

Microsoft 2015 Citizenship Report

Letter from Our CEO

Over the past year at Microsoft, we've challenged ourselves to rediscover what it is about the core of our company that really matters. How can we make a difference in this world in a way that no other company can? We've begun by embracing a new mission: to empower every person and every organization on the planet to achieve more. To achieve our mission, we've defined business **ambitions** that are equally bold: to reinvent productivity and business processes, to build the intelligent cloud platform, and to create more personal computing.

The true test of the difference we make is the impact we have on people's lives. This is why I traveled to Nanyuki, Kenya, to celebrate the launch of Windows 10. Nestled in the foothills of Mt. Kenya, 125 miles north of Nairobi, Nanyuki is a place where sending an email or accessing the Web in the past required a five-hour walk to the nearest wireless hotspot. Now, an **innovative technology** developed by Microsoft researchers, one that takes advantage of underutilized television broadcast spectrum, is helping to provide low-cost Internet access to the residents of Nanyuki. In the novel "The Flame Trees of Thika" set among these same foothills, Elspeth Huxley writes that "when the present stung her, she sought her antidote in the future."

That future is now brighter. This fall, I visited Latin America to learn how technology is being used to empower people and businesses across the region. In Toluca, Mexico, just outside Mexico City, I saw this firsthand at a YouthSpark-POETA center that offers people from underrepresented backgrounds access to digital literacy, computer science training and mentoring, and resources to seek employment and entrepreneurship opportunities. I met with students and young entrepreneurs who had been inspired to start their own businesses, and in turn apply those learnings to teach others, and it was a profound reminder of the impact we can have in the world.

To really make a difference, it's not enough to build great products and services. Living up to our mission also depends on how well we apply our technology, talent and financial resources to foster opportunity and serve the needs of communities around the globe where our employees, partners and customers live. We recognize that our ability to pursue these goals requires that we conduct our business with integrity, with respect for human rights, and in ways that promote environmental sustainability.

This report summarizes our work during fiscal year 2015 to meet the high expectations that we have for ourselves and that our customers, communities and other stakeholders have for us. Highlights include our efforts to address climate change through an industry-leading internal carbon fee and new policies designed to ensure that our U.S. suppliers provide paid leave to their employees who handle our work. In addition, in FY15, we made more than \$922 million in technology donations to more than 120,000 nonprofit organizations globally, and Microsoft employees contributed \$117 million to nearly 20,000 nonprofits through our corporate giving campaign.

We're particularly proud of our efforts to increase access to education and opportunity for young people. This year we surpassed the three-year goal for our **YouthSpark** initiative by creating opportunities for education, employment and entrepreneurship for 307 million youth worldwide. Over the next three years we are committing \$75 million to the next generation of our YouthSpark initiative to increase access to computer science education for all youth worldwide, especially those from under-represented backgrounds.

As I've shared with Microsoft employees, I believe we can do amazing things when we come together with a clear mission and a culture that brings out the best in us as individuals and collectively. Microsoft's citizenship commitments help us ensure that what we accomplish together not only advances our business but also ultimately increases the positive impact we have in places like Nanyuki and Toluca and everywhere we do business around the world.

Sincerely,



Satya Nadella
Chief Executive Officer

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FY15 Select Performance Highlights

Ethical Business Conduct and Governance

More than 99 percent of Microsoft employees completed annual training on our Standards of Business Conduct, which is available globally in 19 languages.

Our People

Eighty-four percent of employees polled said they would recommend Microsoft as a great place to work.

The percentage of minorities in our global workforce grew from 39 to 41 percent and the percentage of Microsoft senior executive women and minorities increased from 27 to 30 percent.

Empowering Communities

Microsoft's total annual giving surpassed \$1 billion for the second year in a row, with cash donations of \$135 million and in-kind donations worth \$922 million.

We surpassed the 3-year goal for our YouthSpark initiative by creating opportunities for education, employment, and entrepreneurship for 307 million youth worldwide.

Human Rights

Microsoft maintained our active membership in the Global Network Initiative, a collaborative effort regarding practical steps and policies technology and communication companies can adopt to respect and advance the freedom of expression and privacy rights of their users when faced with government demands. We were also the first major cloud provider to gain independent verification for meeting the world's first international standard for cloud privacy.

In working to protect the rights of vulnerable populations, we launched a free cloud-based version of PhotoDNA, to further increase access to this technology used to help identify and remove child sexual abuse images from the Internet.

Responsible Sourcing and Manufacturing

In FY14, we completed 314 third-party audits and Microsoft assessments of 138 Tier 1 and high- and medium-risk Tier 2 hardware suppliers. Critical/serious nonconformance findings are detailed in this report. In all of these instances, the suppliers instituted corrective action plans that were approved by Microsoft, and follow-up audits confirmed that the suppliers were implementing the corrective action plans.

We continued to expand our work with our hardware suppliers to build their capabilities on environmental health and safety management and to improve factory workers' living environments.

We also continued to enhance our work to advance responsible sourcing with our non-hardware suppliers, including new policies designed to ensure that our U.S. suppliers provide paid leave to their employees who handle our work.

Environmental Sustainability

We met our carbon neutrality commitment through internal efficiency projects, the purchase of more than 3 billion kilowatt hours (kWh) of renewable energy (equal to 100 percent of our global electricity use), and a carbon offset project portfolio representing more than 600,000 metric tons of carbon dioxide (CO2) emissions.

Our Company

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- 1.2 Citizenship Governance
- 1.3 Stakeholder Engagement
- 1.4 Citizenship Materiality Assessment
- 1.5 About This Report

1.1 Our Business

Microsoft is a technology company whose mission is to empower every person and every organization on the planet to achieve more. Our strategy is to build best-in-class platforms and productivity services for a mobile-first, cloud-first world.

Founded in 1975, we operate worldwide and have offices in more than 100 countries. We develop, license, and support a wide range of software products, services, and devices that deliver new opportunities, greater convenience, and enhanced value to people's lives. We offer an array of services, including cloud-based services, to consumers and businesses. We design, manufacture, and sell devices that integrate with our cloud-based services, and we deliver relevant online advertising to a global audience.

Our products include operating systems for computing devices, servers, phones, and other intelligent devices; server applications for distributed computing environments; cross-device productivity applications; business solution applications; desktop and server management tools; software development tools; video games; and online advertising. We also design and sell hardware including PCs, tablets, gaming and entertainment consoles, phones, other intelligent devices, and related accessories. We offer cloud-based solutions that provide customers with

software, services, platforms, and content. We also provide consulting and product and solution support services, and we train and certify computer system integrators and developers.

As of June 30, 2015, we employed approximately 118,000 people on a full-time basis, 60,000 in the United States and 58,000 internationally. Of the total employed people, 39,000 were in product research and development, 29,000 in sales and marketing, 32,000 in product support and consulting services, 8,000 in manufacturing and

distribution, and 10,000 in general and administration. We develop most of our products and services internally through three engineering groups.

- The Applications and Services Engineering Group focuses on broad applications and services core technologies in productivity, communication, education, search, and other information categories.
- The Cloud and Enterprise Engineering Group focuses on development of our cloud infrastructure, server, database, customer relationship management (CRM), enterprise resource planning (ERP), management, development tools, and other business process applications and services for enterprises.
- The Windows and Devices Engineering Group focuses on our Windows platform across devices of all types, hardware development of our devices—including Xbox consoles, Surface devices, Lumia phones, non-Lumia phones, Surface Hub, Microsoft Band, and other hardware products and accessories—and associated online marketplaces.

During FY15, our research and development expense was US \$12.0 billion, 13 percent of revenue. To carry out our strategy, our research and development efforts focus on three interconnected ambitions:

- Reinvent productivity and business processes.
- Build the intelligent cloud platform.
- Create more personal computing.

In addition to our main research and development operations, we also operate Microsoft Research. Microsoft Research is one of the world's largest computer science research organizations, and works in close collaboration with top universities around the world to advance the state of the art in computer science, providing us a unique perspective on future technology trends and contributing to our innovation.

Detailed, updated information about Microsoft's business, operations, and workforce is **available here**.

1.2 Citizenship Governance

Microsoft's citizenship mission is to serve globally the needs of communities and to fulfill our responsibilities to the public. In doing so, we seek to apply the power of our corporate policies and business practices, our products, and our investments in communities to advance our company mission to empower every person and every organization on the planet to achieve more.

The **charter for the Regulatory and Public Policy Committee** of our Board of Directors includes the responsibility to "review and provide guidance to the board and management about the company's policies and programs that relate to corporate citizenship, including human rights, environmental sustainability, corporate social responsibility, supply chain management, charitable giving, and political activities and expenditures." It does so on a semi-annual basis.

Microsoft's Citizenship and Public Affairs team sits within our Legal and Corporate Affairs Group and drives initiatives and engages with groups across Microsoft to help the company fulfill its responsibilities as a global corporate citizen and deliver added value to the company and its stakeholders. This team of 30+ professionals develops our global citizenship strategies and works in partnership with local Microsoft citizenship and corporate affairs professionals around the world to advance our citizenship commitments wherever we do business. The General Manager of Citizenship and Public Affairs reports directly to Microsoft's Executive Vice President and General Counsel, who sits on CEO Satya Nadella's Senior Leadership Team.

More broadly, citizenship at Microsoft relies on the combined efforts of all our employees, including colleagues in dozens of other leadership roles, business and operational groups, and global subsidiaries. Together, they help identify emerging issues and societal challenges where Microsoft can add the greatest value, develop and implement new strategies and programs, and monitor our progress.

1.3 Stakeholder Engagement

To inform our decisions, we regularly communicate with thousands of stakeholders globally ranging from parents concerned about their child's online safety to international human rights experts. These engagements take many forms.

Employees from our business and operational groups regularly identify and engage with stakeholders in the course of their daily work activities. Our Citizenship and Public Affairs team also manages a number of stakeholder relationships and ongoing dialogues to help inform and guide our strategies. We connect with leading thinkers on corporate responsibility and societal challenges in groups such as Business for Social Responsibility, CSR Europe, and the World Economic Forum.

We learn from them and other advocacy groups, socially responsible investors, corporate responsibility rating agencies, other external stakeholders, and our own employees to identify new and emerging citizenship issues. We also base our work on international frameworks such as the United Nations Global Compact, the UN Guiding Principles on Business and Human Rights, and the Global Reporting Initiatives' Sustainability Reporting Guidelines.

Stakeholder Engagement Overview

| Stakeholder Groups | Examples of Engagement | Selected Results |
|--------------------|--|---|
| Customers | We gain insights from online feedback, support communities, product satisfaction surveys, usability studies, research forums, business account managers, and our customer service representatives. | Customer feedback and insights underlie all of our decisions to enhance existing products and develop new ones. In FY15, the Windows Insider program reached 5 million customers to allow them to preview Windows 10 and provide feedback, which helped shape key features of the product. Customer feedback also plays an important role in helping us develop clearer and more customer-friendly contracts and terms of use policies. |
| Stakeholder Groups | Examples of Engagement | Selected Results |
| Investors | Beyond traditional investor communications such as earnings calls and our annual meeting, we seek to proactively provide investors with corporate governance information through diverse communications, including a director video interview series and direct communications from independent members of our board to shareholders. We proactively reach out to institutional investors—including public pension funds and socially responsible investors—about governance and citizenship-related topics, and deliver a summary of their feedback to the board. In FY15, these engagements reached investors holding over 40 percent of our outstanding shares. We seek to transparently provide information sought by socially responsible investors and corporate responsibility rating agencies and seek their insights to identify new and emerging citizenship issues. | Our engagement with investors has influenced many important parts of our citizenship strategy, such as our human rights commitments under the Global Network Initiative, a collaborative effort between information and communications technology (ICT) companies, human rights groups, socially responsible investors, and others. Investors are an important influence as we continue to consider ways to enhance our corporate governance principles and policies to serve the interests of our shareholders and other stakeholders. |

1.3 Stakeholder Engagement

Stakeholder Engagement Overview

| Stakeholder Groups | Examples of Engagement | Selected Results |
|--------------------|---|--|
| Employees | We ask for—and act on—employee feedback in multiple ways, including conducting an annual online anonymous poll of all our employees around the world. The poll, with a nearly 85 percent response rate, asks employees to share feedback about the Microsoft work experience, including how they feel about their workgroups, organization, and company as a whole. Microsoft offers employees, customers, suppliers, and other external parties multiple ways to report compliance concerns as described in our Ethical Business Conduct and Governance chapter. | Microsoft’s Senior Leadership Team and individual managers use the poll results to further improve on areas of strength and address opportunities for improvement. |
| Suppliers | We engage with suppliers through capacity-building workshops and trainings, supplier advisory boards, hosting an annual supplier summit, and participation in industry coalitions, such as the Electronics Industry Citizenship Coalition. We also conduct anonymous Voice of the Supplier Surveys, which include questions on citizenship issues. | Our work to address environmental and social issues in collaboration with our suppliers is detailed in the Responsible Sourcing chapter. |
| Communities | Microsoft’s local citizenship teams work directly with community groups and in partnerships with local nonprofits. They share views and insights from local communities with Microsoft’s global Citizenship and Public Affairs team in direct communications, through regular conference calls, and at an annual global summit. | Microsoft’s YouthSpark Initiative and Office 365 for Nonprofits program were both strongly shaped by input from local communities about the best way to serve economic and social needs in their area. |

Stakeholder Engagement Overview

| Stakeholder Groups | Examples of Engagement | Selected Results |
|--|---|---|
| Industry coalitions and public-private partnerships | Microsoft actively participates in industry coalitions to address important citizenship issues and in many cases is among the leaders bringing companies together to work collaboratively to solve challenges. | Microsoft has helped establish groups that help set the standard for responsible business practices in the ICT industry, ranging from the Electronics Industry Citizenship Coalition and Global Network Initiative to the International Association of Accessibility Professionals. |
| Civil society / nongovernmental organizations (NGOs) | Across the breadth of our business, we engage with thousands of NGOs working on issues ranging from environmental sustainability to employee diversity to child safety. | Virtually all of the initiatives described throughout this Citizenship Report have benefitted from insights provided by NGOs and in many cases involve active ongoing partnerships with them. |
| Policymakers | Microsoft engages actively in policy issues relevant to our business, both directly and through industry associations. We seek to ensure that our participation in the political process takes place in the light of day and for reasons that are clear and justifiable to our shareholders and the public. | Microsoft is recognized as a leader for policies that help to ensure the accountability and transparency of our engagement in the public policy process. |

1.4 Citizenship Materiality Assessment

To apply the Global Reporting Initiative's G4 Sustainability Reporting Guidelines to our citizenship materiality assessment, we follow the common practice of defining our most significant citizenship issues as those ranking highest both in business importance to Microsoft and in importance to our key stakeholders.

This aligns with how we set our citizenship strategies and commitments to drive both positive impacts to our business and to society.

Following are the top citizenship issues we identified using this approach. It reflects input gathered from our stakeholder engagement processes described in the previous section, consultation with Business for Social Responsibility (BSR) and other external experts, and consideration of the impacts of Microsoft's core business priorities.

Citizenship Materiality Assessment: Top Issues

- Access to technology and economic opportunity
- Climate change and energy
- Corporate governance
- Data privacy and security
- Device lifecycle impacts
- Environmental/social applications of technology
- Ethical business practices
- Human capital (or talent management and development)
- Human rights
- Responsible sourcing/manufacturing

We recognize that our citizenship commitments have always played an important role in enabling Microsoft's business success, but perhaps never more so than now. Microsoft is in the midst of a transformation into a productivity and platform company that will thrive in the mobile-first, cloud-first world. As we explain in depth in our annual report, key elements of this vision include creating more personal computing, building the intelligent cloud, and reinventing productivity and business processes. Our citizenship commitments and the effective management of these top issues play an important part in earning and keeping the trust of our customers and other stakeholders and our ability to realize our long-term business strategy.

1.5 About This Report

This 2015 Microsoft Citizenship Report explains our policies, program, and performance on our material environmental, social, and governance (ESG) issue areas as well as how we address other important corporate responsibility issues. As you read this report, we welcome your unique perspective about the issues you expect to see addressed in the future. Please email your comments to mcitizen@microsoft.com.

Scope

Unless otherwise stated, information in this report covers all of Microsoft's global operations during our fiscal year 2015 (July 1, 2014 to June 30, 2015).

Standards

This report contains Standard Disclosures from the Global Reporting Initiative's G4 Sustainability Reporting Guidelines, which we used to prepare this report. Please see our [online GRI G4 Index](#) for detailed data and additional information. The human rights-related disclosures are based on the UN Guiding Principles on Business and Human Rights Reporting Framework. In addition, this report serves as Microsoft's annual Communication on Progress under the United Nations (UN) Global Compact. The following table describes the location of relevant report content for each of the UN Global Compact's 10 principles.

UN Global Compact Index

| Human Rights | |
|--|---|
| Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and | Our People, Human Rights, Responsible Sourcing |
| Principle 2: make sure they are not complicit in human rights abuses. | Our People, Human Rights, Responsible Sourcing |
| Labor | |
| Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining; | Our People, Responsible Sourcing |
| Principle 4: the elimination of all forms of forced and compulsory labor; | Our People, Responsible Sourcing |
| Principle 5: the effective abolition of child labor; and | Our People, Responsible Sourcing |
| Principle 6: the elimination of discrimination in respect of employment and occupation. | Our People, Responsible Sourcing |
| Environment | |
| Principle 7: Businesses should support a precautionary approach to environmental challenges; | Environmental Sustainability |
| Principle 8: undertake initiatives to promote greater environmental responsibility; and | Environmental Sustainability, Responsible Sourcing |
| Principle 9: encourage the development and diffusion of environmentally friendly technologies. | Environmental Sustainability |
| Anti-corruption | |
| Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery. | Responsible Sourcing, Ethical Business Conduct and Governance |

Ethical Business Conduct and Governance



- 2.1 Our Approach
- 2.2 Commitment to Ethics and Standards of Business Conduct
- 2.3 Corporate Governance
- 2.4 Public Policy Engagement
- 2.5 FY15 Progress and FY16 Goals

2.1 Our Approach

Building a fabric of trust is paramount to realizing our mission to empower every person and every organization on the planet to achieve more. This means winning and preserving the trust of our customers, partners, and governments around the globe. We work to build and maintain trust through a shared commitment to ethical behavior and by acting with integrity in everything we do.

Establishing trust in our complex and dynamic world starts with our culture—how we work, what we value, how we interact with others. The foundation of our ethical culture is our commitment to integrity, honesty, and principled behavior in every situation and challenge we face.

Our commitments to ethical business practices and strong corporate governance policies are designed to promote the long-term interests of our shareholders, maintain internal checks and balances, promote accountability at all levels of

our organization, and foster responsible decision making. We are proud that because of our commitments and actions, we've been on the Ethisphere Institute's list of the World's Most Ethical Companies every year since they began issuing the list in 2011.

2.2 Commitment to Ethics and Standards of Business Conduct

Microsoft regularly interacts with customers, partners, competitors, shareholders, suppliers, representatives, regulatory agencies, and government officials. We are committed to engaging all of these groups in a respectful, ethical manner and in compliance with all legal requirements.

Microsoft's **Standards of Business Conduct** are the foundation of our commitment to ethical business practices and legal compliance. These standards are endorsed by the Microsoft Board of Directors and apply to all employees, directors, and executive officers of Microsoft and its subsidiaries and controlled affiliates (where Microsoft directly or indirectly owns more than 50 percent of the voting control).

