our goals of increased privacy and safety. These are just some of those technologies:

- PhotoDNA™:** In December 2009, Microsoft donated PhotoDNA technology to the National Center for Missing and Exploited Children (NCMEC) to help disrupt the spread of graphic child pornography images online. Since 2003, NCMEC has reviewed and analyzed almost 30 million photos and videos of child sexual abuse, and the organization projects that 9 million more such photos and videos will be reviewed and analyzed in the coming year. Developed by Microsoft Research in collaboration with Dartmouth College, PhotoDNA uses a technique known as "robust hashing" to create a unique signature, like a fingerprint, for a digital photo. This provides a way for online service providers to identify and stop the spread of the most horrific images of child sexual abuse.
- Windows Live Family Safety:** Launched in August 2009 as part of Windows Live® Essentials, Windows Live Family Safety is a free parental control program that gives parents the ability to manage their children's Internet activity, including websites and online contacts. The program can also generate a report for parents so that they can monitor their children's computer and online activity. In June 2010, Windows Live Family Safety Wave 4 beta was released, offering new image-blocking capability and improved performance and integration with Windows Parental Controls. In addition, SafeSearch is locked "on" for all major search engines and websites.

- **U-Prove:** In March 2010, Microsoft released a community technology preview of our U-Prove technology. U-Prove gives online service providers tools to help them better protect user privacy and enhance security by reducing the amount of information that users need to disclose to complete online transactions.
- **Microsoft® Forefront® Identity Manager (FIM) 2010:** By using FIM 2010 (released in March 2010), which replaces Identity Lifecycle Manager 2007, IT professionals have more tools to solve day-to-day tasks, such as delegating administration and creating workflows for common identity management tasks.
- **Internet Fraud Alert:** Together with the National Cyber-Forensics and Training Alliance (NCFTA), in June 2010 Microsoft helped release Internet Fraud Alert. Through a centralized alert system managed by NCFTA and powered by Microsoft technology, Internet Fraud Alert is a tool that can be used to quickly inform financial and online companies about compromised customer account credentials (for example, online usernames and passwords) or stolen credit card numbers.

Collaboration with Law Enforcement

In addition to developing technology tools, Microsoft supports certain law enforcement efforts through shared investigations, referrals, legal actions, and training. In the past year, this has included:

- **Winfixer scareware indictments by the FBI and the U.S. Department of Justice:** In May 2010, the FBI and the U.S. Department of Justice announced indictments in a major “scareware” scheme believed to have caused \$100 million in losses. This scareware urges consumers to purchase useless and expensive software to protect their personal computers. Microsoft experts gave the FBI data on damages and forensic analysis and testified before the grand jury.
- **Malvertising lawsuits:** In September 2009, five lawsuits were filed targeting

camouflaged malicious code within seemingly harmless online ads. These were the first lawsuits of their kind.

- **Bing Search online public service announcements:** In September 2009, Microsoft, with the Federal Trade Commission and the U.S. Postal Inspection Service, launched a series of online public service announcements within our Bing search engine to alert consumers to common online scams involving issues such as credit repair, mortgage foreclosure, and fake lottery scams.
- **Operation b49:** In February 2010, Microsoft obtained a court order to disable 277 domains believed to be part of the Waledac botnet, severing about 80,000 infected computers from the botnet and helping put an end to the ongoing damage this botnet was causing worldwide. The first of its kind, Operation b49 is expected to serve as a model for future actions through Project MARS (Microsoft Active Response for Security), a joint effort of the Microsoft Digital Crimes Unit and the Trustworthy Computing team to proactively combat cyber threats.
- **Law enforcement training programs in partnership with state attorneys general:** Since 2005, Microsoft has worked directly with attorneys general to deliver cybercrime training for law enforcement in 18 states: Alabama, Colorado, Georgia, Indiana, Kansas, Kentucky, Maryland, Massachusetts, Michigan, New Hampshire, New Mexico, New York, Oregon, South Carolina, Texas, Utah, Virginia, and Washington.
- **Case referrals:** Throughout the past year, Microsoft continued supporting cyber threat investigations through case referrals with leads for criminal enforcement actions.

Programs & Initiatives

Microsoft has several initiatives to promote privacy, security, and trust in Microsoft products and services and in the technology ecosystem. Some of key initiatives that

Microsoft has maintained over the past year include:

- **End to End Trust:** End to End Trust is the Microsoft initiative to promote privacy, security, and safety by improving the trustworthiness of who or what a computer is connected to online. We engage a broad community about the technology and social policy issues involved in addressing this subject, and we provided an update on progress in March 2010 at the RSA global security conference.
- **Security Development Lifecycle and Privacy Guidelines for Developers:** Microsoft shares our findings about writing more secure code and building privacy into technology. These efforts help other companies secure data and privacy for their organizations and customers and help developers write software that better protects privacy. In 2010, we launched an updated version of the Software Development Lifecycle at TechEd Europe that is focused on software companies with short release cycles.
- **Data Privacy Day:** Data Privacy Day is an annual, international day to raise awareness and generate discussion about information privacy. Over the past few years, privacy professionals, corporations, government officials and representatives, academics, and students in the United States, Canada, and 27 European countries have participated. On January 28, 2010, Microsoft worked with key privacy advocates, policymakers, and industry representatives to lead and participate in Data Privacy Day activities throughout the United States, Europe, and the Middle East.
- **International Safer Internet Day:** For the seventh year, Microsoft partnered with Insafe and multiple nongovernmental organizations from Helsinki to Hong Kong in raising safety awareness worldwide as part of International Safer Internet Day. The 2010 theme was "Think B4U Post," and in Europe alone, more than 600 Microsoft employees in 25 countries trained 50,000 people on how to stay safer online.

