Microsoft

Microsoft 2012
Citizenship Report

Contents

Cover: Participants at the 2012
Imagine Cup, Sydney, Australia.

To our stakeholders,

We've always believed that technology creates opportunities for people and organizations to realize their full potential. This belief inspires us to deliver new technology that unleashes creativity, productivity, and opportunity for more and more people around the world.

This report describes our citizenship work in fiscal year (FY) 2012 and shares our vision for what's to come. Together with our annual financial report, it provides a full accounting of our fiscal and citizenship priorities and performance.

The full scope of our citizenship activities includes serving communities, championing the growth of our people, and advancing our commitment to responsible business policies and practices. In particular, we are increasing our focus on young people in order to help more and more youth reach their dreams.

Though we live in a time of tremendous opportunity, there's a growing divide between young people with the chance to succeed and those without. To help close this gap and ensure a prosperous future, we are launching Microsoft YouthSpark, a bold initiative to connect hundreds of millions of youth with opportunities for education, employment and entrepreneurship. In partnership with governments, nonprofit organizations and businesses, we're helping the next generation use technology to make a real impact for a better tomorrow.

For the first time ever, we are now dedicating the majority of our cash donations to organizations that help young people. And, through our Technology for Good program, we provided more than 62,000 nonprofits in more than 100 countries with affordable access to technology to better serve their communities.

I'm proud of the generosity of our employees. In October 2012 we are marking our company's 30th Employee Giving Campaign, whereby the company matches the financial and volunteer contributions of our employees. Through this campaign, Microsoft and its employees gave nearly $100 million in FY12, and in FY13, we are on track to bring the total to $1 billion since 1983.

Beyond direct service to the community, we made significant strides in the areas of human rights and environmental sustainability. We consulted with businesses, government and other key stakeholders to develop a human rights statement that brings together long-standing policies on issues such as privacy, security, free expression and labor rights. And, we exceeded our goal to cut carbon emissions by 30 percent compared with 2007, due in part to the 1.1 billion kilowatt hours of green power we purchased, the third most of any US company.

Being a leader in corporate citizenship, we recognize there's always more we can do. Our endorsement of the United Nations Global Compact drives us to continually improve our business practices and increase our accountability.

I'm confident that in this coming year we will continue to create value for our business as well as the communities and people we touch through our citizenship activities. Thank you for your interest in Microsoft. We welcome your thoughts and suggestions.

Sincerely,

Steven A. Ballmer
CEO, Microsoft Corp.

Citizenship at Microsoft

Our citizenship mission is to serve globally the needs of communities and fulfill our responsibilities to the public.

"It takes more than a great product to make a great company."

Bill Gates, Chairman

Since the release of our first product in 1975, we've demonstrated the promise of computing to change the world. But as we've grown as a company, so have the world's social and environmental challenges. We're responding by applying our technology, ingenuity, and collaborative spirit to help solve these critical challenges and create fulfilling and exciting opportunities for people everywhere.

We focus our commitment to corporate citizenship in two ways: serving communities around the world and working responsibly in our own business.

Serving communities

We're active members of the communities everywhere we do business. We use our skills, technology, and other resources to serve the people in these communities—from supporting disaster relief efforts to connecting nonprofits with the tools they need to run efficiently.

Creating opportunities for youth is the backbone of our community work. By making technology more accessible and creating programs to inspire and empower young people, we're helping a new generation of innovators build the skills and education they need to prosper. As we work to bridge the opportunity divide that separates youth who have opportunities from those who don't, we help young people secure their individual futures and also the future of our global economy.

Working responsibly

Good corporate citizenship starts at home. To meet our responsibilities as a global company, we're continually working to create a respectful and rewarding work environment for our 94,000 employees.

We're also taking steps to reduce the environmental impact of our operations while partnering with industry colleagues and leading nongovernmental organizations (NGOs) to elevate standards across the supply chain. And with the release of our Global Human Rights Statement, we affirmed our commitment to respecting fundamental rights and freedoms throughout our business practices.

Citizenship governance

Our board of directors assumes overall governance responsibilities for citizenship at Microsoft. Through most of FY12, the board's Governance and Nominating committee handled oversight of all citizenship and public policy issues. As FY12 drew to a close, however, the board shifted citizenship governance to its new Regulatory and Public Policy committee, which is charged with overseeing public issues that may affect the company's operations or performance in areas like human rights, climate change, and responsible sourcing.