All Microsoft employees must complete annual training on our Standards of Business Conduct. The training course is available in 19 languages.

In FY15, as in previous years, we achieved a completion rate for the course of greater than 99 percent. In addition, a variety of mandatory role-specific trainings address the compliance risks of particular business functions, and Microsoft provides employees with a wide range of additional optional training and guidance to ensure awareness of our policies and expectations for ethical behavior. The following graphic from the Microsoft Standards of Business Conduct reflects our straightforward approach and encourages employees to consult with internal resources when necessary.

2.2 Commitment to Ethics and Standards of Business Conduct

Business Conduct and Compliance Program

Microsoft's Office of Legal Compliance is responsible for our Business Conduct and Compliance Program, working closely with the rest of Microsoft Legal and Corporate Affairs, Finance, Human Resources, Internal Audit, and other groups focused on ensuring compliance. We have more than 50 people whose primary role is investigating potential breaches of company policy, and an additional 120 people whose primary role is compliance. In addition, we sometimes retain outside law firms to conduct or assist with investigations. This is a reflection of the size and complexity of our business and the seriousness with which we take meeting our obligations.

Across Microsoft's business, we build and monitor internal controls to identify and mitigate risks of unethical and non-compliant conduct, perform regular internal audits, require multiple levels of approval for contracting and expenditures, and maintain internal compliance scorecards that affect key leaders' performance compensation.

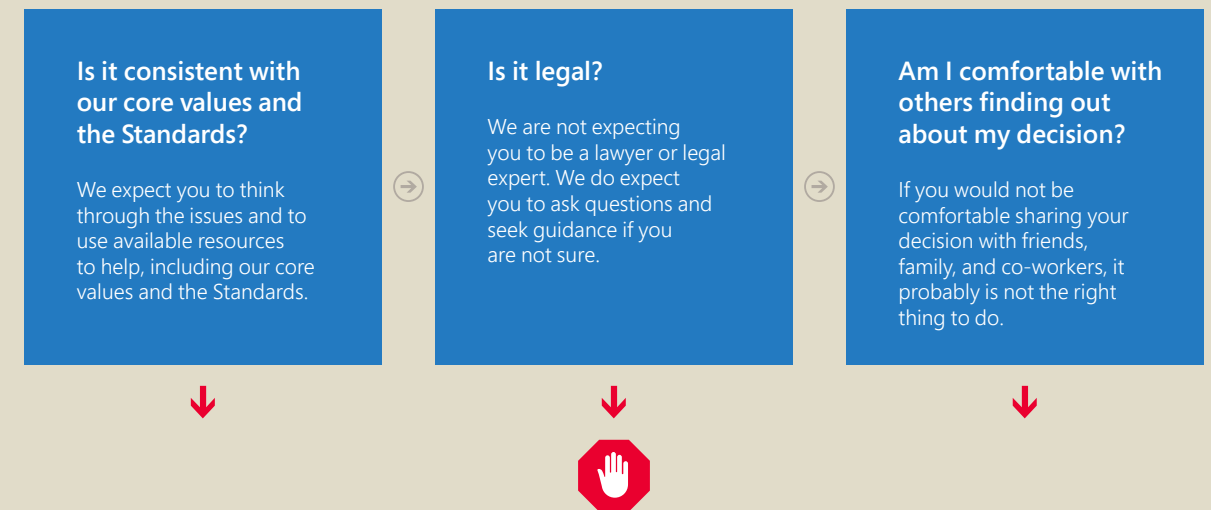
Our responsibility is to take steps to train our employees, to build controls to prevent and detect unethical and non-compliant conduct, and when we identify or learn of concerns or improper conduct, to investigate them fully and take appropriate action to remediate.

Microsoft offers employees and external parties multiple ways to report compliance concerns. These include the following:

- Calling a toll-free telephone integrity hotline that is staffed 24 hours a day, 7 days a week by a third-party vendor (operators are available to receive calls in 49 languages).
- Submitting an online report through a publicly available website operated by the vendor (the landing page for the site is in 16 languages and the online reporting tool is in 37 languages).
- Emailing the Office of Legal Compliance directly at buscond@microsoft.com.
- Emailing, calling, or faxing the Director of Compliance.

Example of Microsoft Guidance to Employees on Making Ethical Decisions

We expect you to be well informed and exercise good judgment when making business decisions for Microsoft. Before making a business decision, ask yourself the following questions:



If you cannot answer "yes" or you are not sure, do not make the decision or take the action until you get additional help and guidance.

2.2 Commitment to Ethics and Standards of Business Conduct

Preventing retaliation is critical to the Business Conduct and Compliance Program. Microsoft maintains and communicates an open-door policy and strictly prohibits retaliation against complainants who raise a compliance concern in good faith. Microsoft is committed to handling all inquiries discreetly and preserving the confidentiality of anyone requesting guidance or reporting a possible violation to the extent possible and within the limits allowed by the laws.

Anti-corruption

Microsoft's Standards of Business Conduct and **Anti-Corruption Policy for Representatives** include strong commitments to observing the standards of conduct set forth in the US Foreign Corrupt Practices Act and the applicable anti-corruption and anti-money laws of all the countries in which we operate. We prohibit corruption of government officials and the payment of bribes or kickbacks of any kind, whether in dealings with public officials or individuals in the private sector. We require partners to provide anti-corruption training to all employees who resell, distribute, or market Microsoft products or services and provide them a free, online training course available in multiple languages. Microsoft's Supplier Code of Conduct also includes strong ethics and anti-corruption provisions, which are highlighted in an online Supplier Code of Conduct Training that suppliers must take. These are both available in 33 languages.

Beyond clearly communicating our expectations, Microsoft vets third-party representatives and certain suppliers to help ensure that we only engage those that are legitimate businesses with a reputation for integrity. We conducted a risk assessment to identify higher-risk representative types, which were then vetted along with many other lower-risk representative types. This includes channel partners, consultants, lobbyists, and other third parties engaged by Microsoft and its subsidiaries and joint ventures worldwide. In addition, we continue to have third-party reviews conducted for all new suppliers. Since the vetting program's inception, Microsoft has screened nearly 100,000 representatives and suppliers to enable Microsoft to monitor the risk profile and drive risk mitigation efforts accordingly.

2.3 Corporate Governance

Corporate governance at Microsoft is designed to promote the long-term interest of our shareholders, maintain internal checks and balances, strengthen management accountability, engender public trust, and foster responsible decision making and accountability.

Role and Structure of the Board of Directors

Through oversight, review, and counsel, Microsoft's Board of Directors establishes and promotes Microsoft's 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 CEO evaluation, oversees CEO succession planning, establishes internal control over financial reporting, and assesses company risks and strategies for risk mitigation.

The board routinely reviews evolving practices to determine those that will best serve the interests of our shareholders. Microsoft is a leader in adopting standards to increase accountability to our shareholders, including early adoption of majority voting for board directors, Say on Pay advisory votes on executive compensation, and most recently, a proxy access bylaw.

Microsoft's Board of Directors maintains four standing committees to assist it in discharging its oversight responsibilities: an Audit Committee, a Compensation Committee, a Governance and Nominating Committee, and a Regulatory and Public Policy Committee. Only independent directors serve on these committees. Each committee has duties assigned by the board in compliance with Microsoft's Bylaws and committee charters, which are available online.

Among the responsibilities of the Regulatory and Public Policy Committee is reviewing and providing guidance to the Board and management about the Company's policies and programs that relate to corporate citizenship, including

human rights, environmental sustainability, corporate social responsibility, supply chain management, charitable giving, and political activities and expenditures.

Highlights of Corporate Governance Practices ¹

| | | | |
|---|-----|--|-----|
| Annual review of independence of board | Yes | Directors elected by the vote of a majority of votes cast in uncontested elections | Yes |
| Separate chairman and CEO | Yes | Annual board and committee evaluations | Yes |
| Independent chairman | Yes | Annual individual director evaluations | Yes |
| Charters for board committees | Yes | Director stock ownership and holding requirements | Yes |
| Independent audit, governance and nominating, and compensation committees | Yes | Executive stock ownership and holding requirements | Yes |
| Compensation consultant independence policy | Yes | Corporate governance guidelines approved by board | Yes |
| Independent directors hold meetings without management present | Yes | Board orientation and education program | Yes |
| Annual board elections | Yes | | |

¹ Our Corporate Governance Fact Sheet is available online for additional information.

2.3 Corporate Governance

Shareholder Engagement

We seek to proactively provide investors with corporate governance information through diverse communications, including a director video interview series and direct communications from independent members of our board to shareholders. In 2009, we began **posting video interviews** with members of the board of directors to provide deeper insights into their backgrounds and perspectives on board service. In May, we posted our most recent **interview with Mason Morfit**, a Microsoft board member since 2014 and president of ValueAct Capital. During the conversation, Mason speaks about his background at ValueAct Capital, his views on Microsoft's leadership, and where he thinks the company is headed next. He also offers a behind-the-scenes view of how the board operates, and talks about the importance of shareholder engagement.

Our board video series, Microsoft on the Issues blogs, and annual letter from the Governance and Nominating Committee of the board are a few examples of our investor outreach efforts. With over 3.4 million shareholders, these are examples of one-to-many communications that provide the

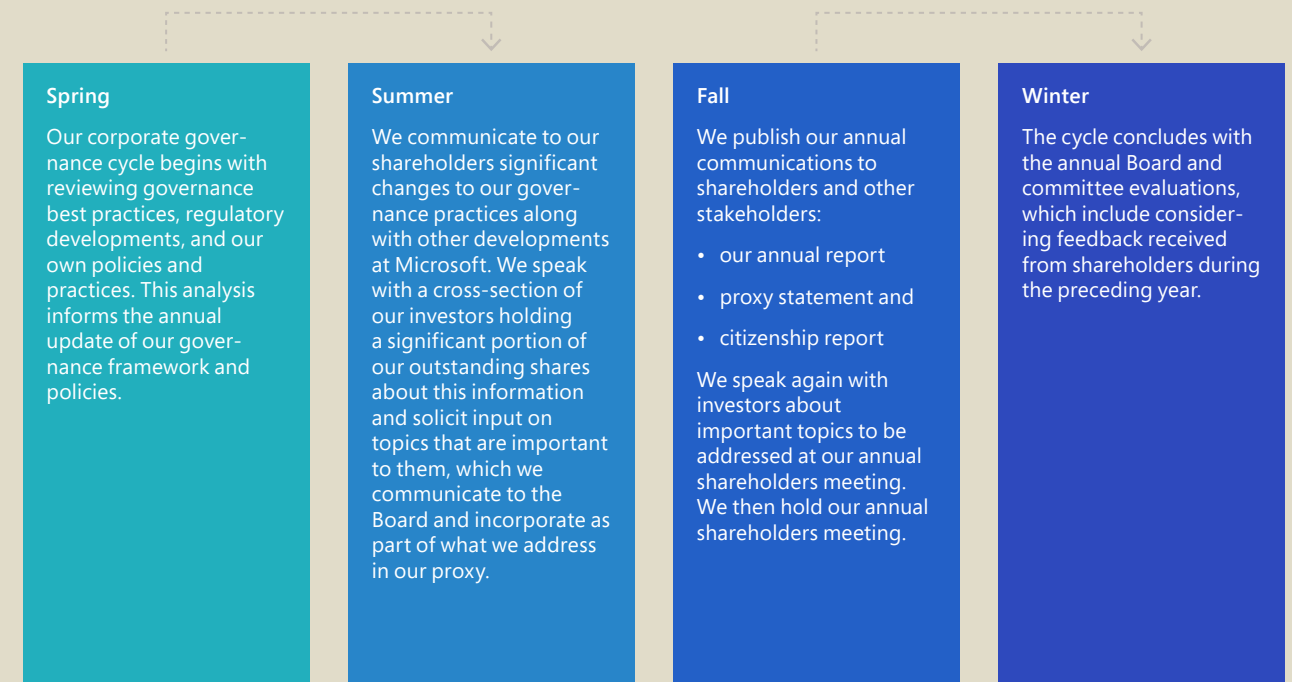
scale to reach all of our shareholders. Our Investor Relations website and its Governance & Citizenship tab take the same approach.

We use a variety of other methods to engage with our shareholders. Over the past year, independent members of our board and members of senior management conducted outreach to a cross-section of shareholders owning approximately 40 percent of outstanding shares. Senior members of our management team also speak with our shareholders and provide the feedback received directly to our board. Our CEO, Satya Nadella, remains committed to investing time with our shareholders to increase transparency and better understand their perspectives, including by participating in our quarterly earnings calls.

The following diagram shows our annual outreach efforts and corporate governance cycle.

Shareholder Outreach and Our Corporate Governance Cycle

Microsoft believes that effective corporate governance should include regular, constructive conversations with our shareholders. We actively engage with our shareholders as part of our annual corporate governance cycle described below.



2.4 Public Policy Engagement

Corporate participation in the public policy process is an important and essential means of enhancing shareholder value and is fundamental to free and democratic societies. We seek to ensure our participation in the political process takes place in the light of day and for reasons that are clear and justifiable to our shareholders and the public. Our public policy engagement is guided by a publicly available Global Public Policy Agenda, which outlines our policy positions on issues core to our business.

Microsoft is recognized as a leader for policies that ensure the accountability and transparency of our engagement in the public policy process. During FY15, we received the third highest rating in the CPA-Zicklin Index of Corporate Political Accountability and Disclosure, which is compiled annually by the Center for Political Accountability and the Carol and Lawrence Zicklin Center for Business Ethics Research at the University of Pennsylvania Wharton School of Business.

Microsoft has adopted **Principles for Engagement in the Public Policy Process in the United States** to address issues specific to the US political and fundraising system. Under those policies, we commit to disclose a semi-annual list of election campaign expenditures, including financial and in-kind contributions by the company and MSPAC to candidates, political parties, political committees, and other politically active tax-exempt organizations, such as those organized under Internal Revenue Code section 501(c)(4), as defined by applicable laws. To uphold our commitment to transparency of our political spending and contributions, we do not make corporate contributions to any non-candidate or non-party political committees organized under

section 527 of the Internal Revenue Code, which are formed solely to influence elections. We also make no independent political expenditures or electioneering communications, as permitted under the US Supreme Court's Citizens United ruling, and we inform our trade associations that no Microsoft funds may pay for their independent expenditures or electioneering communications.

The **Political Engagement section** of our Citizenship website provides our comprehensive disclosure of our political engagement policies, disclosure of our US political expenditures and contributions, and information on our policy-related trade association memberships.

2.5 FY15 Progress and FY16 Goals

Progress Against FY15 Goals

Goal: Engaging in cross-industry forums to help us identify and contribute to the development of best practices.

In FY15, Microsoft's Anti-Corruption Program Management Office helped lead the US Technical Advisory Group to create and represent the US position in the development of the proposed International Standards Organization (ISO) Anti-Bribery Standard, through the American National Standards Institute (ANSI). The standard, once finalized and published, will help prevent corruption by enabling companies to consistently create and evaluate anti-bribery programs, identify and remediate areas for improvement, and demonstrate program effectiveness. Microsoft is also engaged in promoting anti-corruption initiatives among intergovernmental organizations and multinational companies through Microsoft's membership in the World Economic Forum Partnership Against Corruption Initiative (PACI) as an industry partner.

Goal: Maintaining or increasing dialogue between stakeholders and the company.

FY15 marked an especially active year for proactively consulting with institutional investors and other shareholders in the wake of leadership changes. We sought feedback and input from a broad range of our investors, including public pension funds and leaders among the growing number of institutional investors focused on environmental, social, and governance issues. With the publication of our 2015 Citizenship Report, we also launched a new Transparency Hub to make it easier for stakeholders to quickly access and understand our broad range of citizenship-related disclosures.

Goal: Continuing to enhance our corporate governance principles and policies to serve the interests of our shareholders and other stakeholders.

Our annual corporate governance cycle begins with reviewing governance best practices, regulatory developments, and our own policies and practices. This analysis informs the annual update of our governance framework and policies. Acting in line with Microsoft's long-standing corporate governance philosophy, in August 2015 the Board adopted a new "Proxy Access for Director Nominations" bylaw.

Goal: Monitoring and implementing the regulatory and disclosure requirements adopted under the Dodd-Frank Wall Street Reform and Consumer Protection Act.

We expect the Securities and Exchange Commission to continue to adopt regulations mandated by the Dodd-Frank Act. These include disclosure of pay ratios, pay for performance, hedging, and executive compensation recovery. We previously implemented policies relating to hedging and executive compensation recovery and will monitor and implement any further requirements in these areas. We also filed our second annual Conflict Minerals Report in compliance with regulations called for under Dodd-Frank.

FY16 Goals

- Advancing a project to simplify policies and make it easier for employees to find and use policies.
- Launching a campaign to increase employee knowledge and use of the Microsoft ethics hotline and escalation processes and to emphasize Microsoft's zero tolerance policy for retaliation.
- Continuing to enhance our corporate governance principles and policies to serve the interests of our shareholders and other stakeholders.
- Continuing to implement new regulatory and disclosure requirements adopted under the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Our People

3

- 3.1 Our Approach
- 3.2 Compensation and Benefits
- 3.3 Global Diversity and Inclusion
- 3.4 Training and Development
- 3.5 Employee Wellness and Occupational Health and Safety
- 3.6 FY15 Progress and FY16 Goals

3.1 Our Approach

Perhaps the most important driver of our success is culture. We fundamentally believe that we need a culture founded in a growth mindset. It starts with a belief that everyone can grow and develop; that potential is nurtured, not predetermined; and that anyone can change their mindset. Our leadership is focused on bringing out the best in people, so that everyone is bringing their “A game” and finding deep meaning in their work.

We strive to exercise our growth mindset every day in three distinct areas:

1. Customer-obsessed. We learn about our customers and their businesses with a beginner’s mind and then bring solutions that meet their needs. We look to learn from the outside and bring that knowledge into Microsoft, while still innovating to surprise and delight our users.
2. Diverse and inclusive. The world is diverse. We serve everyone on the planet by representing everyone on the planet. We seek to be open to learning our own biases and changing our behaviors so we can tap into the collective power of everyone at Microsoft. We don’t just value differences, we seek them out and invite them in. And as a result, our ideas are better, our products are better, and our customers are better served.
3. One Microsoft. We are a family of individuals united by a single, shared mission. We build on the ideas of others and collaborate across boundaries to bring the best of Microsoft to our customers as one.

Through Microsoft’s Global Human Rights Statement and as a signatory to the UN Global Compact, we’re committed to respecting all of the human rights described in the Universal Declaration of Human Rights; the International Covenant on Civil and Political Rights; the International Covenant on Economic, Social, and Cultural Rights; and the International Labour Organization (ILO) Declaration on Fundamental Principles and Rights at Work.²

In addition, our commitments to communicate respectfully with each other, to provide for diversity and equal employment opportunity at all levels of our organization, and to protect the safety and health of our employees are incorporated into the Microsoft Standards of Business Conduct described in the Ethical Business Conduct and Governance chapter.

² Those ILO principles are freedom of association and the effective recognition of the right to collective bargaining; elimination of all forms of forced or compulsory labor; effective abolition of child labor; and elimination of discrimination in respect of employment and occupation.

3.1 Our Approach

Microsoft's global Human Resources team advances our policies and programs to recruit, retain, and develop exceptional people. This team includes groups focused on compensation and benefits, talent and organizational capability, and diversity and inclusion. In addition to a central team, HR professionals are embedded within each group in Microsoft to ensure that every employee has a clear point of contact and support on HR issues, from our executive managers to individual contributors. At the end of FY15, Microsoft employed 117,354 people worldwide.