Policy

Pursuing policy solutions with governments around the world is a significant part of our effort to promote a safer online environment. Changes in policy are becoming ever more important as we move more toward cloud computing. Examples of Microsoft efforts in 2010 include:

- **Digital Due Process:** We joined with more than 30 other organizations and individuals to advocate for stronger privacy protections for communications and associated data, while preserving the legal tools necessary for law enforcement and emergency response.
- **Capacity building to fight cybercrime:** Microsoft has advocated for various policies to help curtail cybercrime. One example is our work in Nigeria. Microsoft Digital Crimes Unit, Microsoft Nigeria, and Nigeria's Economic and Financial Crime Commission (EFCC) have been working to curtail advance fee fraud (419 scams), scams that are often based on fake lotteries and bogus inheritance claims. We established the Microsoft Internet Safety, Security and Privacy Initiative for Nigeria (MISSPIN), which brings together 24 local ambassadors to educate communities around the country and find productive online alternatives to scamming. In February 2010, MISSPIN joined with leading Nigerian artists to release the anti-cybercrime song "Maga No Need Pay," which is aimed at promoting social change within Nigeria.

For additional details on Microsoft engagement with policymakers on this issue in the past year, see the <http://www.microsoft.com/citizenshipreport> site for more information.

Outlook

Looking forward to 2011 and beyond, there are four areas in which Microsoft will continue to focus our efforts to improve the online ecosystem and generate good integration among policy goals, including privacy, security, and online safety:

- **End to End Trust:** Secure Online Collaboration: As businesses move more data to the

cloud, it becomes more important to have effective tools and processes that manage access, enable collaboration, and help protect privacy and security. Microsoft will focus on identity solutions for this challenge, including applications in the areas of education and health care.

- **Aligning legal and social policies on security and privacy in a global environment:** When consumers, enterprises, and governments store and manage data through online services—that is, the data is “in the cloud”—the rules for legal investigations and access to that data take on increased importance. In 2011, we will work to initiate dialogue among governments and other stakeholders to work toward achieving more alignment on legal and social policies in this area
- **Privacy and online safety education:** Microsoft will continue to speak with consumer audiences and public officials around the globe to build awareness of the technology tools and actions that can help improve safety and privacy for both individuals and organizations.
- **Collaboration on cybercrime:** We will continue to also advance important technologies, enforcement actions, and collaborative efforts to combat cybercrime. This will include continued actions through Project MARS, advancement of PhotoDNA implementation, and educational and capacity-building efforts to mitigate the effectiveness of online scams. Microsoft will also host Digital Crimes Consortium 2010, an event that brings together industry, academia, law enforcement, and government from around the world to advance collaborative efforts to combat digital crime.

Freedom of Expression Online Approach

Societies worldwide recognize freedom of expression and privacy as fundamental human rights. Freedom of expression fosters civic engagement, promotes accountability, enriches societies, and develops individual potential. Privacy is a foundation for trust and confidence, both in governments and in technology services. Respecting and reconciling these fundamental rights are both good citizenship and essential to fostering innovation, academic inquiry, economic development, and personal well-being.

In 2008, Microsoft helped form the Global Network Initiative (GNI), an organization dedicated to advancing Internet freedom. GNI was formed in collaboration with other leaders from industry, human rights organizations, academics, and socially responsible investors and was launched to coincide with the 60th Anniversary of the Universal Declaration of Human Rights. Microsoft is committed to the GNI's principles and guidelines for business and is working to promote these principles and create opportunities for ongoing learning.

The GNI informs our engagement in markets throughout the world. While we must adhere to local laws to which we are subject, legal compliance does not necessarily require absolute or reflexive deference to local authorities. If we disagree with governments, we try to find the most constructive and pragmatic approach to sustain a principled stand. Sometimes that involves public statements of our views; other times we may find it more constructive to engage directly with the government.

Microsoft has integrated support and responsibility for human rights, free expression, and privacy into our business operations. A cross-company senior management team oversees our efforts on our freedom of expression initiatives and is responsible for implementation of the GNI principles and guidelines.

Commitments & Progress

Privacy and Data Location

In 2009 Microsoft formalized some additional steps to help protect the privacy of customer data, including in the context of free expression. For example, we consider free expression and privacy when determining the markets where we will store customer data. Before certain types of personal information can be hosted in a particular country, Microsoft undertakes a risk assessment process. This includes an examination of the country concerned, including a review of its overall human rights situation and the rule of law, as well as specific laws, policies, and practices. Senior executive leadership reviews this assessment before approving a decision to locate the personal information in the country.