Our Citizenship and Public Affairs team manages our overall citizenship initiative, including stakeholder engagement. Part of our Legal and Corporate Affairs department, the 30-person team is responsible for driving new citizenship programs and engaging with colleagues and partners to keep our citizenship work vibrant.

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 us identify the issues that are most material to Microsoft's business, develop and implement new strategies and programs, and monitor our progress.

Setting priorities and stakeholder engagement

We regularly communicate with thousands of stakeholders from global human rights experts and environmental NGOs to parents concerned about their children's safety and education. Those conversations help inform and guide our citizenship strategies and programs.

Our stakeholder engagement takes several 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 engagements and external relationships to help guide our strategies.

We connect with leading thinkers on corporate responsibility issues as participants in groups such as Business for Social Responsibility (BSR), the Boston College Center for Corporate Citizenship, the Clinton Global Initiative, Net Impact, and the World Economic Forum. In partnership with our colleagues in corporate governance and investor relations, we discuss environmental, social, and governance issues twice a year with our largest institutional investors.

We also listen to advocacy groups, socially responsible investors, corporate responsibility rating agencies, and our own employees to identify new and emerging citizenship issues.

External frameworks

To guide our work, we consult international frameworks such as the Global Reporting Initiative's Sustainability Reporting Guidelines, the United Nations (UN) Guiding Principles on Business and Human Rights, and the UN Global Compact. This report serves as the Communication on Progress of our commitment to the UN Global Compact (see index on page 86).

Our stakeholder groups: Customers, Employees, Shareholders, Communities, Partners, Suppliers

FY12 highlights and achievements

$900 Million
Gave more than $900 million in cash and software to nonprofits worldwide

$100 Million
Nearly $100 million contributed through our employee giving and company match program

62,200 Nonprofits
Donated software to 62,200 nonprofits worldwide

120 Countries
Reached 120 countries through our philanthropy programs

Helping Youth
Decided—on a go-forward basis—to give the majority of our cash contributions to nonprofits that help young people around the world

Employee Investment
Made the company's biggest-ever investment in overall employee compensation

Reduced by 30%
Met our goal to reduce carbon emissions by 30% per unit of revenue compared with 2007

Carbon Neutrality
Set goal to achieve company-wide carbon neutrality by the end of FY13

Human Rights
Released our Global Human Rights Statement to communicate our policies and practices

100% of Suppliers
Required 100% of suppliers to abide by our revised Vendor Code of Conduct

Our Company

Our company mission is to help people and businesses throughout the world realize their full potential.

Our business

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

Where we are

Headquartered in Redmond, Washington, Microsoft employed approximately 94,000 people on a full-time basis in more than 100 countries/regions and territories in FY12. Approximately 55,000 employees were based in the United States, and 39,000 were based in other countries.

Engaging our customers and partners

Our success depends on creating new and compelling products and services, while building strong relationships with our customers and partners. We keep in touch through online feedback forms, support communities, product satisfaction surveys, usability studies, research forums, and our customer service Twitter account, @MicrosoftHelps. The insights we gain help us understand and respond to our customers' and partners' experiences. We also use information drawn from global customer and partner satisfaction surveys as a measurement for employee, executive, and regional performance.

Our partners—approximately 640,000 mostly small to medium-size local businesses around the world—develop, market, sell, and service Microsoft products, supporting millions of jobs and contributing to local and global economic growth.

To learn more about how we connect with customers and partners or to provide feedback, please visit the Microsoft Customer and Partner Experience website.