In FY15 we faced the challenge of responsibly managing reductions in our overall workforce of approximately 18,000 positions. This was driven by two goals: work simplification and Nokia Devices and Services integration synergies and strategic alignment. The reductions were spread across many different business units and many different countries. We sought to go through this process with the deepest respect for affected individuals and recognition of their service to the company. We offered severance to all employees, as well as job transition help in many locations. Around the world, we worked to ensure we followed local process and laws in each of the countries affected.

We ask for—and act on—employee feedback in multiple ways, including conducting an annual poll of all our employees around the world. Our main annual global employee poll is conducted by a third-party vendor to protect employee anonymity. In FY15, nearly 85 percent of our more than 100,000 employees responded to the poll. The poll asks employees to share feedback about their experience working at Microsoft. Microsoft's Senior Leadership Team and individual managers use the poll results to further improve on areas of strength and address opportunities for improvement. We supplement the poll with additional quarterly "pulse" polls covering additional issues.

Employee Poll Results

| Indicator | FY13 | FY14 | FY15 |
|--|------|------|------|
| Employee response rate | 89% | 87% | 84% |
| Employees who feel proud to work at Microsoft | 89% | 90% | 90% |
| Employees who feel they are treated with dignity and respect by their managers | 93% | 93% | 92% |
| Employees who would recommend Microsoft as a great place to work | 85% | 86% | 84% |
| Employees who feel their workgroup values diverse opinions | 86% | 88% | 88% |

3.2 Compensation and Benefits

Microsoft offers competitive compensation and benefits to attract the world's best talent in over 100 countries, and rewards people for great results. Our Performance and Development approach and rewards program applies to Microsoft employees globally at every level of the organization to the extent permitted by local law.

Stock-based compensation is a key component of our rewards programs at Microsoft as it provides an ownership stake in the company's success. Over 85 percent of Microsoft employees are eligible for an annual stock award. In addition, 90 percent of Microsoft's employees are eligible for a cash bonus. Bonuses focus on an individual's business impact over the past year.

We offer a wide assortment of flexible benefits. Due to local law, local conditions, and employee preferences, some benefits vary by location, but following is a representative sample of the array of benefits we offer:

- Industry-leading health insurance coverage in the US with no employee premiums; and best-in-class medical and dental coverage in which Microsoft funds eligible employees' Health Savings Account for tax-free savings for current or future medical expenses.
- Family benefits including health coverage for spouses, dependents, and domestic partners; subsidy for nearby childcare programs and back-up care for children, adults, and elders; Flexible Spending Accounts for healthcare and childcare; onsite lactation facilities; and adoption assistance and adoptive parent leave.
- Voluntary retirement savings plans, including plans in which the company makes contributions (such as 401(k) Plan matches for US employees of 50 cents on every dollar up to 6 percent of employee contributions).
- Employee Stock Purchase Plan offering employees discounted shares of Microsoft stock.
- Life insurance and accident insurance.
- Family and medical leave programs, including paid and unpaid maternity and paternity leave programs and personal and compassionate leave, subject to local laws.
- Paid time off (vacation and sick days) and paid sabbaticals for qualifying employees.
- Flexible work programs, including flexible schedules, telecommuting, and job-sharing options.
- Voluntary benefits including additional disability insurance and group legal coverage.
- Employee discounts and friends and family discounts for Microsoft products.
- Discount programs for shopping, dining, and travel.
- Commute options, including free or subsidized mass transit tickets, access to free employee shuttles, and on-campus bike shops and secure storage.
- Education assistance for eligible employees.

3.3 Global Diversity and Inclusion

For over two decades, our Global Diversity and Inclusion Office has evolved and enhanced the company's diversity and inclusion initiatives to meet the changing needs of our workforce and business. We have a deep commitment to create an inclusive environment where all employees can do their best work. This commitment is anchored around strengthening our diversity and inclusion acumen, deepening leader and manager understanding of the diversity strategy and its value proposition, and increasing senior leader accountability for their diversity plans.

We know that Microsoft, like the rest of the tech industry, must do more to fully reflect the diversity of the global population. As a result, this past fiscal year, we've put renewed focus and thought into advancing the diversity and inclusion agenda within the company. We developed and rolled out key priorities, resulting in our FY16 Global Diversity

and Inclusion Strategy, which was reviewed and approved by our Board of Directors. This new strategy has four specific areas of focus: transforming the culture, empowering our people, expanding our talent pipeline, and delighting our customers.

Building an Inclusive and Engaging Culture

Maximizing the contribution of every individual allows us to infuse diverse thought as a natural part of the way we innovate. With that in mind, we value accountability and learning as key ingredients to nurturing an inclusive culture. Our clearest sign of investment and commitment towards creating a more inclusive culture is the recent launch of a new mandatory company-wide online Unconscious Bias training. From our experience and the advice of industry experts, we identified the importance of recognizing and changing unconscious biases in the workplace as one of the key actions that will help us to modify mindset and behavior. Demonstrating leadership support for this training, our CEO Satya Nadella and his senior leadership team, along with their direct reports, participated in dedicated learning sessions and also conducted strategic planning on the business benefits of diversity.

To ensure that completing this training is not a "check the box" exercise, we have created inclusive leader, manager, and employee learning paths to build on the training and other new programs that will advance our collective diversity and inclusion acumen. These interactive programs include the extension of the Unconscious Bias training using a live case study format that focuses on real-life, role-play opportunities to examine and understand unconscious biases that may shape communication style, decision making, and behaviors.

More broadly, we are committed to integrating diversity and inclusion principles into meaningful aspects of all that we do: from our hiring processes to our pursuit of innovation in how we build products and technology—to the way we communicate with and reward our people. We've already started this integration with company-wide employee events such as our annual Hackathon, customer feedback loops, our focus on usage in the engineering teams, and in our performance management practices. Our Ten Inclusive Behaviors guide, shared upon completion of the Unconscious Bias Course, provides best practices for all employees to embrace and model.

3.3 Global Diversity and Inclusion

We've also embraced opportunities to advocate for public policies that foster diversity and inclusion. In 1993, Microsoft became the first Fortune 500 Company to provide same-sex domestic partnership benefits for Microsoft lesbian, gay, bisexual, and transgender (LGBT) employees. We also found that with regards to our LGBT employees and their families, there can be significant challenges in states or countries that don't provide equal recognition for their marriage or committed relationships. For that reason, in January 2012 Microsoft joined other leading companies to support legislation in our home state of Washington that recognized marriage equality for same-sex couples. Since then, we've advocated for marriage equality in places where we have facilities and employees and will continue to support marriage equality when this issue arises in communities around the world.

Empowering Our People

Recognizing that "top talent" and "diverse talent" are not mutually exclusive populations, we will continue to make Microsoft the employer of choice for all great talent. And with that, we are more focused than ever on empowering our people through recruitment, retention, and career development. We have clear goals company-wide to increase global representation of women and ethnic minorities in the United States, particularly at more senior levels of the organization. Within our talent and recruiting organizations, we are sharpening our focus on diverse candidate pools—and in fact one of the metrics our recruiting organization is measured against is how effectively it recruits from these pools.

Each member of our senior leadership team is accountable for driving diversity and inclusion progress relative to how we attract, retain, and advance women and other diverse employees within the company. We've introduced and revised a number of rich developmental and on-boarding programs to support this effort. We continue to evolve our talent management practices by diversifying our candidate slates and implementing inclusive succession planning for senior diverse talent.

Expanding Our Pipeline of Talent and Leaders

In addition to our employee retention and career development strategies, expanding the pipeline of diverse talent for the tech industry as a whole, as well as for our company, is very important to us. We have developed specific programs around the cultivation of diverse talent which start with our high school internship programs and continue with our executive recruiting efforts. The following are examples of some of our programs that directly address the shortage of diverse students graduating with science, technology, engineering, and mathematics (STEM) degrees:

- For more than a decade we have championed DigiGirlz, now part of the Microsoft YouthSpark initiative, which gives girls aged 14 to 18 the opportunity to learn about careers in technology, connect with Microsoft employees, and participate in hands-on computer and technology workshops. DigiGirlz programs now span 16 countries and have reached 26,000 participants. A key sign that this program is having a positive impact is that some of the early participants have now graduated from college and joined Microsoft as employees.

- Blacks at Microsoft, an Employee Resource Group, hosts an annual Minority Student Day that provides local area high school students from underrepresented ethnic backgrounds with information about the tools, resources, and career opportunities that are available to them in information technology. It also awards scholarships to high school seniors and connects recipients with mentors throughout their college careers. The program has been successful in helping graduates find employment at Microsoft.
- We've recently expanded our Explore Microsoft 12-week summer internship program that strives to attract women and minorities into technical fields and to Microsoft. It is specifically designed to expose first- and second-year college students to software development and encourage students to pursue degrees in this and other related fields of study.
- Our involvement with Code.org has enabled us to reach 52 million youth in the US in just the past 18 months, and through our TEALS program we reached 6,000 students in 131 high schools during the 2014–2015 school year.

3.3 Global Diversity and Inclusion

In addition to these investments, we are also broadening the spectrum of diverse talent sources, including deepening our commitment and investment in hiring people with disabilities. We recently invested in a new pilot program focused on hiring people with autism for full-time, Redmond-based Microsoft positions. We developed this pilot in partnership with Specialisterne, a social enterprise run by the Specialist People Foundation, which works to enable one million jobs for people with autism and similar challenges through social entrepreneurship, corporate sector engagement, and a global change in mind-set.

Microsoft is also working to help diversify non-STEM fields as well, such as the legal profession. In 2015 Microsoft partnered with other companies and law firms to launch the Gregoire Fellows Program in partnership with the University of Washington School of Law, to bring greater diversity to the school and improve the pipeline of diverse students to Washington state. The Fellows will receive summer internships, mentoring throughout their time in law school, and a scholarship to study for the bar.

Delighting Our Customers

When it is all said and done, having a diverse workforce—one that is a reflection of the richness of the customers around the world who buy our products, services, and technologies—is critical to our long-term business success. Our goal is to use diversity and inclusion to build products that customers need, choose, and love.

Our product development processes are evolving to become more inclusive and accessible than ever before. We have programs such as our annual Ability Summit and new Inclusive Design initiative that serve to enable more innovative and accessible products. Through these efforts, accessibility features and settings are built into Microsoft software programs. We have made significant R&D investments in accessible technology, including speech processing (for hard of hearing), speech synthesis (for speech impairment), eye-operated assistive technology and advanced wheelchairs (for ALS), and directional audio (for guide dogs).

Our Employee Resource Groups (ERG) represent many different segments of our population and serve as outreach mechanisms between diverse communities and Microsoft as a whole. These groups help support important business initiatives—from recruiting and retention to the marketing of Microsoft products and services. We work closely with our ERGs and Employee Networks to help make sure that the products that we're creating actually work for the populations they represent.

Workforce Diversity Data

Our emphasis on diversity is not purely a conversation about the numbers—it is as much a focus on our attitudes and behaviors as leaders that drive the numbers. That being said, it is important that we track and report on our diversity data—which we do quarterly. While we have publicly shared our workforce data since 2006, in the fall of 2014 we began sharing even more specific data relative to our demographics via our **Global Diversity & Inclusion website**, including publishing the EEO-1 data we report each year to the US government. The data confirmed that Microsoft, like the rest of the tech industry, must do more to fully reflect the diversity of the global population, and underlies the new approaches and commitments we are making to make progress.

3.3 Global Diversity and Inclusion

In addition to the data presented here, you can see our full EEO-1 data and further breakdowns of our workforce diversity in tech and non-tech positions at our [Global Diversity & Inclusion website](#).

We realize there is still hard work ahead to make our commitment and focus on diversity and inclusion a truly integrated part of the company's

standard business practices. We are inspired by the opportunities that lie before us and believe that the diversity of our workforce and inclusiveness of our culture will continue to play a critical role in helping us deliver innovations that will bring ultimate value to our customers.

| Minorities in the US Microsoft Workforce | |
|--|-----|
| FY13 | 38% |
| FY14 | 39% |
| FY15 | 41% |

| Women in the Global Microsoft Workforce | |
|---|-----|
| FY13 | 24% |
| FY14 | 28% |
| FY15 | 28% |

| Women and US Minorities on the Board of Directors | |
|---|-----|
| FY13 | 33% |
| FY14 | 40% |
| FY15 | 40% |

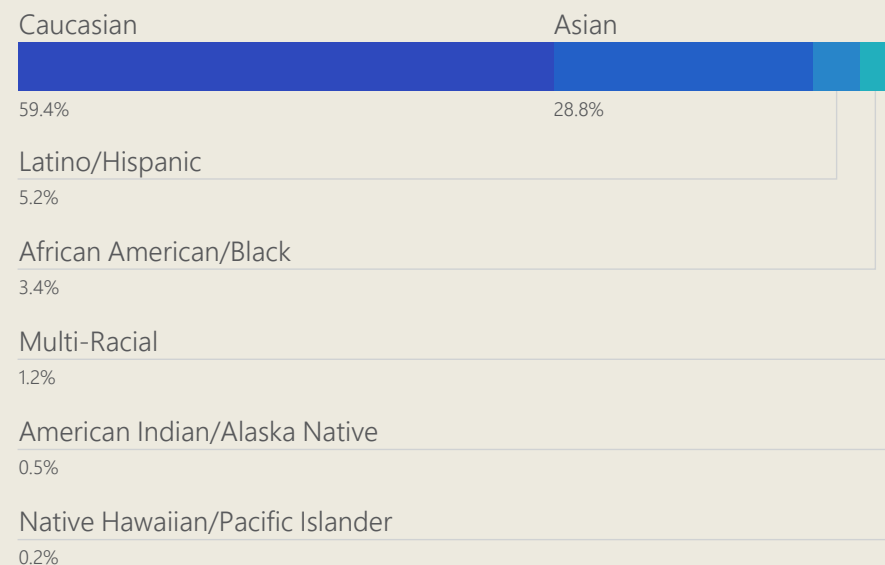
| Women and US Minorities in Senior Executive Positions | |
|---|-----|
| FY13 | 22% |
| FY14 | 27% |
| FY15 | 30% |

FY15 Reported Ethnicity Breakout (US Employees)³

Gender



Ethnicity



³ Data as of June 30, 2015. Gender and ethnicity totals do not include unknown. Denominators include unknown. Gender data are global, ethnicity data are US only. Additional information can be found in our [EEO-1 report](#)

3.4 Training and Development

We believe that everyone can grow and develop; that potential is nurtured, not pre-determined; and that anyone can change their mindset. To support our growth mindset culture, we offer a diverse range of learning and development opportunities, including trainings available in the classroom, online, and through videos, mobile apps, podcasts, and other formats in multiple languages, to meet the learning needs of our employees around the world. We believe training is not limited to formal instruction and our training philosophy focuses on providing the right learning, at the right time, in the right way.

With training opportunities ranging from classroom modules to peer-to-peer mentoring, no one metric captures the breadth of learning available to Microsoft employees, but globally we have found that in FY15:

- 91 percent of all employees were satisfied with the knowledge they gained and could apply to their job immediately with our formal training.
- Our employees spent an average of 26 hours in formal training.

We invest significantly in our employees' career development, provide on-the-job "stretch" opportunities for advancement, and offer frequent promotion opportunities, all of which are foundational to our culture.

Throughout the year, employees get coaching on career development through meetings with their manager. Managers receive training to enhance their skills in coaching and mentoring employees on how to achieve the greatest impact, as well as how to drive their own career development, providing tools and resources to support focused and actionable conversations. We also offer all new employees a robust new employee orientation that covers a broad range of topics to help set employees up for success from their first day at Microsoft. Orientation topics range from an overview of benefits, online resources, opportunities to engage in communities, to exploration of our company values, culture, and Standards of Business Conduct.

3.5 Employee Wellness and Occupational Health and Safety

Microsoft is committed to supporting our employees' well-being with comprehensive benefits to help employees maximize their physical, financial, and social wellness.

These benefits include:

- The Microsoft Ergonomics Program, offering employees ergonomic assessment and training programs and special furniture, equipment, and software for medical needs.
- The Microsoft CARES employee assistance program, offering free access to services including personal and family counseling, stress management, and referrals for child/elder care.
- Fitness benefits that fund gym memberships or fitness-related equipment and activities and onsite recreational and fitness opportunities.
- Free onsite "Know Your Numbers" health screening events, providing employees and their adult dependents with screening for risks of heart disease, diabetes, high cholesterol, and high blood pressure as well as onsite mammography screenings.
- Healthy dining options, including a new Real Easy Wellness labeling system used in all Microsoft cafes with color coding to flag healthier and less healthy options.
- Access for Microsoft employees and their dependents to weight management, tobacco cessation, and chronic disease management programs.
- An onsite health clinic at our Redmond, Washington headquarters campus, offering comprehensive health and wellness services and clinics at some other locations.

In addition to our wellness programs, Microsoft's Health and Safety program integrates appropriate safety and health practices into our operations, and works for continual improvement in employee health and safety. As part of this commitment, health and safety professionals assess the safety risks of Microsoft work activities and engage with workers and management to implement safe work practices, hazard controls, and training to minimize safety risks. They also assess new workspaces as they are constructed and existing workspaces periodically to ensure sound design-for-safety principles are followed and needed controls are implemented effectively. As part of this approach, Microsoft involves employees and managers in Health and Safety Committees specific to our datacenters, retail operations, and our manufacturing facilities.

Over the past several years, we have worked to enhance our capacities to protect employee health and safety as the diversity of our operations has grown and exposed our employees to new types of workplaces. As described in our Responsible Sourcing and Manufacturing chapter, we created a global manufacturing team of experts in industrial safety, occupational health, and environmental sustainability to work across Microsoft's newly acquired device factories to align programs and priorities, ensure excellence in environment, health, and safety, and drive continuous improvement. In FY14, our metrics for occupational injuries and illnesses were comparable to or less than injury-illness rates from other companies with similar operations. Our US facilities had an Injury-Incident Rate of 0.14 and a Lost-Day Rate of 0.02 (our 12-month rolling average for July 1, 2013—June 30, 2014) based on US OSHA rules for recordkeeping).

3.6 FY15 Progress and FY16 Goals

Progress Against FY15 Goals

Goal: Continuing to advance our culture of working together to drive meaningful impact for our teams, business, and customers and to adjust our approach to Performance and Development programs, as needed, in response to employee feedback and evolving business needs.

In FY15, under the leadership of our CEO, our HR organization worked with teams across Microsoft to explore, define, and foster a culture to help us achieve our mission and strategic goals. Our CEO has articulated his vision of culture in employee Q&A sessions and all company emails. Moreover, in FY15, we launched our first annual “//oneweek” Global Hackathon to bring together diverse individuals to collaborate on developing innovative new ways for Microsoft to do business and solve customer and social problems.

Goal: Continuing to offer industry-leading health care in the United States with no employee premiums and continuing to provide multi-modal educational materials to teach employees and their dependents how to optimize their health care and overall wellness.

We've maintained these benefits and continue to invest in preventative and life-optimizing wellness programs for our employees and in many cases their family as well.

Goal: Creating learning that supports our employees' ability to adapt and lead in our changing company, a changing industry, and a changing world.

We developed new learning opportunities on a range of topics from unconscious bias training to career development skills.

Goal: Driving innovation and efficiency by infusing diversity and inclusion into our business strategy and by developing innovative products and services to better serve the needs of a broad range of customers.