Content Principles

In responding to restrictions on content and communications, Microsoft is committed to the GNI guidelines on freedom of expression, including those that relate to handling government demands to filter or remove access to content. We have also been working to audit and enhance our 2006 blog content principles with the goal of forming a core set of guidelines that can be applied to all Microsoft content services worldwide.

Applying the Principles to Business Operations in China

Recognizing the particular interest that some of our stakeholders have concerning China, we note that as we finalize our principles, we will apply them to China as we do to our business in the rest of the world. The decision to leave or enter a market is an important one, and we acknowledge that different companies will make different decisions. Microsoft continues to offer certain online services, such as Bing, to citizens in China. This requires that we grapple with censorship laws and requests. We believe that continuing to offer these services while following a principled approach is right for citizens because it widens free access to

information, promotes the role of information technology in society, and advances rule of law.

We continually review the overall value of our services in China and in other markets. We do not believe that advances toward a freer Internet will result simply because we are doing business there. Instead, we operate in China in a manner that both respects local authority and culture and makes clear that we have differences of opinion with official content management policies. We do so both in our direct dialogue with the government and in promoting mutual understanding between U.S. and Chinese industries and governments. In December 2009, for the third time, we helped convene the annual U.S.-China Internet Industry Forum, gathering U.S. and Chinese academics, industry, and government officials for precisely this sort of dialogue.

Microsoft believes that this is a responsible approach and will continue to advocate for policies and enforcement that protect individual online users, foster a healthy online ecosystem, and promote free expression and privacy online.

Outlook

In the coming year, Microsoft will continue efforts to help build the GNI as a source of expertise on Internet freedom issues and to help its principles and guidelines take root globally. Microsoft will work with the GNI to help it better communicate and engage with people around the world who are interested in the issues related to free expression online. The GNI will soon publish a report to the public, and it will hold issue discussions and roundtables throughout the coming year.

Microsoft also plans to complete the initial phase of our internal implementation of the GNI guidelines and to prepare for an independent assessment of our work to date. We will continue our efforts to advocate for sound public policies, including through exchanges that seek to promote dialogue and understanding among nations.

Other specific plans for the coming year include:

- Using Microsoft products and services to enable new forms of civic engagement. For example, Microsoft Townhall is a software suite that helps political candidates and issue advocates get online, discuss issues, drive awareness, and engage with the public. Through the CampaignReady website, we will continue to aggregate information on Townhall and provide other resources to help campaigns communicate freely and succeed.
- Empowering governments to be more open, transparent, and connected to the citizens they serve. By building privacy and security into our cloud offerings, for example, we hope that governments will be more willing to expand the ways in which they connect with citizens, such as making official data available online. As an example, Microsoft will be part of a project, along with the Inter-American Development Bank, to help Haiti put data about reconstruction efforts online and in the open.
- Expanding engagement with nongovernmental organizations that are focused on promoting independent media, bloggers, and journalists. For many, the personal computer and online services are the essential tools with which they do their work. Organizations that support the media can, we believe, benefit from resources and guidance to help make their computers more secure; to help ensure that they have legal, secure software on those computers; and to help protect themselves online. We also hope to make software donations and other support available where we can.
- Helping convene the fourth U.S.-China Internet Industry Forum in Beijing in November 2010. We expect participation from senior U.S. and Chinese government officials, industry leaders, and academics. The event will create an environment for constructive and candid dialogue on key Internet policy issues, including privacy, cybercrime, e-commerce, and freedom of expression.



Operating Responsibly

Governance & Compliance

Microsoft conduct as a company is guided by a set of corporate values. First among them is “integrity and honesty.” To help us live up to our values, we have embedded strong corporate governance practices and a culture of compliance into all areas of our business.

responsible decision making. In FY2010, Microsoft continued to strengthen existing governance practices and developed new policies that make Microsoft a better company. Initiatives introduced in the past year include Board adoption of “Say on Pay,” a policy that enables Microsoft shareholders to cast a non-binding, advisory vote every three years on the compensation programs for our executive officers, and the right of shareholders to call special meetings.



Corporate governance at Microsoft is led by the Governance and Nominating Committee of the Board of Directors and by our Lead Independent Director. Compliance is led by Microsoft General Counsel, who is also our Chief Compliance Officer.

Compliance & Responsible Competition

We manage our business in compliance with our corporate policies as well as the laws and regulations of the geographies in which we do business. The Microsoft Office of Legal Compliance is responsible for ensuring our compliance and ethical conduct, thereby reinforcing our commitment to integrity and corporate responsibility. Central to this work are the Microsoft Standards of Business Conduct, to which every employee must adhere.

Corporate Governance

Corporate governance at Microsoft is used to promote the long-term interests of our shareholders, as well as to maintain internal checks and balances, strengthen management accountability, and foster

Corporate Governance

Approach

Microsoft has a strong track record of leadership in corporate governance and has earned top rankings from independent advisory and ratings firms. We know that good governance practices can help engender public trust and confidence. We employ a thoughtful approach that is guided by long-term thinking, accountability of management to shareholders and other stakeholders, and a desire to set industry-leading standards. This approach is encapsulated in the Microsoft Corporate Governance Guidelines, which we review on an ongoing basis.