$73.7B
FY12

$69.94B
FY11

$62.48B
FY10

Revenue

$24.1B
FY10

$27.16B
FY11

$21.8B
FY12

Operating income

$2.10
FY10

$2.69
FY11

$2.00
FY12
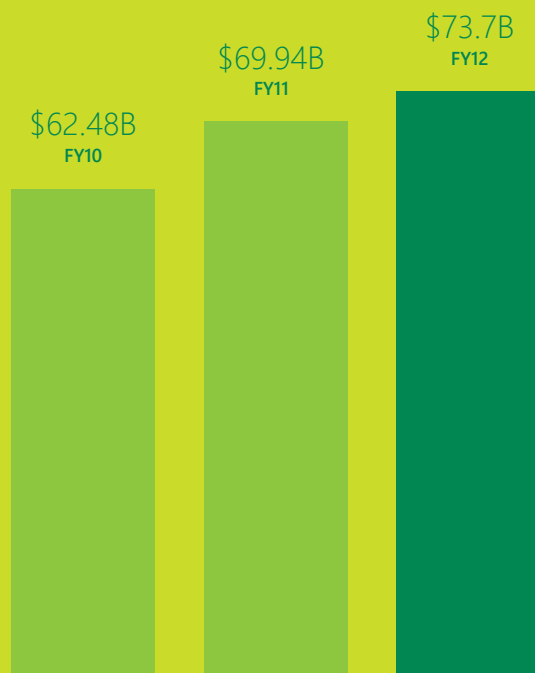
Earnings per share

Revenue by business division

BUSINESS STRUCTURE	FY10	FY11	FY12
Windows® and Windows Live® Windows 7 and prior versions of the Windows operating system, Windows Live suite of applications and web services, Microsoft PC hardware products	$19.49B	$19.03B	$18.37B
Server and Tools Windows Server® operating systems, Windows Azure™, Microsoft SQL Server®, SQL Azure™, Windows Intune™, Windows Embedded, Microsoft Visual Studio®, Microsoft Silverlight®, Microsoft System Center products, Microsoft Consulting Services, Premier product support services	$15.38B	$17.10B	$18.67B
Online Services Bing, MSN, adCenter, Atlas online tools for advertisers	$2.2B	$2.53B	$2.87B
Entertainment and Devices Xbox 360® gaming and entertainment console, Kinect™ for Xbox 360, Xbox 360 video games, Xbox 360 accessories, Xbox LIVE®, Microsoft Mediaroom®, Windows Phone	$6.17B	$8.91B	$9.59B
Microsoft Business Microsoft Office, Microsoft Exchange, Microsoft SharePoint®, Microsoft Lync™, Microsoft Dynamics® ERP and CRM solutions, and Office Web Apps, which are the online companions to Microsoft Word, Excel®, PowerPoint®, and OneNote®	$22.19B	$19.08B	$23.99B

For detailed financial information, see the Microsoft annual financial report.

Our products

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

Beyond our product portfolio, we offer consulting, product, and solution support services. We also train and certify computer system integrators and developers. Our cloud-based solutions provide customers with software, services, and content through the Internet. Revenue from these technologies mainly flows from usage fees and advertising.

Examples of our cloud-based computing services include:

- Microsoft Office 365, an online suite that enables people to work from virtually anywhere, at any time, through simple collaboration and communication solutions, including Microsoft Office, Exchange, SharePoint, and Lync.

- Xbox LIVE service, which enables online gaming, social networking, and access to a wide range of video, gaming, and entertainment content.

- Microsoft Dynamics CRM Online, which provides solutions for sales, service, and marketing professionals through a familiar Microsoft Outlook interface.

- Bing, our Internet search engine, which finds and organizes the answers people need so they can make faster, more informed decisions.

- Skype, which allows users to connect with friends, family, clients, and colleagues through a variety of devices.

- The Azure family of platform and database services, which helps developers connect applications and services in the cloud or onsite. These services include Windows Azure, a scalable operating system with computing, storage, hosting, and management capabilities, and Microsoft SQL Azure, a relational database.

Investing in innovation

In FY12, we invested $9.8 billion in research and development—equal to 13 percent of revenue—focused primarily on product development. To stay competitive, we make strategic, long-term investments in research and development across a broad array of technologies, tools, and platforms spanning communication and collaboration, information access and organization, entertainment, business and e-commerce, advertising, and devices.

To drive future growth, we focus our efforts on:

- Initiating and embracing disruptive technology trends
- Entering new product and geographic markets
- Inspiring broad adoption of our products and services

The people who power our innovations drive our success. We compete for talented employees from universities and private companies by offering broad customer reach, a wealth of resources, and competitive compensation.

We also collaborate with top universities through Microsoft Research—one of the world's largest computer science research organizations—to advance the state of the art in computer science.