Our Senior Leadership Team conducted strategic planning on the business benefits of diversity and has rolled out new strategies to gain business value from diversity and inclusion across core parts of our business.

FY16 Goals

- Recruiting and developing talent with world-changing capabilities.
- Leading the culture transformation toward a growth mindset and helping drive behaviors to support the cultural attributes of diversity and Inclusion, customer obsession, One Microsoft, and making a difference.
- Making Microsoft an exceptional place to work through rewards, work environment and perks, and a clear employee value proposition.
- Driving transformational leadership by elevating the value, accountability, and impact of leadership at Microsoft, including defining and driving leadership attributes that align to culture.
- Helping Microsoft's employees achieve more by transforming HR through data, technology, process excellence, and investment in our people.

Empowering Communities

4

- 4.1 Our Approach
- 4.2 Microsoft YouthSpark
- 4.3 Technology for Good
- 4.4 Humanitarian and Disaster Response
- 4.5 Employee Giving and Volunteerism
- 4.6 FY15 Progress and FY16 Goals

4.1 Our Approach

Microsoft is committed to applying our technology, talent, and financial resources to empower communities around the planet where our employees, partners, and customers live and work.

Our Citizenship and Public Affairs team develops and coordinates global strategies that are implemented through local citizenship teams and nonprofit partners to meet unique local needs and conditions. We focus our corporate philanthropy on two strategic areas that align with our business and where we can contribute our skills and resources to create meaningful impact. First, we seek to empower youth around the globe by connecting them with greater opportunities for education, employment, and entrepreneurship, with a particular focus on creating opportunities for all youth to learn computing. Second, we work at a global scale to donate technology to nonprofit organizations so they can do even more good.

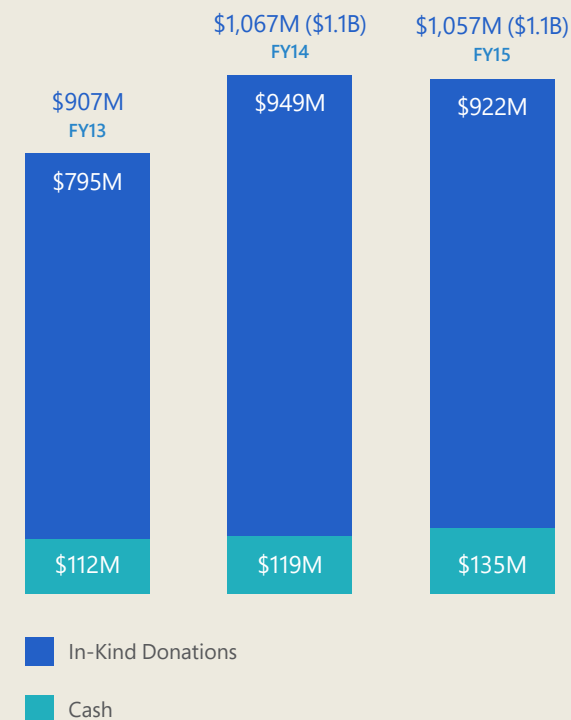
As a complement to our focused approach to our corporate philanthropy, our flexible volunteer and employee giving programs enable employees to support the causes they choose with donations of time, expertise, money, and software. Our employees regularly tell us a key factor behind their choice to work at Microsoft is knowing their personal commitment to philanthropy will be honored, encouraged, and matched.

We also work to use the full set of resources we can offer to nonprofits and communities beyond our contributions, product donations, and volunteer talent. For instance, we have active community engagement programs to organize and host nonprofit and community events at

Microsoft Stores and a number of our facilities in cities around the world, such as the Microsoft New England Research and Development (NERD) Center in Boston. We frequently donate space for our nonprofit partners to hold meetings and events in our facilities. We also extend our expertise in citizenship communications to nonprofit partners with trainings and resources on effective digital communications and use of social media. We also collaborate with key nonprofit partners on joint public relations and communications strategies to publicize their message on important causes.

For the second year in a row, our FY15 total annual giving surpassed \$1 billion.

Total Microsoft Giving ⁴



⁴ Totals are rounded to the nearest million.

4.2 Microsoft YouthSpark

Microsoft YouthSpark is a global company-wide initiative to use the power of technology to connect youth around the world with education, employment, and entrepreneurship opportunities. We launched YouthSpark in 2012 with the specific goal of creating opportunities for 300 million youth by 2015. In FY15 we created opportunities for over 80 million youth and met our three-year goal, creating opportunities for more than 307 million youth in total. Going forward, we will continue our YouthSpark initiative with a sharpened focus on increasing access for all youth to computer science education on a global scale. The following are just a few of the programs that comprise YouthSpark.

Nonprofit Partners

To help close the opportunity gap for millions of youth around the world, Microsoft YouthSpark provides philanthropic contributions to more than 400 youth-serving nonprofit organizations in more than 100 countries spanning the globe, including:

- The Anupdip Foundation for Social Welfare's DREAM for Women program, which establishes women-run co-operatives in rural India and provides them technology and business skills training.
- The Center for Digital Inclusion's 68 YouthSpark Centers across Brazil, Colombia, and Mexico, which provide technology and business skills trainings to help youth increase their opportunities for further education, employment, and entrepreneurship.
- Silatech's Youth Works Employment Initiative, a three-year program to empower one million Arab youth through training, job placement, and self-employment resources.

- Junior Achievement's Youth Enterprise Europe program that provides computer science and entrepreneurial educational trainings in 17 European countries.
- Code.org and the Hour of Code, which have introduced millions of K–12 students to computer science education with a particular focus on increasing participation by women and underrepresented students of color.

Office 365 for Education

Microsoft Office 365 is free for all students and teachers around the world and provides ready access to technology tools that power learning and collaboration: email, instant messaging, group video and voice chat, and online document viewing and editing.

Skype in the Classroom

Skype in the Classroom creates a free, global community for teachers to connect their students with other students and guest speakers from around the world.

4.2 Microsoft YouthSpark

Microsoft Digital Literacy Curriculum

Microsoft's free online Digital Literacy curriculum is available in 10 languages that together are spoken by more than half the world's population. The user friendly curriculum spans a broad range of technology skills at Basic, Standard, and Advanced levels.

Computer Science Education—TEALS

Technology Education and Literacy in Schools (TEALS) pairs computer science professionals with classroom teachers to teach computer science in high schools across the country, either in-person or via Skype. Started in 2009 by a Microsoft employee who developed and ran the program in his spare time, TEALS was embraced and adopted by Microsoft in 2011. Doubling in size every year, in the 2014–2015 school year TEALS reached 6,000 students in 131 schools in 18 states, and to date has helped teach more than 12,500 high school students introductory or advanced placement (AP) computer science with an industry-recognized curriculum developed by the University of California at Berkeley and the University of Washington. TEALS recruits volunteer technology professionals from Microsoft and across the industry.

Microsoft Imagine

Microsoft Imagine connects aspiring student developers of all skill levels with the tools, resources, and experiences they need to turn their innovative ideas into reality, whether it's building a game, designing an app, or launching a project. Imagine includes the Imagine Cup, Microsoft's global youth technology competition, which challenges students to apply their knowledge and passion to develop technical solutions for social impact, engaging games, and driving innovation.

In developing Microsoft YouthSpark, we consulted with government, nonprofit, and business leaders globally to understand the challenges young people face in building their lives and contributing to their communities. This work highlighted the need to go beyond addressing the "digital divide" and to take a more holistic approach to address the opportunity divide—the gap between those who have the skills, access, and opportunities to be successful and those who do not.

As we reflect on our learnings and developments during our first three years implementing YouthSpark, going forward, we are focusing YouthSpark on creating opportunities for all youth to learn computing—with a top priority on increasing access for all youth to computer science education on a global scale. As technology has become an integral part of people's daily lives in nearly all regions of the world, we're seeing a growing demand—from students, parents, teachers, governments, and nonprofits—to teach youth not only how to use technology, but also how to create technology and become the innovators and drivers of growth and opportunity in their communities.

The goal of computer science education is not, necessarily, for everyone to become a computer scientist or a software engineer. We believe that all young people should have access to computer science education so they can learn this foundational subject matter and develop the computational thinking skills that will be critical for their future. In the coming years we will focus our YouthSpark philanthropy, youth programs, and policy advocacy to advancing this cause.

4.3 Technology for Good

Microsoft helps build nonprofits' capacity to use technology to be more efficient, effective, and innovative in doing their important work. In addition, in FY15 Microsoft donated software, services, and hardware—worth \$922 million—to more than 120,000 nonprofit organizations around the globe.

In FY15, we continued to expand our Office 365 Nonprofit offer to reach a total of 110 countries. The program provides nonprofits with free access to the latest Microsoft Office cloud service, which includes anywhere access to Microsoft Office applications and professional email, calendar, instant messaging (IM), and web conferencing tools. The offering allows nonprofits' employees and strategic volunteers to access Office applications and documents anywhere across multiple devices; enables easy collaboration through content sharing; and offers efficient administrative controls so organizations can spend less time and resources on IT maintenance.

Through this program in FY15 we activated 1.09 million new Office 365 seats among nonprofits. In its first two years, Office 365 Nonprofit offers have provided licenses for 2.7 million nonprofit employees and strategic volunteers.

We also host NGO Connection Days around the globe for nonprofit organizations to learn how technology can help them become more efficient and effective in their work. In FY15, Microsoft collaborated with nonprofits by hosting 89 NGO Connection Days in 59 countries.

Microsoft In-Kind Donations (Fair Market Value [FMV] of Software and Hardware Donations)

| Year | Microsoft In-Kind Donations (\$ FMV) | Number of Nonprofits Receiving Software and Hardware Donations | Number of Nonprofits Receiving Office 365 for Nonprofits ⁵ |
|------|--------------------------------------|--|---|
| FY15 | \$922.0 million | 84,155 | 36,189 |
| FY14 | \$948.6 million | 86,399 | 11,455 |
| FY13 | \$794.7 million | 70,286 | — |

⁵ Some organizations receiving Office 365 Nonprofit services may have also received donations of Microsoft software and therefore may be counted in both columns.

4.4 Humanitarian and Disaster Response

In times of disaster, and to prepare for those times, Microsoft and our partners contribute resources and technology solutions to assist governments and humanitarian organizations in their emergency response efforts. Microsoft's Global Disaster Response Team includes experts from Microsoft Operations, Services, and Citizenship and Public Affairs to quickly deploy Microsoft technologies and technical assistance to customers, communities, governments, and nonprofits in the wake of natural disasters. The team also works to help organizations make technology systems more resilient to proactively prepare for disasters. We also help governments and nonprofits quickly identify and deploy the right technology to address the unique needs of a disaster situation.

In FY15, Microsoft provided support to address a number of disasters around the world, including the spread of ebola in Africa, flooding in India, and a cyclone in the Philippines. In addition, we provided more than \$13 million in cash, technology, and in-kind support to help with the relief efforts necessitated by two major earthquakes in Nepal. After the devastation we saw in Nepal, we offered free calls in and out of the country via Skype. The Microsoft Innovation Center in Kathmandu trained student partners and sent them to local communities with Windows Phones to help people make Skype calls and connect with families, friends, and aid. Our Microsoft Consulting Services Team also provided a range of free technology services to agencies working on earthquake relief efforts in Nepal, including the United Nations Development Programme, Office of the Prime Minister, Nepalese Ministry of Finance, and the Nepal Police.

For more information, see our **Disaster Response Program** website.

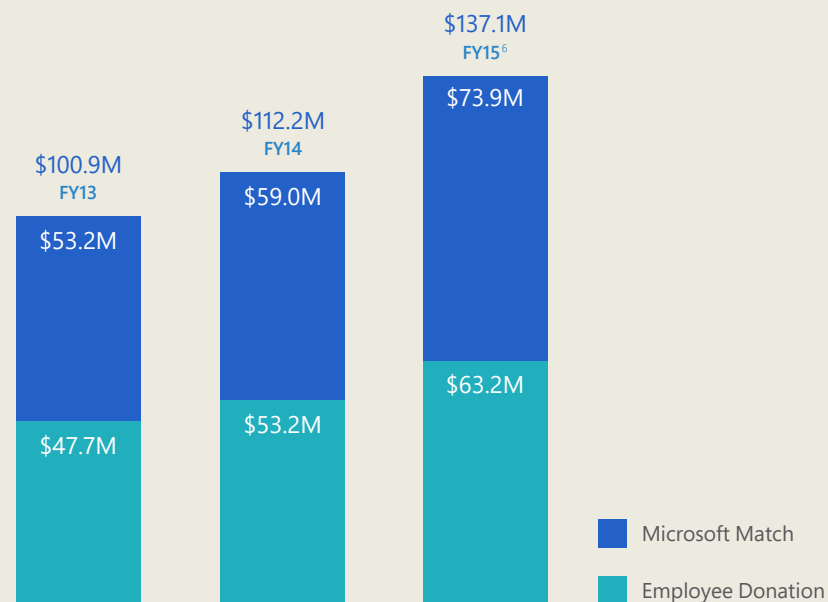
4.5 Employee Giving and Volunteerism

The foundation of all of our efforts to serve communities is the passion of our employees.

Outside the US, employees can take up to three paid days off to volunteer in their local communities. In the US, our Employee Giving Program matches employee gifts of money and time to nonprofits up to \$15,000 annually. In FY15, we increased our company volunteer match to \$25 per hour so that, as an example, four hours of volunteer time results in a \$100 donation from Microsoft to the nonprofit. In FY15, 67 percent of Microsoft's US employees participated in the Employee Giving Program.

To encourage employees to volunteer, we maintain an extensive database of volunteer opportunities and host an organized Day of Caring for team-based group volunteer efforts for employees around the Seattle area and many of our other locations. We also actively recruit employees to participate as volunteer computer science educators through our TEALS Program. This year we took a new step to match our employees' technical expertise with nonprofit needs for technology support. Tech Talent for Good launched with a varied portfolio of twenty nonprofits in Washington state, and we will expand the program in FY16.

Employee Giving and Company Match Donations



| US Volunteerism ⁷ | | | |
|------------------------------|-----------|-------------------|-------------------|
| Year | Employees | % of US Workforce | Hours Contributed |
| FY15 | 8,519 | 14.3% | 486,004 |
| FY14 | 7,144 | 11.7% | 456,365 |
| FY13 | 5,341 | 10.8% | 430,162 |

⁶ The FY15 total includes a one-time incremental adjustment of \$19 million, reflecting the inclusion of two additional months of disbursements, due to the company's transition to a new program vendor at the close of FY15.

⁷ Microsoft's US employees registering for a Microsoft donation to match their volunteer hours.

4.6 FY15 Progress and FY16 Goals

Progress Against FY15 Goals

Goal: Meeting our YouthSpark target of empowering 300 million youth to imagine and realize their full potential through Microsoft YouthSpark between 2012 and 2015.

We exceeded this goal, providing 307 million opportunities for youth through Microsoft YouthSpark between 2012 and 2015.

Goal: Donating Microsoft software and services to 100,000 nonprofit organizations.

In FY15, we donated more than \$922 million in software and services to 120,356 nonprofit organizations globally. (Note: some organizations receiving Office 365 Nonprofit services may have also received other donations of Microsoft software through Microsoft's software donation program, and therefore may have been counted more than once.)

Goal: Activating an additional 1 million users of Office 365 Nonprofit.

In FY15, we activated 1.09 million new seats for Office 365 Nonprofit.

FY16 Commitments

- Donating Microsoft Cloud Services to 50,000 nonprofits.
- Reaching 3.5 million users of our Office 365 Nonprofit free offering.
- Creating access to learning computing for 10 million youth.

Human Rights

5

- 5.1 Our Approach
- 5.2 Privacy and Data Security
- 5.3 Global Network Initiative
- 5.4 Working to Protect the Rights of Vulnerable Populations
- 5.5 Accessible Technology
- 5.6 FY15 Progress and FY16 Goals

5.1 Our Approach

Microsoft's respect for human rights reflects our longstanding commitment to empowering individuals around the world. We work to ensure that we respect human rights across all aspects of our business, and we seek to apply the power of technology to promote human rights globally.

Since endorsing the UN Global Compact in 2006, Microsoft has had a formal commitment to respecting all of the human rights enumerated in the Universal Declaration of Human Rights; International Covenant on Civil and Political Rights; International Covenant on Economic, Social and Cultural Rights; and ILO Declaration on Fundamental Principles and Rights at Work. Across our business we have a wide range of policies, practices, and programs that relate to human rights, including data privacy and security, free expression, labor rights in our workforce and our supply chain, and equality and diversity.

Building on these fundamental commitments, Microsoft was among the first companies to align our human rights work with the UN Guiding Principles on Business and Human Rights released in 2011. **Microsoft's Global Human Rights Statement** articulates our human rights commitments in line with the framework of the Guiding Principles, including issues related to governance, due diligence, and remediation. We have long included human rights topics in our citizenship reporting. Over the past year, we participated in a multi-stakeholder process convened under the Reporting and Assurance Frameworks Initiative to support the development of the **UN Guiding Principles Reporting Framework**.

We have worked to apply that framework to this year's report and applied the stakeholder engagement and materiality assessment processes described in Chapter 1 to determine what the framework terms "salient" human rights issues to include. This chapter covers many of those salient issues: privacy and data security; our commitments to the Global Network Initiative principles on freedom of expression and privacy rights of users; online safety and other steps to protect the rights of vulnerable populations; and our commitments to accessible technologies. Other salient human rights issues are addressed in other relevant sections of the report, including our commitments to ethics and anti-corruption discussed in Chapter 2; how our human rights commitments apply to our workforce discussed in Chapter 3; our work empowering communities discussed in Chapter 4; and the work we do to apply our human rights commitments to our direct and indirect suppliers discussed in Chapter 6. We are among the first companies to apply the Guiding Principles Reporting Framework to our reporting and look forward to learning from other examples of how they are implemented to inform our approach in future reports.

5.1 Our Approach

Our human rights commitments are incorporated into our Standards of Business Conduct, which all employees receive and for which they must complete training (as described in depth in the Ethical Business Conduct and Governance chapter). Our human rights commitments are also highlighted in a range of role-specific trainings tailored to particular business functions. As our Global Human Rights Statement articulates, we regularly review and strengthen anonymous grievance reporting mechanisms that allow our employees and others affected by our operations to report suspected incidents of human rights abuse. We investigate and, where appropriate, take remedial action to address reported violations. The mechanisms take multiple channels, ranging from our Standards of Business Conduct hotline described in the Ethics and Business Compliance chapter to private communications

we have with human rights defenders, such as Freedom House, that work with us to disable user accounts that have been compromised by political regimes conducting human rights abuses.

Since 2013, the Microsoft Technology and Human Rights Center has worked to prioritize and coordinate human rights due diligence, identify emerging risks and opportunities related to human rights, and promote harmonized approaches to human rights across Microsoft. The Center also works to foster dialogue to advance understanding of the human rights impacts of information and communications technology (ICT). Through the Center, Microsoft engages with a broad range of human rights groups, academics, and industry groups globally to share Microsoft's experiences and lessons learned. Among its activities in FY15, the Center has:

- Collaborated with groups such as the Aspen Institute's Business and Society Program, The Conference Board, International Corporate Governance Network, and World Economic Forum to share best practices for business to address human rights issues.
- Hosted a series of multi-stakeholder workshops on business and human rights in the United Kingdom, Brussels, and Central Europe.
- Sponsored and participated in RightsCon Southeast Asia, a summit on defending digital rights of Internet users which attracted participants from NGOs, business, and governments from 50 countries.
- Convened a range of events including roundtables at the World Economic Forum Annual Meeting in Davos on LGBT equality and on government surveillance and meetings with institutional investors and corporate lawyers to raise awareness and understanding of the UN Guiding Principles.