Commitments & Progress

During FY2010 Microsoft outperformed 99 percent of S&P 500 companies and all companies in our sector for corporate governance, as measured by Institutional Shareholder Services, a leading independent ratings firm. These achievements reflect the outcome of our focus on identifying good governance practices that best serve the interests of Microsoft and its shareholders.

Board of Directors

Shareholders elect the Microsoft Board of Directors to oversee management and to ensure that the long-term interests of the company are served. Through oversight, review, and counsel, the Board establishes and promotes Microsoft business and organizational objectives. The Board oversees the company's business affairs and integrity, works with management to determine the company's mission and long-term strategy, performs the annual chief executive officer (CEO) evaluation, oversees CEO succession planning, establishes internal control over financial reporting, and assesses company risks and strategies for risk mitigation.

In FY2010 there were no new appointments to the Board. Dr. James I. Cash retired from the Board and did not stand for reelection at the November 2009 annual shareholder meeting. Through FY2010 all five Board committees (Antitrust Compliance, Audit, Compensation, Finance, Governance and Nominating) consisted solely of independent directors, who provide objective oversight of the company's management and direction. Raymond V. Gilmartin acted as the Lead Independent Director.

Board of Directors, FY2010

Number of Board members	9
Percentage of independent directors	78%
Number of Board committees	5
Independence of directors serving on Board committees	100%
Separate Chairman and CEO	Yes, since 2000
Lead Independent Director	Yes, since 2004
Annual Board, committee, and individual member evaluations	Yes
Number of Board meetings held	7

Shareholders

Microsoft recognizes that accountability and responsiveness to shareholders makes us a stronger company.

Our ongoing approach to executive compensation involves building a strong link between pay and performance and making sure that we provide incentives for appropriate risk taking. To support these objectives, Microsoft:

- Proactively adopted a "Say on Pay" policy,

which was approved by shareholders. Under this policy, shareholders have the opportunity to cast an advisory vote every three years on the compensation of executive officers. The first vote took place at the November 2009 annual meeting; almost 99 percent of the votes received supported current compensation policies

- Added stronger policies to claw back executive compensation in circumstances that involve restated financial or nonfinancial metrics, even if no improper conduct is involved
- Adopted a policy that prohibits the Microsoft Board and executive officers from hedging their ownership of Microsoft stock, including trading in publicly traded options, puts, calls, or other derivative instruments related to Microsoft stock or debt
- Changed our policy for reimbursement of certain relocation benefits if an executive leaves Microsoft within two years of commencing employment

Microsoft shareholders also supported a Board-sponsored proposal to amend our articles of incorporation to give our shareholders the right to call special shareholder meetings. The proposal received a vote of over 99 percent of votes cast (and 85 percent of shares entitled to vote).

Engagement of shareholders also continued to be a focus in FY2010. We actively engaged with investors on corporate governance issues, including investors representing about 30 percent of shares outstanding and those representing the socially responsible investment community.

We Said We Would	We Have
Continue to act as an industry leader in corporate governance.	Out-performed 99 percent of S&P 500 companies in FY2010, as measured by a leading independent ratings firm
Maintain the independence of the Board of Directors	Retained seven independent board members out of a total of nine Board positions in FY2010
Achieve greater diversity on the Board of Directors	Exceeded the average percentage of women Board members for S&P 500 companies, with 22 percent of Board members being women
Maintain and increase our dialogue with shareholders	Corresponded with representatives of our 50 largest investors (carried out by the Lead Independent Director)
	Reached out to our largest investors and public pension funds (carried out by members of management); together these investors hold about 30 percent of shares outstanding
	Regularly contributed to governance-focused blogs on Microsoft on the Issues
Adopt Say-on-Pay	In September 2009, our Board of Directors strengthened its commitment to strong corporate governance by adopting a Say-on-Pay policy that enables our shareholders to provide direct feedback to us on our executive compensation policies and practices. Under the policy, our shareholders were given the opportunity to cast a non-binding, advisory vote every three years on the compensation programs for our executive officers. The first vote took place at our November 2009 annual shareholders' meeting where nearly 99% of the votes cast supported our executive compensation practices.

FY2010 Shareholder Data

Shares of Microsoft common stock outstanding (as of July 20, 2010)	8,653,567,331
Registered holders of record of common stock (as of July 20, 2010)	138,568
Directors elected by the vote of a majority of votes cast in uncontested elections	Yes

Find more facts and figures about Microsoft Corporate Governance on the Microsoft Investor Relations website at <http://www.microsoft.com/IR>.

Outlook

In FY2011 Microsoft anticipates that areas of focus will be:

- Implementing the newly adopted regulation and disclosure requirements as outlined in the Dodd-Frank Wall Street Reform and Consumer Protection Act.
- Continuing to find additional ways to facilitate dialogue between shareholders and the company.
- Engaging in cross-industry dialogues, such as the Conference Board Governance Center, to help us identify and contribute to the development of best practices.
- Examining how we manage enterprise and external risk and the evolving role and involvement of the Board in risk management.