Canada

England

Ireland

United States

Denmark

China

Israel

India

Innovating locally to compete globally
Research and development teams around the world add insight and talent to the work we do at our headquarters in Redmond, Washington.

Research and development

R&D	FY10	FY11	FY12
Spending	$8.71B	$9.04B	$9.8B
Spending as % of Revenue	14%	13%	13%

More information about Microsoft investment in research and development is available in our FY12 10-K filing.

We fund research at both the corporate and business-segment levels to spark innovation and maintain momentum. When innovations prove successful in individual segments, we share them throughout the company. This way, we capture their full value. We develop some of our products internally, while others result from partnerships, alliances, and acquisitions. We draw insight from key technology trends and a long-term research plan to focus our innovation efforts on the following areas.

Smart, connected devices

Communications and productivity

Cloud computing

As people use more and more devices to access digital information and online services, they need richer software platforms and applications to power their experiences. We're combining smart, connected devices with cloud computing to seamlessly connect devices and transform the user experience.

Related offerings
Windows Phone, Xbox 360, Surface, SkyDrive, Xbox LIVE, Bing, Skype, and Windows Azure cloud platform

Running an efficient business requires a clear view of all information exchanges—no matter their type. We're advancing productivity and communications in the office with software developments that unify key tasks, such as communications, collaboration, business intelligence, content management, and relationship management.

Related offerings
Dynamics, Exchange, Lync, Office, Office 365, SharePoint, Skype, Windows Phone, and Windows Live

Successful companies focus on key business goals—not managing data storage. We're advancing cloud computing infrastructure, platforms, and applications to help businesses of all sizes focus their attention at the points of greatest impact.

Related offerings
Microsoft Dynamics Online, Microsoft SQL Azure, Office 365, Windows Azure, Windows Intune, and Windows Server

Serving Communities

We're helping create a better future for young people and fostering healthier, more vibrant communities worldwide.

Creating opportunities for youth

Today's youth are tomorrow's leaders, innovators, and entrepreneurs. Through our Microsoft YouthSpark initiative, we're connecting hundreds of millions of young people to opportunities for education, employment, and entrepreneurship.

In this section

Empowering youth through education and technology

Inspiring young imaginations

Realizing potential with new skills

Supporting youth-focused nonprofits

FY12 performance and FY13 commitments

600,000
Students connected through Skype in the classroom

Free software for students and teachers through Office 365 for education

$1 million
In Imagine Cup grants to help students launch their ideas

A faster, more accurate way to diagnose malaria from one Imagine Cup team

"Youth empowerment starts with access, but it doesn't end there. We must also inspire young people to envision a better tomorrow and connect them with opportunities to realize their dreams."

Brad Smith, Executive Vice President and General Counsel

A glaring opportunity divide separates young people who have the access, skills, and chance to succeed from those who don't. We believe we can and must help close this gap. Improving access to technology, skills, and opportunities is the central focus of our Microsoft YouthSpark initiative. We're using technology to make it easier to find and take advantage of learning opportunities, and we're delivering real-life experiences that equip youth for a successful future.

Empowering youth through education and technology

For young people, success in a highly competitive job market requires direct access to technology and relevant skills, as well as a supportive community of educators, leaders, and nonprofits. By connecting youth to the resources they need, we can help them create more opportunities for themselves, their communities, and the world, and ultimately make a real impact for a better tomorrow.

- Provided access to relevant and affordable education technologies to 7 million young people worldwide through our Shape the Future program.

- Shared new learning approaches with 217 million teachers and students in 119 countries to date through our Partners in Learning program.

- Advanced learning and collaboration among students and teachers around the world through free access to Office 365 for education.

- Connected 20,000 teachers and 600,000 students to a global community of other classrooms and guest speakers through Skype in the classroom.

- Equipped students with the technology skills they need to succeed in today's evolving workplace at the Microsoft IT Academy—a career-ready education program operating in 160 countries.

Inspiring young imaginations

Expression and collaboration are vital to helping young people grow skills and develop ideas that make a real impact. Encouraging young people through events and online communities can lead to innovation and better career opportunities in the future.

- Brought together more than 350,000 students from more than 260 regions and countries to participate in the 2012 Imagine Cup—the world's largest student technology competition.