5.2 Privacy and Data Security

Microsoft has a longstanding commitment to ensuring the privacy and security of our customers' data. We have a strong set of privacy principles and practices that apply company-wide. We incorporate privacy considerations into our design and development processes, offer our customers meaningful privacy choices, and responsibly manage and protect the customer data that we store.

We've led our industry with privacy protections such as our commitment to not scan Microsoft Outlook or other email services for purposes of targeting online advertising. In October 2014, Microsoft became one of the first companies to sign the Student Privacy Pledge developed by the Future of Privacy Forum and the Software & Information Industry Association to establish a common set of principles to protect the privacy of student information.

In our ongoing effort to give customers meaningful data about when and how we collect and use personal data, in June 2015 we updated the Microsoft Services Agreement to provide one place to understand the privacy protections in place for most of Microsoft's consumer services, including Bing, Cortana, OneDrive, Outlook.com, Skype, and Xbox Live. At the same time, we updated the **Microsoft Privacy Statement** to provide a single, straightforward resource for understanding Microsoft's commitments for protecting individual privacy with these services.

Our privacy protections have gained external recognition. Microsoft is the first major cloud provider to adopt—and gain independent verification for meeting—the world's first international standard for cloud privacy, the ISO/IEC 27018 standard developed by the International Organization for Standardization to establish a uniform, international approach to protecting privacy for personal data stored in the cloud. This builds on past efforts: in April 2014 we received confirmation from European data protection authorities that Microsoft's enterprise cloud contracts are in line with "model clauses" under EU privacy laws regarding the international transfer of data, becoming the first company to receive such recognition.

With ongoing concerns about government surveillance practices over the past several years, Microsoft has categorically stated that we do not provide any government with direct and unfettered access to our customers' data, and we don't provide any back doors. As we've publicly disclosed, if a government wants our customers' data, it must serve us with the appropriate warrant, court order, or subpoena targeted at specific accounts and identifiers. We reject requests that don't meet these requirements, and we only provide the data specified in the legal order. Measures we've taken over the past two years to ensure we continue to meet our commitments to data privacy and security and earn customers' trust include expanding our use of encryption across our services, providing choice and transparency on data location, and strengthening legal protections for customers.

5.2 Privacy and Data Security

Microsoft has also worked to champion our view that while technology has a critical role itself in protecting people's rights and keeping people safe, technology and the Internet must be governed by law. To that end, both on our own and in collaboration with others in our industry, Microsoft is pushing for reform in government surveillance practices. We fought for and won the right to increase our disclosure on the volume of national security orders for customer data we receive from the US government. We've very publicly advocated that governments need to create a new international legal framework to ensure that governments seek information about the private citizens of other participating countries only pursuant to legal rules and due process.

Throughout FY15, we engaged in an ongoing legal challenge to the US government's attempt to mandate that we turn over a customer's email content stored in our datacenter located in Ireland. We have gained support from more than two dozen leading technology and media companies to argue that digital information must be afforded the same legal protections as physical documents and correspondence. Beyond addressing this specific case, we have also advocated about the ways

to best protect privacy, ensure that governments keep people safe, and respect national sovereignty while preserving the global nature of the Internet.

To help inform the public debate about the best ways to balance privacy and security and in keeping with our longstanding commitment to transparency, we publish a semi-annual Law Enforcement Requests Report and clearly outline our well-documented practices for responding to government demands for customer data. The report includes the number of demands we receive and the number of accounts or identifiers that may be affected by these demands. We also provide details on the number of demands we complied with and, if we complied, whether we provided content or non-content data. In addition, as a result of a concerted effort by Microsoft and our industry partners, we are now permitted to publish data about the number of legal demands we receive from the US government pursuant to national security laws.

5.3 Global Network Initiative

Microsoft is a founding member and sits on the board of the Global Network Initiative (GNI), a collaborative effort between ICT companies, civil society organizations, socially responsible investors, and academics. GNI provides a set of Principles and Implementation Guidelines regarding practical steps and policies ICT companies can adopt to respect and advance the freedom of expression and privacy rights of their users when faced with governmental demands.

The GNI provides for a series of independent assessments conducted every other year by an independent assessor accredited by the GNI Board, on how its member companies are implementing the GNI Principles. The independent assessor reviews the policies and procedures adopted by the company in accordance with the GNI guidelines and looks at how the policies and procedures were implemented in real-world cases. Based on the results of the most recent assessment and engagement with Microsoft, the GNI Board determined that Microsoft is compliant with the GNI Principles. The assessment found that the systems, policies, and procedures that Microsoft relies upon to implement the GNI Principles are both mature and subject to ongoing review

with an eye to continuous improvement. The GNI's public report on the results of its Phase III company assessments is available online.

As part of our commitment to GNI and under our Global Human Rights Statement, Microsoft has independent experts in business and human rights conduct Human Rights Impact Assessments (HRIAs) of specific parts of our business. The HRIAs include independent research, internal interviews, and engagement with external stakeholders to identify relevant human rights risks and opportunities for specific Microsoft products, services, business relationships, and markets.

5.4 Working to Protect the Rights of Vulnerable Populations

Microsoft works to help protect people of all ages and abilities against a broad range of risks, including malware, online hoaxes, tech scams, and online bullying. To promote the safer use of Microsoft devices and online services, we offer a range of safety features, including family safety settings. We also have strong prohibitions against abusive behavior on our online services in our Terms of Use, which are enforced by complaint response teams on services such as Xbox Live.

We promote online safety broadly across the Internet as well. Microsoft has a near 20-year history making online safety resources available to children and their parents. In FY15, we enhanced our existing materials with new interactive and engaging **online safety resources** on the Microsoft YouthSpark Hub to empower and involve youth in adopting safer online habits and practices. In FY15, Microsoft joined the UK Prime Minister's WePROTECT Children Online initiative to combat child sexual exploitation and abuse and serves as the industry representative on the WePROTECT International Advisory Board, which is recommending a series of actions for the global child protection community.

These and other activities follow Microsoft's work six years ago with Dartmouth College to develop PhotoDNA, a free technology that helps identify and remove child sexual abuse images from among the billions of photos on the Internet. PhotoDNA has now become an industry best practice for combating child sexual abuse images and is used by NGOs, law enforcement, and other leading Internet companies like Facebook. At Microsoft, we use PhotoDNA to help disrupt the

spread of child sexual abuse images through our Bing, OneDrive, and Outlook.com services. This year Microsoft made PhotoDNA available as a free **cloud service** to make it even easier for companies to detect and report illegal images of child sexual abuse before they are seen by others.

A broad range of groups across Microsoft work to advance a safer Internet for all, including the Microsoft Digital Crimes Unit, an international legal and technical team of more than 100 attorneys, investigators, big data scientists, and forensic analysts. DCU's cybercrime experts focus on two areas: fighting malware and reducing risk; and protecting vulnerable populations, especially the very young and the elderly. The DCU's work includes investigating fraud and tech scams targeting unsuspecting and non-tech savvy customers, who are primarily the elderly. To combat this problem, DCU works with law enforcement, the Federal Trade Commission, and advocacy groups such as AARP to educate consumers on how to avoid being scammed and, when necessary, take legal action against known scammers.

5.5 Accessible Technology

As a reflection of our commitment to human rights and to our billions of users around the world, Microsoft seeks to provide products and services that empower people across a broad range of abilities, cultures, languages, and levels of economic development.

This commitment starts with offering people access to technology in a language familiar to them that respects linguistic and cultural distinctions and helps sustain diverse local languages and cultures. Through the Microsoft Local Language Program, Microsoft collaborates with local governments, language authorities, universities, and NGOs to provide individuals access to computing in their native language. The local language program supports more than 108 languages, covering 4.5 billion speakers around the planet. Under the program, Microsoft provides a range of language and translation tools and resources, including free Language Interface Packs to make Windows and Office applications available in local languages ranging from Albanian to Yoruba.

In addition, Microsoft seeks to ensure our technology is accessible to the more than 1 billion people around the world with a disability. The Microsoft Accessibility Standard is a company-wide policy that drives consideration for accessibility into the design, development, evaluation, and release of all of our products and services. Windows, Office, Internet Explorer, Xbox, and our other products and services include accessibility features and controls such as the Ease of Access Center in Windows. Beyond its own accessibility features, Microsoft Office 2013 includes an Accessibility Checker that helps users enhance the accessibility of their documents and presentations. We've found that many of our accessibility innovations and features allow us to deliver more flexible user experiences that benefit a wide range of our customers, not just those with disabilities.

Microsoft offers guidance on accessibility to our users, with accessibility information available in over 40 languages. Microsoft Customer Support provides a dedicated support desk for customers who have disabilities or who are looking for support when also using assistive technology, such as screen readers, screen magnifiers, and speech recognition commands. We provide guidance to help users address a broad range of disabilities, including:

- Vision impairments
- Dexterity and mobility impairments
- Hearing impairments
- Learning impairments
- Language and communication impairments
- Age-related impairments

We are continually working to raise the awareness of accessibility issues in the technology industry. The Microsoft Accessibility Developer Center provides guidance, tools, and technologies for developing accessible applications and web content. Our tools and guides help governments, schools, businesses, and organizations integrate technology for individuals with disabilities. Microsoft Research and product teams also collaborate with disability experts to unlock new uses for technologies that can dramatically benefit people with disabilities, such as helping individuals with paralysis communicate with their families using eye gaze technology and speech synthesizers on the Microsoft Surface. For more information, see the [Microsoft Accessibility](#) website.

5.6 FY15 Progress and FY16 Goals

Progress Against FY15 Goals

Goal: Continuing to review our policies and practices to ensure we are meeting our commitments to human rights and to perform ongoing assessments of the human rights impacts of our operations.

We continued our work engaging with a wide range of human rights experts to evaluate our existing human rights commitments and consider the human rights impacts of key business decisions and perform human rights impact assessments of focused areas of our business.

Goal: Continuing to advance human rights trainings to targeted internal groups within Microsoft.

We promoted awareness of our human rights commitments to employees broadly across Microsoft and with targeted required trainings for our sales field and key sourcing professionals.

Goal: Finalizing a Memorandum of Understanding with the Office of the UN High Commissioner for Human Rights to enhance its use of technology.

We finalized this memorandum of understanding and are moving forward with implementation to help the Office of the UN High Commissioner for Human Rights to enhance its use of technology.

Goal: Advancing awareness of Microsoft's accessible products and services to meet the needs of K-12 students with disabilities.

Microsoft supports inclusive education policies that ensure accessible and assistive technologies are made available to students with disabilities throughout their education system and teachers are trained and supported in their implementation.

Goal: Supporting and advancing the implementation of the UN Convention for the Rights of People with Disabilities.

Microsoft collaborates with governments, consumers, and organizations to support and advance the implementation of the UN Convention for the Rights of People with Disabilities and promote digital inclusion of persons with disabilities in all aspects of development. We regularly partner with organizations such as the Global Initiative for Inclusive Information and Communication Technologies (G3ict), the United Nations Educational, Scientific and Cultural Organization (UNESCO) and the Organization of American States (OAS) to raise awareness of the accessible ICT in countries such as Mexico, India, and South Africa.

FY16 Goals

- Continuing ongoing review of our policies and practices to ensure we are meeting our commitments to human rights and to perform ongoing assessments of the human rights impacts of our operations.
- Reviewing current approaches for using the power of technology to combat human trafficking and identifying new opportunities for action.
- Further strengthening our commitment to addressing the needs of people with disabilities, including reading and writing literacy tools and deeper exploration of how innovations such as gesture control, speech recognition, and touch can foster accessibility.

Responsible Sourcing and Manufacturing

6

- 6.1 Our Approach
- 6.2 Social and Environmental Accountability in Our Device and Supply Chain Group
- 6.3 Responsible Sourcing of Raw Materials
- 6.4 Responsible Sourcing with Indirect Suppliers
- 6.5 FY15 Progress and FY16 Goals

6.1 Our Approach

All suppliers doing business with Microsoft must uphold the ethical business, employment, environmental, and worker safety practices prescribed in our Supplier Code of Conduct—which aligns with, and in certain cases exceeds, the Electronic Industry Citizenship Coalition’s (EICC’s) responsible supply chain standards. We are also committed to ensuring that suppliers of the raw materials incorporated into our products operate sustainably and ethically.

We apply risk-based approaches for the responsible management of all of our suppliers, with a particular focus on suppliers of products and services that directly touch our customers, such as Microsoft-branded hardware devices and packaging and outsourced customer service and support. We also work collaboratively with our suppliers on proactive initiatives that create value for their employees, the communities in which they operate, and their own businesses.

Within Microsoft, two groups work to ensure that our social, ethical, environmental, health, and safety requirements for suppliers are met. Microsoft’s Device and Supply Chain Group (DSC) established its Social and Environmental Accountability (SEA) Program in 2005 to ensure

that our hardware and packaging suppliers conform to our Supplier Code of Conduct and additional hardware-related requirements for living conditions, safe working practices, and environmental, health, and safety protection. Microsoft’s Global Procurement Group, which manages Microsoft’s spending with indirect (that is, non-hardware) suppliers, created a new management function in 2013 to consolidate and enhance responsible sourcing activities based on learnings and best practices from the SEA Program. Together, these two programs promote capacity-building and establish proactive partnerships with suppliers, and embed social and environmental criteria into Microsoft’s core purchasing and sourcing decisions.

6.2 Social and Environmental Accountability in Our Device and Supply Chain Group

Our hardware business has grown since its inception in 1982. Our Device and Supply Chain Group manages this supply chain, which spans 25 countries around the world. To provide greater transparency on our hardware supply chain, we publish an annual list of our top 100 production suppliers for our commercially available hardware products. During FY15, our supply chain integrated the Nokia Devices and Services business, which expanded our suppliers to include those engaged in mobile device production.⁸

Microsoft Production Supplier Locations



⁸ In July 2015 (after the end of FY15) Microsoft announced a restructuring of our phone business that will occur in FY16. Our 2016 Citizenship Report will address that restructuring.

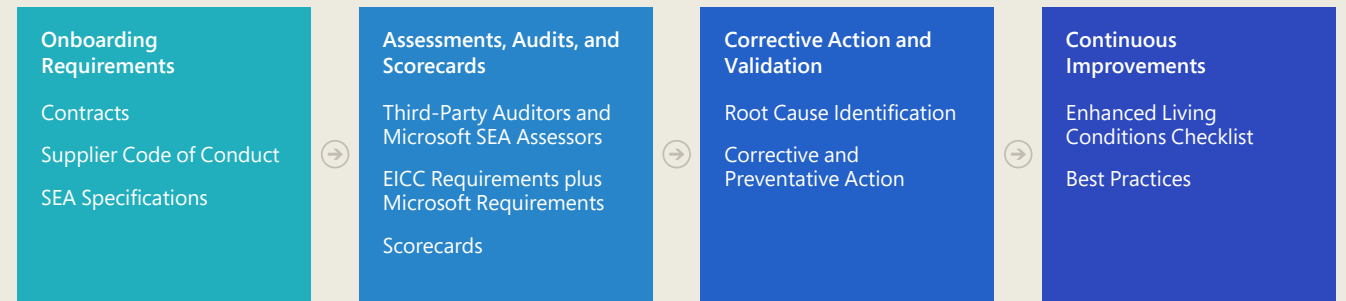
6.2 Social and Environmental Accountability in Our Device and Supply Chain Group

SEA Supplier Engagement Approach

Microsoft's Supplier Code of Conduct and SEA requirements are incorporated into our contracts with Tier 1 suppliers that manufacture our hardware components and products, and strategic Tier 2 suppliers and other suppliers contracted by Microsoft to provide components and/or materials to our Tier 1 suppliers. We also require these suppliers to address the SEA requirements with their own upstream and downstream suppliers with which Microsoft does not contract directly. Microsoft's factory and sourcing managers partner with our SEA team of experts to ensure that Microsoft's labor rights, ethics, environment, occupational health, and safety requirements are met.

We raise the performance bar with our existing suppliers while onboarding new suppliers. All new and directly contracted hardware and packaging suppliers undergo initial risk assessments and initial capability assessments and audits. A combination of third-party auditors and/or members of Microsoft's SEA team conduct these audits and assessments using a checklist composed of the Electronics Industry Citizenship Coalition (EICC) requirements and additional Microsoft requirements on labor, environmental protection, ethics, worker health and safety, and management systems. During the review process, auditors examine documentation; visit production lines, dorms, canteens, and waste storage facilities; and conduct face-to-face interviews of workers and factory management. To ensure consistency and quality of third-party audits, Microsoft pre-qualifies third-party auditors through shadow audits and assessments of their onsite audit performance and reports.

SEA Supplier Engagement Elements



6.2

Social and Environmental Accountability in Our Device and Supply Chain Group

After the initial baseline assessment, the SEA team monitors the performance of all directly contracted suppliers. Third-party auditors audit SEA conformance with our Tier 1 suppliers annually and our Tier 2 suppliers based on their risk level. Microsoft's SEA team supplements these third-party audits with regular onsite assessments of Tier 1 factories and high- and medium-risk Tier 2 component suppliers.

In cases when nonconformances are detected, our SEA team works closely with suppliers to develop corrective action plans to resolve detected issues, including building needed capabilities through education and training. Suppliers are required to identify the root cause, establish a corrective course of action, and implement preventive actions for all issues found. Suppliers must correct issues within specific deadlines based on the severity of the nonconformance or risk termination of our business.

Beyond auditing, learning directly from workers is a key priority. In FY14, we launched an anonymous and factory-independent worker grievance hotline pilot project. This program continued to scale and increase in quality and efficiency in FY15, though a new partnership with China Labor Support Network. In its first year of operation, we rolled out the hotline in five Tier 1 factories and one Tier 2 factory. The hotline launch included worker orientations to encourage use of the hotline and to encourage factory management to consider the hotline as a resource for workplace labor and environment, health, and safety issues. In its first year of operation, the hotline received a total of 232 inquiries. The three most frequent topics were related to wages and benefits, factory procedure and policy, and living conditions. Starting in FY16, we will make this hotline available to the rest of our Tier 1 suppliers in China and select Tier 2 suppliers.

SEA Audit and Assessment Findings

In FY15, we completed 314 third-party audits and Microsoft assessments of 138 suppliers. These audits and assessments continue to provide us with insight into the needs and challenges of our supply chain and guide our investments in supplier capability and future improvements.

In this report, we disclose all findings of critical/serious nonconformance with our SEA requirements. These critical/serious findings were escalated to Microsoft senior management, and the suppliers were placed on restricted status with no new Microsoft business awarded until the issues were resolved. In all instances, the suppliers instituted corrective action plans that were approved by Microsoft and follow-up audits confirmed that the suppliers were implementing the corrective action plans.

In the following SEA Audit and Assessment Results table, we provide year-over-year data on findings of critical/serious nonconformance with the requirements covered in these audits and assessments.

Changes in the number of audits and assessments conducted each year and the scope of those audits cause fluctuations in year-over-year comparisons. In addition, we are always learning during the course of our work, which results in improvements to our program and can increase findings. Nonetheless, to better facilitate comparisons going forward, this year we also report nonconformance percentages of suppliers audited in addition to reporting total findings.