Compliance & Responsible Competition Approach

Microsoft knows that how we conduct ourselves and our business is as important as delivering quality products and services. We aim to be open about our business operations, transparent in our dealings with stakeholders, and compliant with the laws and regulations that apply to our business. We strive to exceed legal requirements by conducting our business ethically, responsibly, and with integrity.

Every Microsoft employee is required to participate in training regarding the Microsoft Standards of Business Conduct. This is a collective commitment to ethical business behavior and to legal and regulatory compliance. Additionally, our 62,000 contractors, suppliers, and vendors are guided by our Vendor Code of Conduct, which requires compliance with Microsoft standards, values, and practices. The Vendor Code of Conduct is available in 35 languages.

The Microsoft Office of Legal Compliance also partners with the Microsoft Sales, Marketing, and Services Group to run a worldwide compliance committee and regional compliance committees that help promote a culture of compliance throughout the business. All Microsoft employees have access to the Microsoft Integrity website and toll-free telephone numbers that can be used to report misconduct or discuss compliance or ethics concerns.

Microsoft does not tolerate any kind of bribery or corruption. Every employee is expected to comply with the Microsoft Standards of Business Conduct and receives training on ethical conduct and environmental practices as part of new employee orientation.

Microsoft is also committed to competing responsibly. We continue to believe that customers should be able to select the best technology tool for their needs. We pro-

mote interoperability so that hardware and software from various vendors can work well together. We work with other developers—including the open source community—to develop interoperable solutions, share intellectual property to stimulate innovation, and participate in industry organizations and communities.

Microsoft Interoperability and Responsible Competition initiatives are led by the Interoperability Strategy Group within our Legal and Corporate Affairs Department.

To view the Microsoft Vendor Code of Conduct go to <http://www.microsoft.com/citizenshipreport>

Commitments & Progress

We Said We Would	We Have
Provide training on Microsoft Standards of Business Conduct	Trained over 99 percent of employees in FY2010
Be inclusive of multiple topics in the Standards of Business Conduct training	Included training topics such as anticorruption, conflicts of interest, and financial integrity in FY2010
Make the Microsoft Standards of Business Conduct available in multiple languages	Provided the document in eight languages: Chinese (Simplified), Chinese (Traditional), English, French, Japanese, Korean, Russian, and Spanish

Antitrust Compliance

In late 2009, the U.S. Department of Justice (DOJ) declared in court that the Microsoft work on documenting various Windows protocols was substantially complete. This recognition by the DOJ of the accomplishments of our protocol documentation teams is an important step in our compliance with the consent decree that terminated the competition lawsuit against Microsoft brought in the late 1990s.

In December 2009, the European Commission and Microsoft arrived at a resolution

on a number of long-standing competition law issues. Microsoft made a legally binding commitment that personal computer manufacturers and users will continue to be able to install any browser on Windows, make any browser the default browser, and turn access to Internet Explorer on or off. In addition, Microsoft agreed to use Windows Update to provide a browser choice screen to Windows users in Europe who are running Internet Explorer as their default browser. This browser choice screen presents a list of browsers and provides links to learn more about them and install them. The design and operation of this choice screen was worked out in the course of extensive discussions with the Commission and is reflected in the commitment that Microsoft made. Starting on March 1, 2010, users who received the choice screen were free to choose any browser or to keep the browser that they have, as they prefer. The browser choice screen software update is also being offered as an automatic download through Windows Update for Windows XP, Windows Vista®, and Windows 7.

Microsoft compliance with antitrust rulings is overseen by the Board of Directors and particularly the Antitrust Compliance Committee.

Responsible Competition

Microsoft has articulated its commitment to responsible competition and interoperability in a series of principles, including the following:

- **Windows Principles:** For the past four years, we have followed these principles to ensure that Windows continues to foster competition and innovation in the marketplace.
- **Interoperability Principles:** Two years ago, Microsoft created a set of specific Interoperability Principles. The Interoperability Principles include ensuring open connections, promoting data portability, enhancing support for industry standards, and fostering more open engagement with customers and the industry, including open source communities.

We have implemented these principles broadly in the design of Microsoft products,

the technical information that we make available about them to foster interoperability, the licenses to Microsoft intellectual property that we make available, the “plug-fest” that we organize to test interoperability with other vendors’ products, and the feedback that we solicit from customers, the developer community, and others.

In FY2010, Microsoft released Windows 7, the latest version of our flagship operating system product. Windows 7 was designed and is licensed in full compliance with the consent decree and the Windows Principles.

We also took a big step forward in FY2010 in releasing thousands of pages of updated technical information regarding Microsoft products that is useful for interoperability. This includes a broad range of interoperability information relating to Microsoft Office 2010, including extensive documentation on how Office 2010 implements the industry-standard Open XML document formats. This information will help other developers build interoperable solutions to work with Office 2010.

We also substantially strengthened our participation with standards organizations in FY2010. Microsoft personnel are now contributing ideas and technology to a range of standard organizations throughout the world.