- Supplied high school and college students, teachers, and schools with innovative designer and web developer tools through Microsoft DreamSpark.

- Awarded the 2011 Kodu Game Lab Cup to 10-year-old Hanna Wyman, whose game, Toxic, involved collecting coins and zapping pollution clouds to save the environment. Her innovative idea led to a meeting with President Obama in February 2012.

- Helped students adapt their ideas to real-world scenarios by providing selected Imagine Cup teams with $1 million in cash, technology, consulting, and other support.

Student technology teams bring their ideas to life through Imagine Cup competitions worldwide.

Saving children's lives with a Windows phone

Sometimes a mosquito bite is just an itchy bump. Sometimes it's the symptom of something far more deadly. In sub-Saharan Africa, Asia, and parts of the Americas, mosquitoes often carry malaria, a potentially fatal disease that takes the lives of more than 1 million people per year—85 percent of them children under the age of five. One team that competed in the Microsoft Imagine Cup technology competition believes it can save children's lives by diagnosing malaria faster and more accurately, increasing detection rates, and ensuring medication is distributed correctly.

The current malaria test uses a chemically treated cotton swab to diagnose an infection. But the test has a false positive rate as high as 60 percent, leading health care workers to distribute precious medication to patients who don't need it. A new solution called Lifelens provides a more accurate diagnosis using high-resolution images. The concept is simple: a semi-spherical lens is attached to a Windows phone, enabling the phone to take pictures of cells from blood smears. The parasite is then detected using an algorithm. The test is 94 percent accurate and 40 percent cheaper than traditional tests.

What's more, Lifelens automatically collects and stores data so it can be transferred to a centralized server that aggregates the information to identify outbreaks before they become serious. Lifelens can be used by anyone who has the ability to operate a cell phone, lowering or eliminating training costs, and enabling testing to reach—and save—more children.
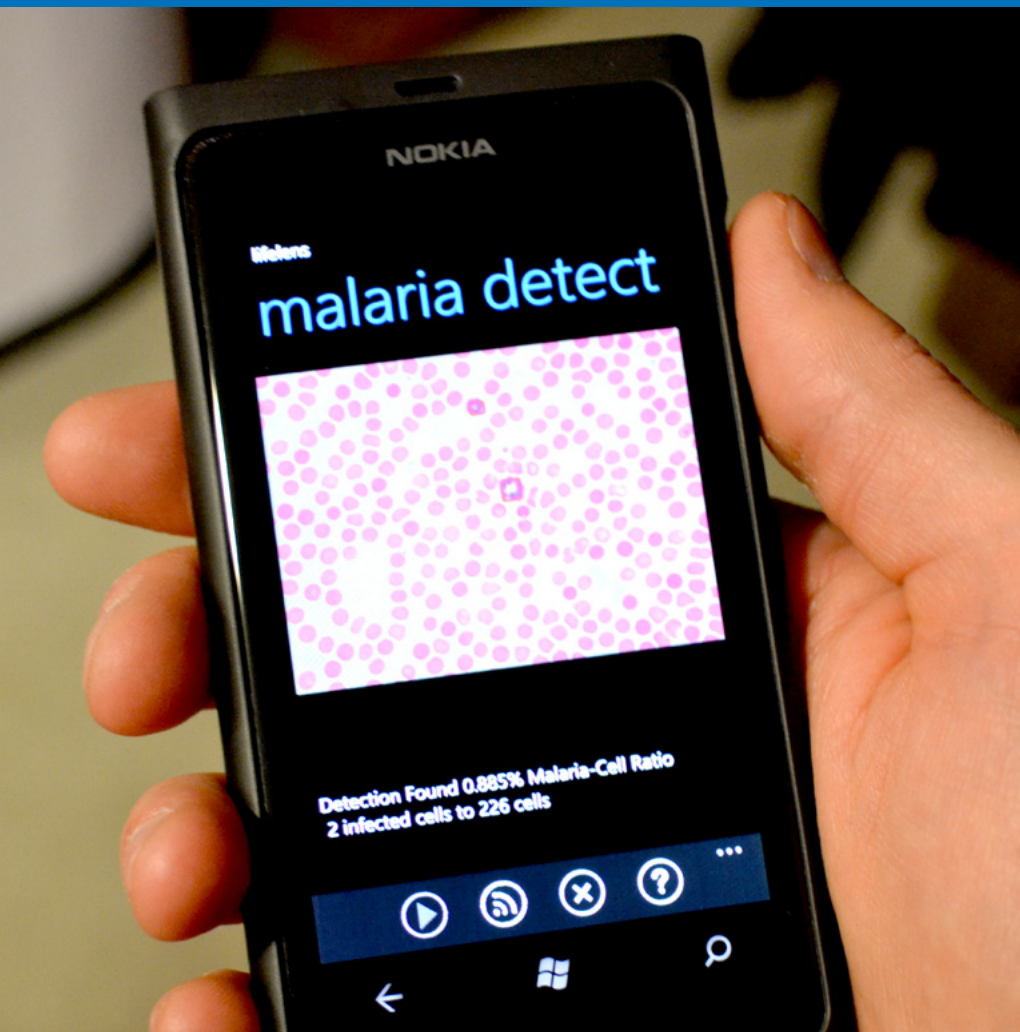
Realizing potential with new skills