We typically see improvements in performance after working with suppliers on an ongoing basis on previously addressed issues. For the first time, this year we also broke out findings by new and existing suppliers. New suppliers are those new to the Microsoft Device Supply Chain and audited for the first time, while existing suppliers are those which received audits and assessments in the past. While informative, we emphasize that the percentages are affected by our raising the bar on supplier performance year over year and enhancement of audit quality and auditor requirements.

6.2 Social and Environmental Accountability in Our Device and Supply Chain Group

SEA Audit and Assessment Results ⁹

| Category/Provision | Findings of Critical/Serious Nonconformances | | Distribution by % of Suppliers Audited ¹⁰ | | | |
|---|--|------|--|--------------------|---------------|--------------------|
| | FY13 | FY14 | FY15 | | FY15 | |
| Labor | | | New Suppliers | Existing Suppliers | New Suppliers | Existing Suppliers |
| Freely Chosen Employment ¹¹ | 2 | 6 | 1 | 1 | 1% | 1% |
| Child Labor Avoidance ¹² | 1 | 3 | 6 | 3 | 7% | 3% |
| Working Hours ¹³ | 1 | 2 | 0 | 1 | 0% | 1% |
| Wages and Benefits ¹⁴ | 8 | 14 | 4 | 2 | 3% | 2% |
| Humane Treatment | 1 | 3 | 0 | 0 | 0% | 0% |
| Non-Discrimination ¹⁵ | 3 | 6 | 1 | 0 | 1% | 0% |
| Freedom of Association | 0 | 0 | 0 | 0 | 0% | 0% |
| Health and Safety | | | | | | |
| High-Risk Health & Safety | 1 | 0 | 1 | 0 | 1% | 0% |
| Occupational Safety | 1 | 0 | 2 | 1 | 2% | 1% |
| Emergency Preparedness and Response | 0 | 0 | 0 | 0 | 0% | 0% |
| Occupational Injury and Illness | 0 | 0 | 0 | 0 | 0% | 0% |
| Industrial Hygiene | 2 | 2 | 2 | 0 | 1% | 0% |
| Physically Demanding Work | 0 | 0 | 0 | 0 | 0% | 0% |
| Machine Safeguarding | 0 | 0 | 0 | 0 | 0% | 0% |
| Dormitory and Canteen | 0 | 0 | 0 | 0 | 0% | 0% |
| Environment | | | | | | |
| Environmental Permits and Reporting | 0 | 0 | 0 | 1 | 0% | 1% |
| Pollution Prevention and Resource Reduction | 0 | 0 | 0 | 0 | 0% | 0% |
| Hazardous Substances | 0 | 2 | 0 | 0 | 0% | 0% |
| Wastewater and Solid Waste | 2 | 1 | 0 | 0 | 0% | 0% |
| Air Emissions | 0 | 0 | 0 | 0 | 0% | 0% |
| Product Content Restrictions | – | 0 | 0 | 0 | 0% | 0% |
| Ethics | | | | | | |
| Business Integrity | 0 | 0 | 0 | 0 | 0% | 0% |
| No Improper Advantage | 0 | 0 | 0 | 0 | 0% | 0% |
| Disclosure of Information | – | 1 | 0 | 1 | 0% | 1% |
| Protection of Intellectual Property | 0 | 0 | 0 | 0 | 0% | 0% |
| Fair Business, Advertising, and Competition | – | 0 | 0 | 0 | 0% | 0% |
| Protection of Identity | 0 | 0 | 0 | 0 | 0% | 0% |
| Responsible Sourcing of Minerals | – | 0 | 0 | 0 | 0% | 0% |
| Privacy | – | 0 | 0 | 0 | 0% | 0% |
| Non-Retaliation | – | 0 | 0 | 0 | 0% | 0% |
| Management Systems | | | | | | |
| Labor and Ethics Mgt Systems | 0 | 0 | 0 | 0 | 0% | 0% |
| Environment, Health & Safety Mgt Systems | 0 | 0 | 0 | 0 | 0% | 0% |

| Category/Provision | Findings of Critical/Serious Nonconformances | | | |
|--|--|-----------|-----------|-----------|
| Total Critical/Serious Findings | 22 | 40 | 17 | 10 |

⁹ Number of instances found of critical/serious non-conformances by third-party audits and Microsoft SEA assessments (which are both based on the EICC audit protocols with additional Microsoft requirements).

¹⁰ Percentage represents number of the suppliers with critical/serious findings on each issue out of the base of 138 suppliers audited.

¹¹ The two cases are related to student workers, whose original ID cards were kept by their teacher.

¹² Examples of these nine nonconformances include two child labor issues and seven issues of student workers working overtime. Neither child labor nonconformance found underage workers in the factory: one found evidence of past underage workers and one found insufficient documentation of legal proof of age. In both cases, the factories instituted new procedures for verifying and documenting proof of age to prevent hiring underage workers.

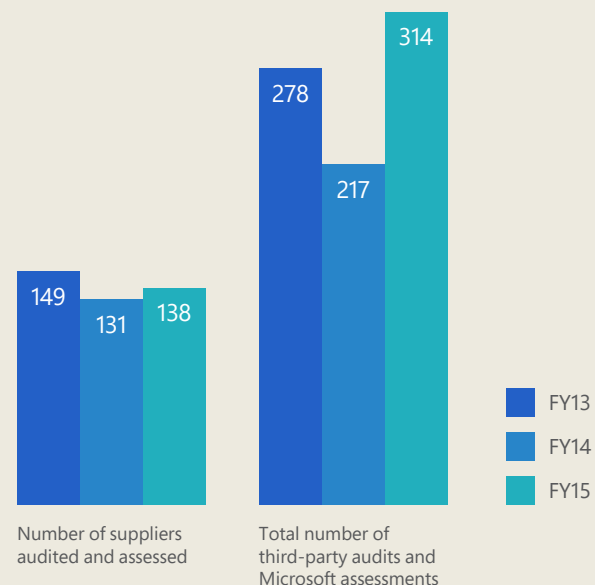
¹³ The case is related to incomplete and inaccurate attendance records of workers.

¹⁴ Examples of the cases involved factories not paying sufficient overtime compensation according to the local minimum wage.

¹⁵ This case is for requiring a pregnancy test for female workers during the onboarding health examination.

6.2 Social and Environmental Accountability in Our Device and Supply Chain Group

SEA Audits and Assessments



Enhancing Workplace Experiences

There is growing recognition among industry advocates that compliance audits and assessments are not a long-term solution to consistent performance. We seek to establish best practices over time by building supplier capabilities through training and sharing experiences and best practices, including detailed guidelines on how to improve factory workers' living environments and environmental health and safety systems. An example of this is the implementation of our Tier 1 Model Factory Scorecard, created in FY13 with input from worker surveys and suppliers to identify best practices in living and working conditions. Through this collaborative effort and quarterly scorecard tracking progress, we are pleased to report that in FY15 all of our Tier 1 factories met our target performance goal of 95 percent or more on the Model Factory Scorecard, and we are now working with those factories to help them achieve 100 percent compliance.

Over the past several years, we also significantly expanded job-related and life skills training opportunities in one or more of our Tier 1 supplier factories, including:

- Creating a factory-specific curricula and delivery model for our China YouthSpark Information Technology (IT) skills training program. By the end of the pilot, December 2013 to December 2014, a total of 6,731 workers (4,451 online and 2,280 classroom) had taken the class.
- Providing reproductive health education programs at all of our Tier 1 suppliers through the HERproject (Health Enables Returns) run by Business for Social Responsibility. In FY15, we trained a total of 7,685 workers, bringing the total number of workers trained since we launched in FY12 to 179,598 workers.
- Piloting line leader capability training to improve front-line supervisors' communication skills and management effectiveness. The pilot program trained 30 line leaders, each responsible for on average 30 workers (in total affecting 900 workers).

- Rolling out training in parenting programs to support migrant parent workers who may be far away from their families. This program helps the migrant parents build and maintain meaningful relationships with their children to ensure that they are not only materially looked after, but emotionally as well. In FY15, the nine suppliers rolled out the training to all their workers, especially targeting their migrant workers. By the end of June 2015, a total of 1,600 workers participated in this training.

6.2 Social and Environmental Accountability in Our Device and Supply Chain Group

Environmental, Health, and Safety Capability Building

Factory worker health and safety is a top priority for Microsoft. Over the past four years, we have significantly expanded our engagements to help suppliers create and maintain safe working environments. These programs included the following.

Training Resources

We created a training platform called SEA Academy that includes labor, ethics, environmental, health, and safety (EH&S) training course modules for suppliers. In FY15, we also conducted trainings for 504 trainees from our high-risk suppliers. The courses are also designed as a “train the trainer” with project management training to complement the expert content and provide tools on how to successfully improve their factories.

Health and Safety Programs

We worked with factory management to emphasize the need to use competent and experienced EH&S professionals to define and implement the programs necessary to build a culture of health and safety. To address this, we piloted a number of training modules in our Tier 1 and high-risk Tier 2 suppliers, including:

- Safety Culture
- EH&S Professionals and Senior Management Capability Improvement
- EH&S Employee Participation
- Risk Behavior Change
- EH&S Standardization
- Risk Assessment
- Chemical Safety and Management
- Line Manager EH&S Skills Improvement
- Safety Officer Certification for EH&S Staff
- Prevention of Occupational Disease
- Effective Water Management

In FY15, 528 SEA professionals from the Microsoft Device Supply Chain attended our SEA in-house training, representing factories with more than 32,000 workers.

Injury Data Tracking

We track key health and safety performance indicators for our Tier 1 factories using standard OSHA metrics. In FY15, our Tier 1 suppliers averaged a work-related injuries and illness rate of 0.045 versus an industry benchmark of 1.4, and a lost working-hour accident rate of 0.031 versus an industry benchmark of 0.7.

Key Tier 2 Supplier Improvement Program

In FY14, to address the growing need for additional capacity building among some Tier 2 suppliers, we launched a new program to provide targeted component suppliers with onsite consulting from the SEA program team. We also continued our program to target our lowest performing component suppliers with special additional inspections that include Microsoft executives as well as SEA and Sourcing team members. This subset of suppliers face an additional compliance scorecard and must improve their performance within a quarter. Additional time may be given in certain occasions that are justified and approved by the SEA team. As a result of the close engagement and collaboration with suppliers to make improvements identified during these audits and assessments,

factory and worker conditions have advanced at many of our suppliers. Suppliers who failed to meet the requirements are subject to phase-out and termination of business with Microsoft.

Sustainable Manufacturing

In addition to meeting legal requirements, we apply the same Social and Environmental Accountability standards and processes to the factories we own and directly operate. Within our Microsoft Devices Group (now called the Windows and Devices Group), we created a global manufacturing Environment, Health & Safety (EH&S) team of experts in industrial safety, occupational health, and environmental sustainability to work across these factories to align programs and priorities, ensure excellence in EH&S, and drive continuous improvement. This new team works closely to align approaches with our existing Supplier Social and Environmental Accountability team that addresses labor rights, employee health and safety, and environmental standards in our hardware and packaging suppliers and with our corporate-wide Occupational Health & Safety & Well Being team in Human Resources.

6.3 Responsible Sourcing of Raw Materials

Microsoft's commitment to the responsible production of our hardware and packaging extends to the raw materials that go into them. In 2014, we formalized our values and approach around upstream responsible sourcing through our **Responsible Sourcing of Raw Materials** policy, which goes beyond conflict minerals to apply to all materials sourced around the world. This policy extends our Supplier Code of Conduct expectations in support of human rights, labor, health and safety, environmental protection, and business ethics to all harvested and extracted materials incorporated into our products.

We exercise due diligence across our supply chain through a material tracing process that allows us to immediately identify the constituent substances used in our products and trace them back to their associated suppliers. Beyond our own supply chain due diligence, we have now moved our collaborative efforts to the upstream mining industry, through direct participation in and support of the Initiative for Responsible Mining Assurance, Pact, and the Alliance for Responsible Mining, to holistically cover end-to-end mining sustainability, from artisanal to larger mining enterprises. It is our intention that these initiatives eventually will enable our suppliers to purchase responsibly sourced materials for use in our products and address important challenges for

the supply chains dependent upon the use of metals, ranging from underage labor to environmental degradation. On the specific issue of tin originating from Indonesia, Microsoft is also a member of the IDH Tin Working Group, which brings together a range of stakeholders seeking to address the social and environmental issues related to tin mining.

In another example, we have collaborated with our suppliers and other hardware companies since 2007 to address conflict minerals from the eastern DRC. Our suppliers must not knowingly use minerals that are not DRC conflict-free and we expect our suppliers to engage in similarly robust due diligence activities. We provide a detailed

discussion of our conflict minerals due diligence process and findings in our June 2015 Conflict Minerals Report filed with the US Securities and Exchange Commission under requirements of the Dodd-Frank Act. Microsoft's report has been cited for its leadership in transparency with the disclosure of as much smelter-level and country-of-origin data as we have available. As with our broader efforts on mining sustainability, we believe that collaborative partnerships are most effective in addressing conflict minerals.

Meaningful progress related to conflict minerals is reflected in our Conflict Minerals Report filed with the US Securities and Exchange Commission in June 2015. The number of conflict-free smelters in our supply chain increased from 80 to 148, due to the integration of Nokia's Devices and Services Group, supplier outreach, and the maturation of the Conflict Free Smelter Program (CFSP), of which we were an original participant and remain a strong supporter. In addition, in spring 2015 we passed a significant milestone with all tantalum smelters identified in the Microsoft supply chain validated as conflict-free. We strengthened our supplier audit process to improve due diligence, developed new controls to standardize supplier reports, and initiated third-party assistance to help smelters prepare for CFSP validation.

More detailed results of our conflict minerals due diligence process and findings are available in our latest Conflict Minerals Report, available on our **Responsible Sourcing webpage** for download.

We also have supported the Conflict Free Smelter Initiative (CFSI) since its inception in 2010 and donated to the initial audit fund to make it easier for smelters to become certified through CFSI's Conflict Free Smelter Program.

We support several other organizations promoting responsible mining and an end to conflict in and around the DRC, including the Public-Private Alliance for Responsible Minerals Trade and the Responsible Sourcing Network's Multi-Stakeholder Group.

6.4 Responsible Sourcing with Indirect Suppliers

As with our SEA Program for hardware suppliers, Microsoft's Global Procurement Group's responsible sourcing initiatives span a broad range of work to ensure compliance, advance sustainability in procurement processes, and pursue partnerships with suppliers.

Microsoft screens our indirect (that is, non-hardware) suppliers on an ongoing basis against 23 different ethical, social, and environmental risks by country and by commodity category, and applies assurance requirements for suppliers found to pose the highest risks. Among these, we have dedicated supplier training and assurance programs related to anti-corruption and privacy and security.

For our top strategic suppliers, our Responsible Sourcing program monitors compliance with our Supplier Code of Conduct through quarterly scorecards that are integrated into their business dashboards and review. For our suppliers of products and services that directly touch our customers (for example, our outsourced customer service and support) the program ensures compliance through onsite assessments. These suppliers also face additional Responsible Sourcing Requirements to issue annual Corporate Social

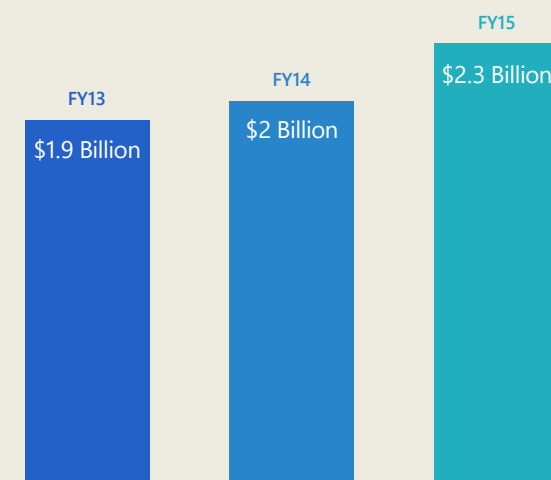
Responsibility reports that include metrics drawn from the **Global Reporting Initiative**.

Finally, another significant requirement launched in FY15 and being rolled out into FY16 involves new procurement standards to ensure that a wide variety of suppliers that do business with Microsoft in the US provide their employees who handle our work with at least 15 days of paid leave each year. We believe we were the first large company to take this approach, and we gained significant attention for the move from the media, policymakers, and other companies. We are working to be thoughtful to ensure the changes don't undermine the breadth and diversity of our suppliers as we implement the new requirement.

Supplier Diversity

Microsoft has a long-standing and strong commitment to source from historically disadvantaged groups. Our Procurement team is committed to increasing our spending with diverse suppliers as part of our Supplier Diversity Program. In FY15, Microsoft spent \$2.3 billion with minority-, disabled-, veteran-, and woman-owned businesses, placing Microsoft in the top 20 companies globally for spending with diverse suppliers. We also have focused programs in place to encourage diversity among the law firms we do business with and to increase the diversity of banks and financial institutions we use.

Microsoft Spending with Minority-, Disabled-, Veteran-, and Woman-Owned Businesses



6.4 Responsible Sourcing with Indirect Suppliers

Supplier Capacity Building and Partnerships

Beyond risk mitigation, we also work to advance citizenship projects with our suppliers that create shared value. We encourage and recognize suppliers who made exceptional impact in social and environmental areas through our supplier awards program, which highlights those awarded as examples to attendees of our annual supplier summit. In 2015 these awards included a Supplier Diversity Award, Bring the Opportunity Divide Leadership Award, Impact Sourcing Leadership Award, and Climate Performance Leadership Award.

We provide supplier development and training resources, including our Supplier Code of Conduct Training Program. This online training is mandatory for a segment of our suppliers based on risk to ensure they understand and follow ethical business practices in accordance with our Supplier Code of Conduct. In FY15, 55,063 employees at 6,413 suppliers completed this training. Beyond this mandatory training, we invite key suppliers to participate in webinars and workshops on topics ranging from Microsoft's carbon neutrality program to the latest Global Reporting Initiatives guidelines. We participate in the CDP Supply Chain Program to provide our suppliers a standardized platform to understand the risks and opportunities that climate change presents to them.

Through the **Microsoft YouthSpark** Supplier Community Technology Center (CTC) program, we collaborate with suppliers to further extend the reach of Microsoft's YouthSpark initiative. We provide curriculum and support to help our suppliers use their facilities to host technology skills trainings for their employees and local community members. These trainings provide participants with an opportunity to receive a no-cost Microsoft Digital Literacy certificate, a key qualification for many technology jobs. To date, 16 suppliers have launched centers at 26 locations in 13 countries and 45,000 participants have achieved a Microsoft Digital Literacy Certificate.

In a separate initiative, in FY15 we continued our collaboration with the Rockefeller Foundation to research and promote best practices in "Impact Sourcing" with suppliers that proactively seek to provide work and training opportunities to high potential but disadvantaged individuals. Several of our suppliers have embraced this concept and partnered with us in a multi-stakeholder group to develop Impact Sourcing success metrics, and also helped develop **business cases** on Impact Sourcing. In addition, our suppliers have committed to create over 5,000 Impact Employment jobs. In FY15, Microsoft supported Impact Sourcing projects in the United States, Kenya, Uganda, and India for services such as facilities management, and we are working to extend this approach with more suppliers.

6.5 FY15 Progress and FY16 Goals

Progress Against FY15 Goals

Goal: Evaluating and aligning our principles, policies, and activities across the Microsoft Devices Group to include the factories and suppliers related to the Nokia Devices and Services business we acquired near the end of FY14.