Outlook

Over the course of the next year, Microsoft will continue to work closely with governments in the United States and Europe to ensure continued compliance with the various obligations we have assumed in resolving competition law concerns. We will continue to focus on preparing and releasing technical information about Microsoft products (especially new products as they are developed) to foster interoperability. We are continuing to strengthen our support for important industry standards in Internet Explorer, with a new release now under development.



Operating Responsibly

Public Policy

Microsoft engages with governments around the world as part of the daily work of our business and Citizenship efforts. We engage on public policy issues that are core to our business. We believe that our engagement serves our business interests and also creates stronger, more informed public policies in the places where we operate.



We exercise constant vigilance to be ethical, open-minded, and transparent in our policy and political interactions. We aim to contribute to the democratic exchange of ideas and to uphold the expectations of our stakeholders and the interests of our shareholders.

Our engagement in public policy is led by our Corporate Vice President and Deputy General Counsel, Global Corporate Affairs.

Public Policy Agenda Approach

Public policy and public policy debates have a significant effect on our business and on the societal issues in which we invest. Microsoft engages with governments and political stakeholders on policy issues that we believe have a major impact on our business, our employees, and our communities. We also engage on issues to which we feel, given our core competencies, we can make a unique contribution and help inform the policy conversation.

Throughout this engagement, we are mindful to engage responsibly and thoughtfully—considering the effects of policy not just on our business, but also on society. As in previous years, in FY2010 Microsoft adopted and published a public policy agenda that highlights our views on key policy issues and guides our engagement. We believe that there are the three crucial areas in which government policies can help the global economy and communities worldwide realize the benefits of information technology (IT).

- **Strengthening economies:** Microsoft advocates for policies that promote long-term investment in jobs and innovation, including those that promote direct government investment in IT, incentives for basic research, government choice in IT procurement, and incentives and rewards for the development and enforcement of intellectual property rights.
- **Addressing societal challenges:** We engage with policymakers to highlight the critical role technology can play in improving access to quality health care, improving education, expanding worker retraining opportunities, improving energy use and efficiency, and helping governments become more transparent and effective.
- **Promoting a healthy online ecosystem:** We actively advocate for policies that support a safe Internet for consumers; secure cloud computing; online privacy; uniformity of laws across jurisdictions regarding user choice, interoperability, and free expression; competitive markets for search and advertis-

ing; and increased access for people with disabilities.

The Microsoft public policy agenda and additional information on areas of policy focus are available on the Microsoft Corporate Citizenship website at <http://microsoft.com/publicpolicy>.

Commitments & Progress

Strengthening Economies

The technology industry, including Microsoft and our partners, is a major driver of jobs and innovation globally. We are working with governments around the world to find ways to spur job creation and innovation. In FY2010, we did this in a number of ways, including the following:

- Microsoft Chief Research and Strategy Officer Craig Mundie served on President Obama's Council of Advisors on Science and Technology, working with the administration, educators, and other industry leaders to develop U.S. innovation policy.
- We partnered with governments and agencies to implement workforce development programs such as Britain Works and Elevate America to provide workers with training in the technology skills that they need for twenty-first century jobs.
- In November, President Obama launched Educate to Innovate, a national initiative to inspire students to develop science, technology, engineering, and math (STEM) skills. Microsoft partnered with the administration on this initiative, providing support for STEM education, including STEM-related video games for 12 to 16 year olds.

Addressing Societal Challenges

In the United States, much of FY2010 was dominated by debate over the future of health care. This led to the health-care reform bill that was signed into law in March 2010. As this bill took shape, Microsoft engaged with policymakers to find ways

that technology could expand access to health care and decrease the cost of health-care delivery. This work was started with the 2009 American Recovery and Reinvestment Act, which authorized about \$20 billion in stimulus funding to spur adoption of technology by health-care providers.

The final health-care reform package continued to recognize technology as a fundamental pathway to the future success of the U.S. health-care delivery system. The basic framework of the new law promotes innovation and the use of technology to deliver on the promise of reform—evolving our nation’s health to drive better decision-making, broad-scale innovation, and consumer focus so that everyone can take advantage of advances in medicine, including more personalized care. The Recovery Act and health-care reform law are the initial steps in a longer path to meaningful and sustained changes to health care, and Microsoft will continue to participate in the process of implementing these laws.

Beyond the United States, Microsoft worked with governments to examine how technology could be used to promote better access to health care. Among these efforts, in October 2009, Microsoft Research convened the mHealth Summit to discuss how the world’s 6.5 billion people can gain access to better health care with the assistance of mobile technology. More than 650 researchers and policymakers attended and exchanged ideas to encourage the development and deployment of practical, affordable, and effective technology solutions to health-care challenges in underserved and resource-poor populations.

Promoting a Healthy Online Ecosystem

The future of cloud computing is dependent upon government action to create a robust legal framework for privacy and security that protects and provides user rights and benefits online. Microsoft leaders, including Microsoft CEO Steve Ballmer, engaged in numerous forums in FY2010 to ensure that policy leaders understand the challenges and opportunities inherent in the cloud.