Students need the opportunity to put skills and training into practice. To build the foundation for future growth, we partner with industry and government leaders to match skilled youth with employment and entrepreneurship opportunities.

- Accelerated career opportunities for students through free access to state-of-the-art technology facilities at more than 90 Microsoft Innovation Centers in 44 countries.

- Brought career opportunities to more than 110,000 students in 69 countries by developing and reinforcing skills through the Microsoft Students to Business program.

- Helped young entrepreneurs launch new businesses by providing access to software development tools, industry connections, and investors through Microsoft BizSpark.

Microsoft Innovation Centers are state-of-the-art technology facilities that give youth advanced skills and real-world connections to help find jobs and become technology entrepreneurs.

We're launching new business and entrepreneurial skills training in a collaborative effort with industry leaders and nonprofit organizations, including Accenture, International Youth Foundation, and Telecentre Europe.

Inspiring young Arab innovators

"People are full of potential," says Mostafa Nageeb, the young CEO of a growing startup. "They are just looking for the opportunity and support to unleash their potential."

That's exactly what Innovate for Good gatherings are all about—helping youth take charge of the future by bringing them together to collaborate, inspire, and support one another.

At a 2012 event, Nageeb and more than 220 other young people from 11 Arab countries came together to identify needs in their local communities. Student innovators showcased how they used Microsoft technology and programs to help change their communities for the better. Others delivered speeches tackling challenging issues related to the Arab Spring, the image of Arab youth, the potential of e-governance, and the pressing need for community service.

Nageeb talked about Ekshef, his online social directory that helps people in Arab countries find the doctors with the expertise they need, and book appointments online in minutes. "Access to health care information is a basic right," he says. "However, it doesn't exist in many parts of the Arab region, including Egypt." Another participant, Manal Elattir from Morocco, founded Anarouz Social Enterprise, an organization that promotes empowerment and entrepreneurship for women through market access and technology.

On the final day of the conference, participant groups each designed a work plan for a project serving some aspect of their community. "Innovate for Good is a great empowerment to people," Nageeb says. "I saw great examples of Arab youth who are changing the world through their ideas, efforts, and innovation."

Supporting youth-focused nonprofits

Beyond education, inspiration, and connections, young people need social services and better assistance to contribute at a higher level. We're empowering youth-focused programs and services, and connecting students, nonprofits, and donors that share similar goals.

- Decided to dedicate the majority of our cash contributions to nonprofits that serve the youth population (ages 6–24).

- Improved social services through an enhanced software donation program. In FY13, the Microsoft software donation program will reach more youth-focused nonprofit organizations than ever before.

- Built a one-of-a-kind micro-giving portal—Give for Youth— to amplify fundraising for youth causes around the world.

Read more about our donations to nonprofit organizations in the Empowering nonprofits section.

Microsoft provides resources and support to help nonprofits connect more young people with opportunities to succeed.

Photo courtesy of Todd Bishop, GeekWire

Creating the next generation of tech leaders

If computer science is one of the fastest growing and most lucrative career paths, why are so few US high school students—less than 0.6 percent of all students who took Advanced Placement tests in 2011—choosing to take a computer science class?