As reported in this chapter, we are applying the same SEA requirements that we apply to our suppliers' factories to the factories we own. In FY15, we worked to align factory policies and practices with our labor, health and safety, environment, and ethics systems that we apply to our contracted suppliers and to our existing factory in Wilsonville, Oregon.

Goal: Continuing to scale our SEA supply chain programs such as the Model Factory Program, Worker Grievance reporting, and EH&S capability building to continue to enhance worker living and working conditions.

As detailed in this chapter, we continued or expanded all of these efforts and continue to see significant progress by participating suppliers.

Goal: Continuing to invest in improving the management system capabilities of low-performing, high-risk Tier 2 factories by providing targeted SEA consulting and training.

As detailed in this chapter, we continued these efforts and continue to see significant progress by participating suppliers.

Goal: Working collaboratively with NGOs and others in our industry to advance the goals of the Microsoft Policy on Responsible Sourcing of Raw Materials, including further progress addressing conflict minerals.

As reported in this chapter and our Conflict Minerals Report, we expanded our NGO partnerships and made significant progress tracking minerals in our supply chain and expanding coverage of certified conflict-free smelters.

Goal: Enhancing the screening of our non-hardware supply chain annually for ethical, social, and environmental risks and deepening assurance requirements for suppliers found to pose the highest risks. These will include EICC-based supplier self-assessment questionnaires, contractually binding Responsible Sourcing Requirements, quarterly scorecards, onsite assessments, and third-party audits.

In FY15 we continued to refine and enhance our approaches to screening our indirect suppliers and applying a range of assurance mechanisms, including onsite assessments based on suppliers' risks. As described in this chapter, Microsoft screens our non-hardware suppliers on an ongoing basis against 23 different ethical, social, and environmental risks by country and by commodity.

FY16 Strategic Goals

- Broadening the scale of our SEA supply chain programs, such as the SEA Academy, Model Factory Program, Worker Grievance reporting, Labor and EH&S capability building, to continue to enhance worker living and working conditions.
- Increasing our ongoing investment in improving the management system capabilities of low-performing, high-risk Tier 2 factories by providing targeted SEA consulting and training.
- Continuing to strengthen engagements and work collaboratively with NGOs and the electronics and other industry sectors to advance the goals of the Microsoft Policy on Responsible Sourcing of Raw Materials, including further progress addressing conflict minerals.
- Expanding consideration of the sustainability performance of our indirect suppliers in our procurement decisions and supplier awards.

Environmental Sustainability

7

- 7.1 Our Approach
- 7.2 Products
- 7.3 Our Business Practices
- 7.4 Water and Waste
- 7.5 Partnerships
- 7.6 FY15 Progress and FY16 Goals

7.1 Our Approach

Microsoft believes that information technology has tremendous potential to help solve pressing environmental and energy challenges. We understand and embrace the opportunity to help people and organizations around the world improve the environment. We seek to advance sustainability through the products and cloud capabilities we offer to our customers and partners, and the use of big data to discover the next generation of innovations and insights.

At the same time, we recognize the need to address our own environmental footprint as both our datacenter operations and hardware offerings grow. Microsoft is pioneering new ways technology can make our own operations more sustainable. Since 2013, we've achieved 100 percent carbon neutrality for our global operations, which includes our datacenters, labs, offices, manufacturing facilities, and business air travel.

This commitment was achieved by boosting efficiency, purchasing renewable energy in the markets of our operations equal to 100 percent of our energy consumption where available, and conducting a voluntary carbon offset program. We also work hard to ensure sustainability is considered at each state of the lifecycle of our devices, from their design through end of life.

Environmental Principles, Policies, and Management

Our commitment to environmental sustainability spans our company. We seek to advance sustainability through the products and platform capabilities we offer our customers and partners, our own business practices, and our global partnerships with governments, academics, nonprofits, and others.

Microsoft's commitments to environmental sustainability are articulated in our **Environmental Principles** and **Climate Change Policy Statement** and embedded in other corporate policies for how we run our business, such as our **Environmental Compliance Specifications** for hardware and our policy on **Responsible Sourcing of Raw Materials**.

Microsoft has a global corporate environmental strategy team and environmental experts embedded within engineering, supply chain, procurement, research, real estate and facilities, datacenters, and legal and corporate affairs. Their work is governed through executive oversight and is reviewed semi-annually by the Regulatory and Public Policy Committee of our Board of Directors.

Our environmental strategy includes a corporate carbon neutrality goal as well as goals for specific areas of our business, ranging from datacenter efficiency to energy and waste reduction at Microsoft campuses to the use of recycled content in packaging. Microsoft employees receive the appropriate role-based environmental training and certifications as needed for their jobs, such as training in chemical management for hardware lab employees and design for environment training for packaging engineers. We also promote broad environmental awareness by emailing an annual update on our environmental goals and progress to all Microsoft employees globally.

Core parts of Microsoft's operations are certified to the International Organization for Standardization (ISO) 14001 Environmental Management System. This includes our European Operations Center, all Microsoft-owned manufacturing sites and all the contract manufacturing facilities of our Tier 1 hardware suppliers. Microsoft also earned a cross-company, corporate-level ISO 14001 certification for Microsoft's hardware and packaging manufacturing supply chain management and operations.

7.2 Products

We are committed to delivering products, solutions, and services that help organizations boost efficiency and minimize environmental impact.

Driving Energy Efficiency in and with Our Services and Devices

We are focused on and committed to increasing computing power per unit of energy consumed across the services and devices that we offer in the marketplace. Each new version of Windows offers enhancements to energy efficiency and power management tools, including a new Energy Saver Mode added to Windows 10. Third-party applications also have an important role to play, and we provide energy-smart development guidance and tools for developers and IT professionals developing for the Windows platform.

In FY15, Microsoft certified its first ENERGY STAR and EPEAT registered product, Surface Pro 3, when the standards were revised to bring tablets into

scope. FY15 was also the first year for ULE 110 certifications of mobile phones. This certification establishes multiple sustainability criteria for mobile phones, including packaging, materials, manufacturing and operations, energy efficiency of the power supply, health and environment, and end of life management. All Xbox consoles are configured to automatically reduce energy use while inactive. We also have committed to limit Xbox energy consumption in dashboard and media play.

We work to reduce the environmental impacts of our products and services but see even greater opportunity to benefit the environment at scale by delivering products, solutions, and services that help our customers' organizations boost efficiency and minimize their environmental impact.

Cloud and Azure

As a carbon neutral cloud services provider, Microsoft offers organizations a carbon-efficient and carbon neutral alternative to running their own private datacenters. Moving to Microsoft **cloud services** for Microsoft Exchange, Microsoft SharePoint, and Microsoft Dynamics CRM capabilities can help businesses reduce energy use and carbon emissions by 30 to 90 percent per user versus running on-premises.

With **Microsoft Azure**, businesses can use Microsoft carbon neutral datacenters for on-demand compute and storage, helping save energy costs and reduce their company's carbon footprint while also reducing the capital costs associated with purchasing hardware and infrastructure. The Microsoft cloud is also connecting public and private data sources with the privacy, security, and control needed for cities to have effective cross-departmental collaboration and resource sharing for greater efficiency; the scalability and cost-effectiveness of cloud services help reduce costs without cutting essential services. Organizations that invest in Microsoft Azure will be able to harvest information and data as resources to help service increasing populations more efficiently and with less waste.

7.2 Products

CityNext

For cities, Microsoft CityNext partners provide solutions spanning energy, water, buildings, infrastructure, and transportation to help modernize cities in sustainable ways that will minimize their resource use and environmental impact. Our broad portfolio of familiar consumer and business platforms and partner solutions—which many cities already use—are meeting customers wherever they are on the technology innovation curve and helping them to build a bridge to the future. Within our Sustainable Cities focus, we deliver solutions for:

- Buildings, infrastructure, and planning. Microsoft partners are using both design and embedded technology to lower the energy consumption and improve the performance of buildings. By combining existing systems with cloud-based analytics and business intelligence capabilities, buildings can be smarter and more efficient, and save about 10 percent of energy costs per year.

- Energy and water. By using digital technology to integrate and manage distributed energy supply and demand data, Microsoft partners are working to improve the reliability, security, and efficiency of the electric system, as well as using technology to measure, manage, and report on carbon and other environmental impacts.
- Transportation. Through software, Microsoft partners are helping to improve the design and operation of transport networks and run real-time data systems that can facilitate cleaner and more efficient transport choices.

To date, we have recruited more than 1,000 partners that are delivering more than 870 solutions in countries all around the world from Ankara, Turkey, to Auckland, New Zealand.

Productivity

With the increasing number of interconnected devices—from thermostats, appliances, and fixtures, to equipment, vehicles, and charging stations—all generating massive sets of data, big data is changing what is possible with sustainability. Microsoft is investing to help customers manage smart resources using big data through tools for **Windows Server and Windows Azure**.

Through data and analytics, customers are gaining vital insights from millions of devices, social media channels, and business systems. This data represents a significant opportunity to make more accurate decisions, achieve greater efficiencies, and become more sustainable in areas like energy, water, buildings, transportation, and countless other scenarios. For example, to increase the use of renewable energy, big data can be used to more effectively understand and anticipate energy demand and consumption in near real time, which can enable more responsive generation. Distribution needs to become more flexible to manage renewable sources, and end use is critical to the equation in taking advantage of technology, eliminating waste, and optimizing consumption.

Microsoft Office 365 solutions support the new world of work by streamlining communications and collaboration and thereby reducing the need for business travel and commuting—while delivering all the environmental benefits of cloud computing. **Skype** adds to these enterprise-grade collaboration, online conferencing, and desktop-sharing capabilities with its global customer base, making it even easier for businesses to use online meetings in place of travel to connect with trading partners and customers.

7.2 Products

Design for Green Devices

The Safety, Compliance, and Sustainability team within the Microsoft Devices Group incorporates environmental and safety principles and processes in the design and production of our devices and product packaging. The team works with design groups through a Design for Green initiative to evaluate and encourage the use of more environmentally benign materials, increase the recyclability of our devices and packaging, and minimize material use. The team provides guidance on alternative materials and other ways to address environmental impacts. We also require our suppliers to identify every material that's in our products and to follow a comprehensive list of restricted substances specifications to avoid hazardous materials.

To address sustainability in packaging, we've designed packaging for Xbox One, Surface, and our hardware peripherals to reduce the use of materials and replace plastics with paperboard packaging and materials from sugarcane waste. We also set standards of a minimum of 50 percent recycled content (25 percent of which must be post-consumer) for paperboard packaging and a minimum of 25 percent post-consumer content for rigid plastic packaging.

Device Take-Back and Recycling

Microsoft is committed to meeting and going beyond government standards on take-back and responsible recycling or disposal of electronics, batteries, and packaging. We are a member of more than 145 government-mandated recycling schemes and producer responsibility organizations worldwide. In addition, we also offer several voluntary take-back and recycling programs, including incentives to bring used electronics to Microsoft Stores for recycling. We offer a comprehensive online tool to help consumers understand the recycling options available to them in their specific location. Where no local options exist, consumers can use the tool to contact Microsoft and we will generate a postage-paid e-label for them to use to send their equipment to a contracted recycler for free.

Microsoft also offers two programs, Microsoft Authorized Refurbisher (MAR) and Microsoft Registered Refurbisher Program (RRP), that help refurbishers extend the life of used PCs by providing them with commercial licenses for Microsoft

software and non-profit organization licenses for those serving non-profits and schools. Through these programs, Microsoft and our refurbisher partners provided nonprofits and schools access to 746,140 refurbished computers in FY15.

Microsoft works to responsibly reuse, refurbish, or recycle used computers and electronics from our own operations and used personal and electronic items from our employees. For our own e-waste and the e-waste we collect from employees and customers, Microsoft requires external certification of the recycling partners that we contract with and bans any landfilling or exportation of used electronics that they collect. The recycling partners directly contracted by Microsoft to manage our e-waste and the e-waste we collect from employees and customers must meet stringent specifications. These include a product landfill and export ban. Microsoft also requires the recyclers to be certified by a recognized scheme such as ISO 14001, R2, or E-Steward; conduct assessments of their downstream partners; track the material types and quantities that they process to final disposition; and provide a certificate of destruction. Finally, Microsoft forbids the use of prison or other involuntary labor to staff recycling operations.

7.3 Our Business Practices

We are mindful that environmental stewardship needs to begin with our own operational practices, which includes delivering on our commitment to be carbon neutral and to procure 100 percent renewable energy.

Carbon Neutrality Commitment and Carbon Fee

Since July 1, 2012, Microsoft has achieved carbon neutrality across our global operations, spanning more than 100 countries, for our datacenters, software development labs, offices, business air travel, and (as of July 1, 2015) Microsoft-owned manufacturing operations. Our carbon neutral strategy hinges on company-wide accountability, achieved through an **internal carbon fee cascaded globally to our business groups**.

This chargeback model puts a price on carbon and makes the company's business divisions responsible for the cost of reducing and compensating for the carbon emissions associated with their electricity use and air travel. The carbon fee funds energy efficiency investments, purchasing renewable energy equal to 100 percent of our consumption (with the green power purchases

in the same markets as our operations wherever possible) and externally certified carbon offset projects.

In April 2015 Microsoft released a **whitepaper** describing the progress made with our carbon fee since its inception, in the hope to inspire other organizations to take similar action. Among the results it details: since the inception of the carbon fee, we have purchased more than 10 million megawatt-hours (MWh) of green power, reduced our emissions by 7.5 million metric tons of carbon dioxide equivalent (mtCO₂e), saved more than \$10 million a year, and had an impact on more than 3.2 million people in emerging nations through carbon offset community projects.

Besides our carbon neutrality commitment, we have a 100 percent renewable energy commitment, which we meet through direct purchases of renewable energy and the purchase of renewable energy credits. We currently use directly purchased

renewable electricity to power 23 percent of our operations, and are exploring opportunities to expand our direct purchase of renewable energy and support the construction of new renewable energy projects. In FY15 we purchased more than 3.2 billion kilowatt-hours (kWh) of renewable energy, and in January 2015 the US Environmental Protection Agency ranked us as the second-largest user of green power in the US. The new 110-megawatt (MW) Keechi Wind project that we funded through a 20-year agreement to purchase 100 percent of its output came online in FY15, and

we also announced an even larger power purchase agreement for all of the output of the new 175-MW Pilot Hill Wind Project. We also generate a small amount of onsite renewable energy, such as from solar panels covering the rooftops on our Silicon Valley campus. Finally, access to renewable energy is among the criteria that we consider in siting datacenters, and a number of our datacenters, like our complex in Quincy, Washington, are powered by hydroelectricity.

In order of preference, we seek to use renewable energy by:

1

Connecting facilities directly to renewable energy sources where feasible.

2

Signing long-term renewable power purchase agreements in regions where we have operations and those projects are viable.

3

Investing in green power (RECs) to match our total electricity usage with the equivalent number of RECs that are credible, are verifiable, and add additional renewable energy to the grid.

7.3 Our Business Practices

Driving Energy Efficiency Across Our Operations

Building Efficiency Investments

Our last round of carbon-fee funded efficiency projects and other energy-efficiency investments by our Real Estate and Facilities group totaled over \$3.1 million in investments that reduced our associated carbon emissions by 18,179 metric tons and also paid for themselves in less than a year with \$3.6 million in energy savings. Beyond cost savings, we've also found opportunities to create new areas of revenue. Microsoft created an analytical software solution that joined together 38,000 assets of disparate, sensor-enabled equipment across the 125 buildings in our Puget Sound headquarters. The system processes 500 million data transactions every day to prioritize maintenance and repairs with the greatest energy and cost saving potential. The solution is generating energy savings of 10–11 percent and an implementation payback of less than 24 months. We are now expanding the solution to our other campuses with equally good results: the software identified \$240,000 of energy savings at our Mountain View, CA campus within the first 30 days

of deployment. We are sharing our results with government and industry leaders from around the globe and making similar solutions available through partners to our customers (such as through Microsoft CityNext offerings). With inefficient commercial buildings responsible for or upwards of 40 percent of the world's energy consumption, we see the huge potential environmental and business impacts from this approach.

Datacenters

We're designing energy-saving approaches into our new datacenters, such as using outside air cooling and airside economizers that dramatically cut the energy and water used for cooling. This approach to cooling reduces energy consumption by 15–20 percent and water consumption by 90 percent. Overall, our datacenters average 1.4 PUE (Power Usage Effectiveness, one measure of data center efficiency), more efficient than the industry average of 1.7 PUE.

We are concerned about not just efficiency inside the datacenter, but also how to create dramatically more efficient systems, from the power plant to the chip. Examples of this approach include the pilot project datacenter in Cheyenne, Wyoming,

which ran completely independently of the grid from 2014 to 2015 by using energy generated from biogas, a byproduct of a nearby water treatment plant. We've also pioneered a new concept to integrate fuel cells directly into server racks, which we expect to effectively cut datacenter energy intensity in half by eliminating transmission losses and other inefficiencies. We are working with industry partners and the DOE to pilot and commercialize new energy technologies that will be foundational to the next generation of efficient datacenter designs. In another step forward in this approach, in FY15 we established a partnership with the University of Texas at San Antonio and the school's Texas Sustainable Energy Research Institute to identify economically viable technologies that further reduce the environmental footprint of datacenters. Beyond the datacenters themselves, we're building energy-saving features into our cloud services, such as the ability for developers to automatically scale their resource use to demand.

Carbon Footprint and Energy Use

We have a longstanding commitment to transparently disclosing our carbon footprint and have voluntarily reported our carbon footprint through CDP (formerly the Carbon Disclosure Project) since 2004. Data on our carbon emissions are available on the [CDP website](#). We also have pilot projects to encourage portions of our supply base to report their emissions to CDP. In recognition of our climate efforts, CDP included Microsoft on its Global 500 Climate Performance Leadership Index in the past two years. In September 2014, we earned the top grade "A" in CDP's assessment of our performance to promote climate change mitigation, adaptation, and transparency, and CDP rated our disclosure and transparency on climate issues at 99 out of 100.