In January 2010, Microsoft General Counsel Brad Smith gave a speech at the Brookings Institution in Washington, D.C., outlining specific legislative steps that the U.S. government should take to prepare for the future of the cloud. These included:

- Updating the Electronic Communications Privacy Act to better protect online communications.
- Reforming the Computer Fraud and Abuse Act to develop stronger protections against cyber attacks.

We also continue to broadly engage with policymakers—several times testifying before congressional committees—to more broadly address Internet safety and security concerns. In February 2010, the U.S. House of Representatives took a step forward in cybersecurity by passing the Cybersecurity Enhancement Act. The bill would devote resources to developing the skills and tools necessary to counter cyber threats. Although the bill has not yet been passed by the Senate, we are hopeful that this bill will progress and Congress will begin to put in stronger mechanisms for keeping Internet users safe online.

To further these and other legislative efforts to create a safer Internet, Microsoft is collaborating with industry peers. For example, in March 2010, Microsoft became a founding member of the Digital Due Process (DDP) coalition to encourage the U.S. Congress to update the Electronic Communications Privacy Act (ECPA) to give consumer data online the same protections given to data stored offline.

Outlook

In FY2010, Microsoft participated in significant policy advancements to strengthen economies, address societal challenges, and promote a healthy online ecosystem. In FY2011, we will continue to focus heavily on working with governments to put in place the critical protections to help keep all Internet users safe online and to enable the continued growth and use of the Internet and cloud computing.

Advocacy Approach

Microsoft and our employees engage in the political process in the countries and regions in which we operate to promote our business interests, share our knowledge and expertise, and create public policies that support our business and benefit society. We have strict principles that guide our political engagement in an ethically responsible and transparent manner.

and the software industry. MSPAC is a bipartisan organization that contributes to the campaigns of federal, state, and local candidates. MSPAC typically supports candidates who share Microsoft views on public policy, serve as congressional or legislative leaders, represent districts or states where Microsoft has a major business presence, or serve on committees that have jurisdiction over legislation that is important to the company.

For the last calendar year (2009), MSPAC made political contributions totaling \$887,160.

Commitments & Progress

U.S. Political Principles

Our engagement in the political process in the United States is governed by ten political principles. These include:

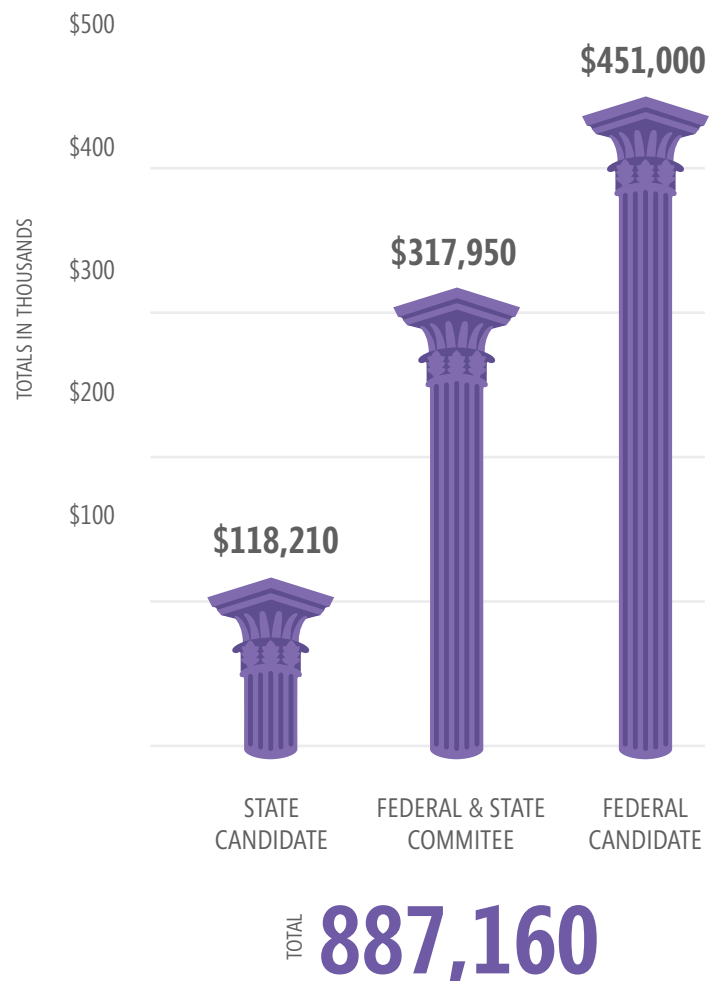
- Political spending will reflect the company's interests and be used to further its public policy agenda and not the personal agenda of individual officers, directors, or employees.
- Microsoft does not make corporate contributions to any noncandidate or nonparty political committee organized under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

The principles are available on the Microsoft Corporate Citizenship website at <http://www.microsoft.com/advocacy>. These principles are reviewed regularly and were most recently updated in June 2010.