7.3 Our Business Practices

The following graphs and charts detail the highlights of our most recent filing with CDP and trends in our greenhouse gas emissions and energy use.¹⁶

Greenhouse Gas (GHG) Emissions

Direct Emissions

| | |
|--|----------|
| Gross Scope 1 Emissions, mtCO ₂ e | 85,188 |
| Gross Scope 1 Emissions, by GHG type, mtCO ₂ e | |
| CO ₂ | 72,043 |
| CH ₄ | 22 |
| N ₂ O | 137 |
| HFCs | 12,986 |
| Scope 1 Emissions Balanced by Carbon Offset Purchases, mtCO ₂ e | (85,188) |
| Net Scope 1 Emissions, mtCO ₂ e | 0 |

Indirect Emissions

| | |
|--|-------------|
| Gross Scope 2 Emissions, mtCO ₂ e | 1,521,370 |
| Scope 2 Emissions balanced by Green Power Purchases, mtCO ₂ e | (1,520,145) |
| Scope 2 Emissions balanced by Carbon Offset Purchases, mtCO ₂ e | (1,225) |
| Net Scope 2 Emissions, mtCO ₂ e | 0 |

Indirect Emissions (continued)

| | |
|--|-----------|
| Gross Scope 3 Emissions, mtCO ₂ e | |
| Purchased Goods and Services ¹⁷ | 8,000,000 |
| Capital Goods ¹⁷ | 200,000 |
| Fuel- and Energy-Related Activities (not included in Scope 1 or 2) | 283,234 |
| Upstream Transportation and Distribution ¹⁷ | 100,000 |
| Waste Generated in Operations | 2,441 |
| Downstream Leased Assets | 2,837 |
| Business Air Travel | 310,117 |
| Business Travel, other | 5,152 |
| Scope 3 Emissions, Business Air Travel, balanced by Carbon Offset Purchases, mtCO ₂ e | (310,117) |
| Net Scope 3 Emissions, Business Air Travel, mtCO ₂ e | 0 |

Energy

| | |
|---|-----------|
| Total Energy Use, MWh ¹⁸ | 3,570,438 |
| Total Energy Use by Type, MWh | |
| Fuel | 319,313 |
| Electricity ¹⁸ | 3,240,620 |
| Heat | 0 |
| Steam | 1,410 |
| Cooling | 9,095 |
| Renewable Energy Purchased or Generated and Consumed, MWh ¹⁸ | 3,240,620 |
| Renewable Energy Purchased or Generated and Consumed, % of Total Energy Use | 91% |
| Renewable Energy Purchased or Generated and Consumed by Source, MWh | |
| Wind | 3,130,592 |
| Landfill gas | 3,971 |
| Biomass | 77,100 |
| Hydro | 28,340 |
| On-Site Solar PV | 617 |
| Non-Renewable Energy Use, MWh | 329,818 |
| Non-Renewable Energy Use, % of Total Energy Use | 9% |

Carbon Offsets

| | |
|---|---------|
| Total Purchase of Carbon Offsets, mtCO ₂ e | 396,531 |
| Total Direct GHG Emissions balanced by Carbon Offset Purchases, % | 100% |
| Total Indirect GHG Emissions Balanced by Carbon Offset Purchases, % | 17% |
| Total Sale of Carbon Offsets, mtCO ₂ e | 0 |
| Total Use of Carbon Sequestration/Capture | 0 |

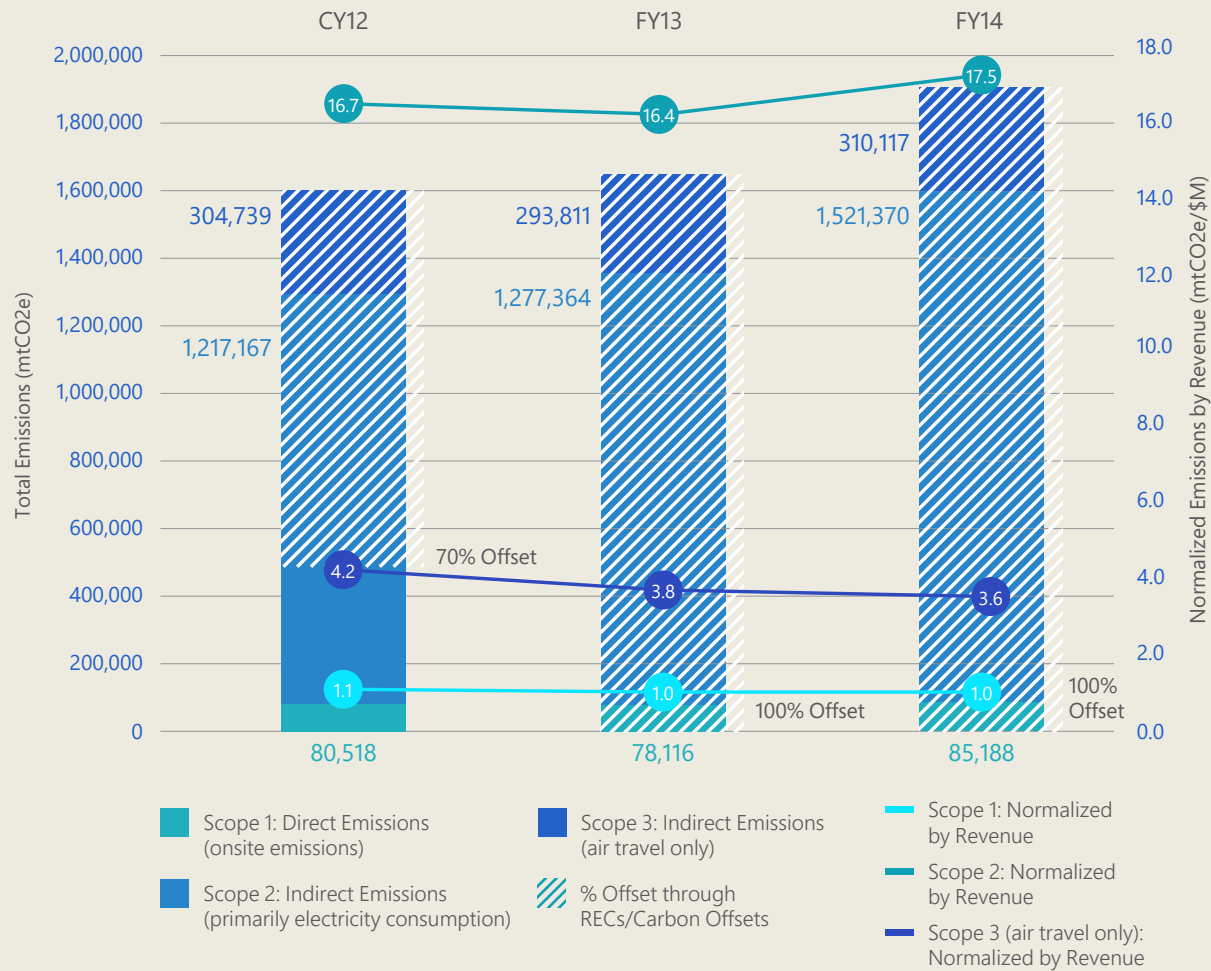
¹⁶ Note that because the CDP reporting deadline closes in May before the end of our fiscal year, the most recent CDP carbon footprint data we have available and verified is for FY14, not FY15. We will disclose updated FY15 data before the end of the calendar year at www.microsoft.com/transparencyhub. Our greenhouse gas and energy data provided in our CDP filings and this report represent 100 percent of Microsoft's global operations and revenue.

¹⁷ The reported emissions for this category represent an estimate based on broad-based assumptions and have therefore been rounded. This category may be under- or over-reported by as much as 50 percent.

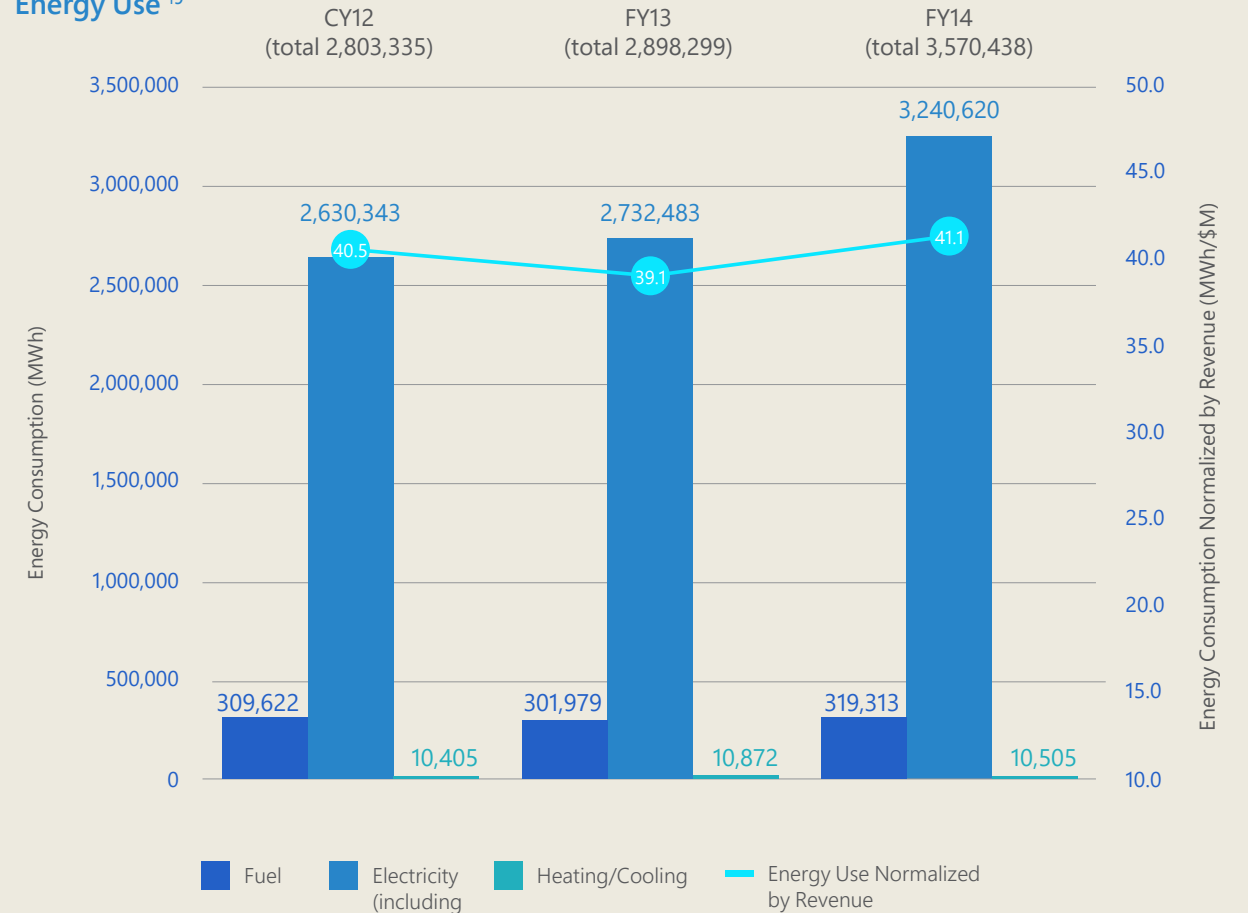
¹⁸ Energy (electricity) data includes on-site solar generation as well as all electricity purchased and consumed.
mtCO₂e = metric tons CO₂ equivalent; MWh = megawatt hours.

7.3 Our Business Practices

Year-Over-Year Greenhouse Gas Emissions ¹⁹



Year-Over-Year Energy Use ¹⁹



¹⁹ Data provided covers 100% of Microsoft's global operations and revenues.

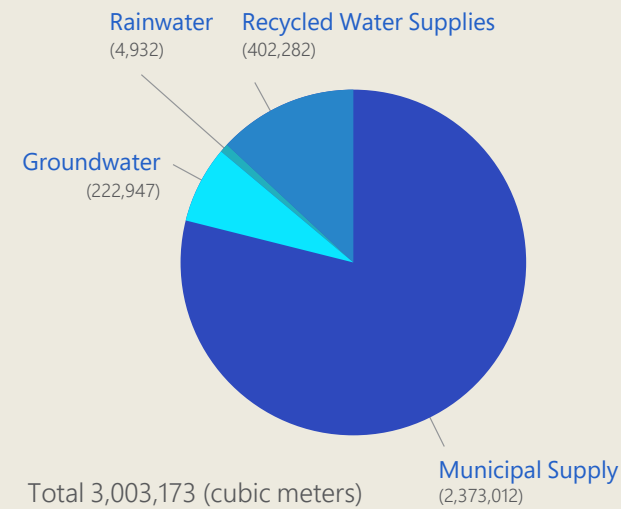
7.4 Water and Waste

Water

Microsoft's operations are generally not water intensive, with the exception of some of our data-centers that rely on water for cooling. We've worked to mitigate the impacts of datacenter water use by using recycled municipal waste water in some water-scarce locations such as San Antonio, Texas.

Beyond datacenters, Microsoft continues to invest in water-saving fixtures in our office buildings and smart landscape irrigation practices to conserve water.

FY14 Water Use by Source ²⁰



Waste

Microsoft's Real Estate and Facilities teams around the world implement waste minimization programs, including office supply reuse, recycling, and in many cases, composting programs. Among our accomplishments, we reduced, reused, or recycled 99 percent of the waste from our Redmond, Washington dining facilities by switching to compostable

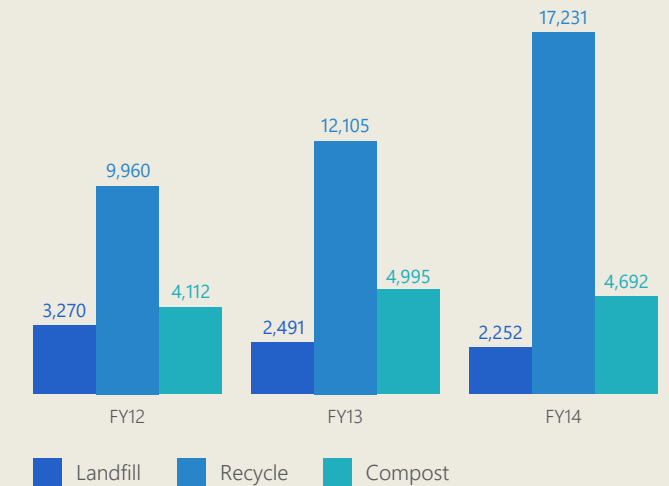
tableware, administering aggressive recycling programs, and adapting our menu to get the most from each item of food served.

We've also set a long-term goal of 90 percent waste diversion from landfills across our global headquarters facilities in the Puget Sound region of Washington, which represent approximately 36 percent of our total real estate portfolio. We're rapidly approaching that goal and are working to extend that goal to additional campuses in the United States and around the globe.

Our increased use of recycling and composting and lower waste to landfill is evident in the following chart, covering data from our facilities across the Puget Sound region. We are working to increase the amount of waste data we collect across other Microsoft locations to improve our waste reporting in the future.

As we expand our on-campus hardware device labs, we have begun to generate hazardous waste and e-waste from developing and testing prototype devices. We have implemented a chemical management program that helps employees prevent waste generation by using less-polluting

Waste Disposal Trends (metric tons) ²¹



products and reducing or eliminating unused materials. When we do generate waste, we recycle whenever possible and dispose of any remainder as required by local regulations. We have also developed an auditing program to verify that any facility that handles our waste for recycling or disposal can do so responsibly and while complying with environmental regulations. In FY14 we generated 1.68 metric tons of hazardous waste across our Puget Sound facilities, which was disposed of at properly permitted US hazardous waste facilities.

²⁰ This data covers 65 percent of Microsoft facilities by square footage, including key water using data center operations. Additional details of our water use and previous years' reports are publicly available in our CDP Water Project filing. As with emissions and energy data, we will disclose updated FY15 water data before the end of the calendar year at www.microsoft.com/transparencyhub.

²¹ Data covers 74 percent of Microsoft's global facilities by square footage. As with emissions and energy data, we will disclose updated FY15 water data before the end of the calendar year at www.microsoft.com/transparencyhub.

7.5 Partnerships

Microsoft works with governments, policymakers, and NGOs around the world to address key environmental issues that affect our business, employees, and the communities we serve. We are driving policy development and research with a broad range of diverse groups to achieve a more sustainable future. Through Microsoft Research and groups we sponsor, we are working to apply information technology to address large-scale environmental challenges.

Public Policy Engagement on Climate and Energy

Recognizing the need to work to address global environmental challenges in broad partnerships, Microsoft's Climate Change Policy Statement recognizes that climate change is "a serious challenge that requires a comprehensive and global response from all sectors of society." Microsoft is working to advance public policies that promote the use of information and commu-

nication technology (ICT) to advance energy efficiency, spur innovation and economic opportunity, and contribute to practical strategies for mitigating climate change. For the past six years, our annual Global Public Policy Agenda has included a section supporting government policies that support technological advances and innovation to reduce energy use and limit the effects of climate change. This section also includes support for cost-effective policies that increase the availability of low carbon and renewable energy for us to use in our operations.

We have also supported industry and multi-stakeholder initiatives to address climate policy. Among these:

- We are a signatory to the Climate Declaration, a nonpartisan statement from the business community developed by Ceres and its Business for Innovative Climate & Energy Policy (BICEP) coalition, which notes that "tackling climate change is one of America's greatest economic opportunities of the 21st century."
- We are a founding member of the Digital Energy & Sustainability Solutions Campaign (DESSC), a coalition of leading ICT companies and environmental NGOs. DESSC is committed to advancing public policies that help drive sustainable economic growth through ICT-enabled energy efficiency and clean energy innovation.
- We serve on the board of the Global e-Sustainability Initiative (GeSI), a collaborative effort between leading IT companies and the United Nations Environment Programme and International Telecommunication Union. Microsoft has played a leadership role in the development of GeSI series of reports on how the ICT can address climate change (Smart 2020, Smarter 2020, and Smarter 2030). The latest **Smarter 2030 GeSI** report identifies ways that ICT can enable a 20 percent reduction of global CO2 emissions by 2030. The report also identifies how ICT can integrate renewables into the grid, boost agricultural crop yields by 30 percent, save over 300 trillion liters of water, and conserve 25 billion barrels of oil a year.

7.5 Partnerships

Microsoft Research

Microsoft supports environmental research that isn't tied to developing a specific product or service, but rather advances the field of computing and demonstrates how cloud services and mobile devices can combine to help solve some of society's biggest environmental challenges. Our own Microsoft Research (MSR) team is working on identifying and creating the next generation of climate change models, tools, and technologies that will continue to drive our company and the world forward, including the following:

- Scientists at Microsoft Research Cambridge are working with the **United Nations Environment Programme World Conservation Monitoring Centre** to develop a model and tools that will help scientists and policy makers assess how—in the face of an expanding population and expanding resource use per capita—to balance the need for increased food, timber, and textiles production, with industrial use of natural resources, with the healthy functioning of natural, semi-natural, and artificial ecosystems.
- Microsoft Research's Earth, Energy, and Environment collaboration projects focus on the development and adoption of technologies for scientific visualization and data management—especially technologies that accelerate insight into the environmental and earth sciences.

7.6 FY15 Progress and FY16 Goals

FY15 Goals

Goal: Maintaining our commitment to achieving carbon neutrality and net-zero emissions for our datacenters, software development labs, offices, and employee air travel by increasing energy efficiency and investing in renewable energy and carbon offset projects.

We met these commitments in FY15 and expanded the program to also address Microsoft-owned manufacturing facilities in FY16.

Goal: Establishing targets with business groups to improve operational energy efficiency.

Our Real Estate & Facilities group set energy efficiency targets and water use targets for our large campuses that represent approximately 80 percent of our campus energy use.

Goal: Building on the model of our 110-MW Keechi Wind power purchase agreement with additional large-scale commitments to purchase renewable energy.

Beyond our Keechi Wind power purchase agreement, in FY15 we signed a 60 percent larger wind power purchase agreement to catalyze development of the new Pilot Hill Wind Power Project.

Goal: Meeting our 100 percent renewable energy commitment by matching the total amount of kWh consumed with the equivalent volume of renewable energy purchased.

We accomplished this, purchasing over 3.2 billion kWh of green power and seeking to purchase green power in the same markets as our operations wherever available.

Goal: Expanding our global data collection and reporting of waste and water data.

We expanded our global collection and reporting of waste data and continue working to enhance our reporting of water data.

FY16 Goals

- Continuing to achieve carbon neutrality and net-zero emissions for our datacenters, software development labs, offices, manufacturing facilities, and employee air travel by increasing energy efficiency and investing in renewable energy and carbon offset projects.
- Further increasing our direct purchases of renewable energy.
- Expanding our ecosystem of partners working with Microsoft on sustainability solutions for cities through Microsoft's CityNext initiative.

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