Political Contributions

The Microsoft Political Action Committee (MSPAC) helps Microsoft employees and shareholders participate in the U.S. political process and jointly support public policy positions that are important to Microsoft

Microsoft Political Actions Committee 2009* Contributions



*This represents calendar year 2009 contributions

*This represents calendar year 2009 contributions

In addition to the contributions made by MSPAC, Microsoft as a company contributed \$233,182 to state and local political campaigns in 2009.

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

Lobbying

In compliance with regulations and our commitment to transparency, Microsoft regularly files reports detailing our lobbying activities.

The following are the trade associations to which our Corporate and Regulatory Affairs Group contributed \$100,000 or more in calendar year 2010.

- Association for Competitive Technology
- Business Software Alliance
- Information Tech Industry Council
- US Chamber of Commerce
- International Association of Microsoft Certified Partners Inc.
- Washington Roundtable
- Business Roundtable

Outlook

As part of our strong commitment to responsible and transparent business practices, Microsoft seeks to be open about our dealings with all stakeholders and about our direct and indirect engagement in the political process. We have been recognized as a leader for our political disclosure policies by the Center for Political Accountability, a nonprofit, nonpartisan organization based in Washington, D.C., that promotes corporate political transparency and accountability. We have strong internal controls to ensure that our engagement in the political process seeks to advance legitimate business goals, and to preclude the opportunity for undue influence by any individual employee.

In FY2011 Microsoft will continue to work with a range of stakeholders, including investors and advocates, to advance the principles of openness, transparency, and accountability. We welcome the opportunity to work with other corporations as they seek to advance openness, and we will continue to regularly review our own policies and our relationships with external groups to make sure that they are consistent with our values and our commitment to responsible and transparent business practices.

FY2010 Lobbying Expenditures Contributions

Jurisdiction	Total Expenditure
United States (Federal)	\$6,750,000
United States (State)	\$2,480,000
European Commission & Parliament	\$1,370,000

U.S. Trade Association & Business Coalition Memberships

Microsoft is a member of a number of trade associations and business coalitions in the United States that help us work collectively with industry peers to advance issues that affect our business and society.

A full list of our memberships is available on the Microsoft Corporate Citizenship website at <http://www.microsoft.com/advocacy>

About This Report

This report covers Microsoft nonfinancial performance and impact. It was published on September 30, 2010, at the same time as our Fiscal Year 2010 (FY2010) annual financial report. It provides an account of Microsoft global Citizenship work and the social and environmental impact of our business. The reporting period covers July 2009 to June 2010.

To view the Global Reporting Initiative Index go to www.microsoft.com/citizenshipreport

In compiling this report, we have been guided by the Global Reporting Initiative (GRI) G3 Sustainability Reporting Guidelines. We provide additional GRI-related information through the data provider OneReport®. These data and additional reporting, including our annual United Nations Global Compact Communication on Progress, annual update on our activities related to the UN Millennium Development Goals, and annual submissions to the Carbon Disclosure Project, are available on the Microsoft Corporate Citizenship website at <http://www.microsoft.com/citizenship>.

In response to heightened stakeholder interest, we intend to report annually in September going forward. In FY2010 we have also started a process to enhance the scope, depth, and quality of information

provided, as well as our method of assessing material issues. In FY2010 this report was authored and reviewed by internal Microsoft stakeholders only. However, we acknowledge the value of third-party report review, verification, and assurance, and we will seek additional insight and feedback as we author future reports.

This report aims to present pertinent information about the global business of Microsoft (particularly Microsoft Corporation and major subsidiaries, as described in our 2010 10-K filing), as well as to report on important social, environmental, and economic impacts. This report should be reviewed alongside the FY2010 Microsoft annual financial report, which provides additional facts, figures, and analysis. This report represents a significant enhancement in our nonfinancial reporting compared to previous years. Moving forward, Microsoft is committed to continued year-on-year improvement in the way we measure and report our performance against our Citizenship efforts.

In addition to this annual Citizenship Report, many of the Microsoft field offices in more than 100 countries/regions also publish information that is relevant to their local stakeholders and markets. Other examples of how we continually report on and evaluate Microsoft Citizenship include:

- Direct dialogues with stakeholder groups, as well as with industry and issue-advocacy organizations.
- Updates to our website and blogs to reflect recent initiatives and progress.
- Research and white papers on specific focus areas.
- Economic impact data and hundreds of case studies through the Microsoft Local Impact Map.

- OneReport® (download at <http://www.microsoft.com/citizenshipreport>)
- An annual Communication of Progress to the United Nations Global Compact and on the UN Millennium Development Goals.

Information, Feedback, and Concerns

For more information on the Citizenship initiatives and programs described in this report, visit the Microsoft Corporate Citizenship website at <http://www.microsoft.com/citizenship>.

To provide feedback on this report or to contact the Microsoft Citizenship team, send an email message to mcitizen@microsoft.com, or write to Microsoft Corporate Citizenship, Microsoft Corporation, One Microsoft Way, Redmond, WA 98052, USA.

To report concerns about Microsoft reporting, internal controls and procedures, auditing matters, or other corporate matters, contact the Microsoft Board of Directors at askboard@microsoft.com, or write to Microsoft Corporate Secretary, Microsoft Corporation, One Microsoft Way, Redmond, WA 98052, USA.

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