Kevin Wang, a former teacher and current Microsoft employee, believes limited availability, not lack of interest, is at the root of the problem.

"There's just a huge black hole in computer science," Wang says. "I started teaching first-period computer science at a local school on the way to work. Word got around, and schools wanted clones of me to start computer science programs at their schools."

That's why Wang founded Technology Education and Literacy in Schools (TEALS), a program that trains, mentors, and places high-tech professionals from companies like Microsoft as volunteer computer science teachers. The program's team-teaching model also trains existing faculty, so they can continue teaching the courses on their own. What started as a one-school, one-volunteer program with 12 students is now expected to impact more than 2,000 high school students in 37 schools across eight states in the 2012–13 school year.

"It is so incredibly important for high school students to be exposed to computer science—just like biology, chemistry, and physics—before college," Wang explains. "Not everyone will become a computer scientist, but everyone should have the chance to learn about computer science in high school no matter where they choose to go in life."

Creating opportunities for youth

FY12 performance highlights	Our commitments for FY13 include

Goal: Reach 250 million students and teachers across 115 countries and regions through Partners in Learning, a 10-year, nearly $500 million commitment we've made to help education systems.
To date, we've trained nearly 11 million teachers and school leaders, and reached approximately 207 million students in 119 countries. We're on track to reach our goal of 250 million by 2013.

Goal: Increase access to quality 21st-century education through partnerships with governments worldwide.
We collaborated with governments through our Shape the Future program to create solutions that connected more than 7 million people globally with relevant and affordable education technologies.

Goal: Improve teaching practices and educational outcomes in developing countries through partnerships with NGOs.
As an example, through our work with the British Council, we helped ministries of education and stakeholders equip schools in six African countries (Ghana, Nigeria, Uganda, Ethiopia, Kenya, and Tanzania) with nearly 100 digital Windows MultiPoint server hubs that serve as ICT training centers for local teachers and students.

- Empowering 100 million youth to imagine and realize their full potential by connecting them with greater opportunities for education, employment, and entrepreneurship through Microsoft YouthSpark, which partners with governments, nonprofit organizations, and businesses around the world

- Launching the Microsoft YouthSpark Hub—an online space where young people can explore and access all the services, programs, and resources provided by Microsoft and our partners for education, skills, employment, and entrepreneurship

- Launching Give for Youth, a micro-giving portal that helps individuals fund and follow the aspirations of youth around the world

- Ongoing development of Innovate for Good, a global online community of youth dedicated to using technology to make a difference in their communities

See GRI Index for more ⊕

Empowering nonprofits

Technology can help nonprofits reach people and places faster. Providing software, hardware, and training services to organizations that serve communities is an effective way to create impact around the world.

In this section

Donating software to nonprofits worldwide

Providing hardware to more people

Sharing knowledge to build capacity

Solutions in action

FY12 performance and FY13 commitments

$6.5 billion

Cash, services, and software given to tens of thousands of nonprofits around the world since 1983

$804 million

Software donated to 62,200+ nonprofit organizations

$99.6 million

Cash donated to nonprofits

Helping nonprofits serve their communities

"Nonprofits need powerful tools to transform passion into progress. Modern productivity, communication, and collaboration solutions help people drive social change where it's needed most."

Kurt DelBene, President, Microsoft Office Division

Effecting change requires practical tools. Powerful software can connect nonprofits with people and places both near and far, while also boosting fundraising, improving organization, and helping demonstrate results to stakeholders. By providing access to software, hardware, and training services to nonprofits—and those they serve—we're helping transform lives around the world.

Donating software to nonprofits worldwide

Software can help nonprofits overcome obstacles and improve their service to communities. That's why we donate hundreds of millions of dollars in software each year to nonprofits through our Technology for Good program.

- Donated software to 33 percent more nonprofits in FY12, reaching more than 62,200.

- Increased awareness of our software donation program through "What's your cause?"—a campaign to spread the word to eligible nonprofits.

- Improved access to donated software for nonprofits, cutting restrictions on application timing and number of maximum requests, and expanding eligibility criteria.

Future engineers build their first robots

Photo courtesy of Team 341

Gina Triolo was in elementary school when she first saw the Miss Daisy team robot battling on the playing field. Designed and built by students from Wissahickon High School in Ambler, Pennsylvania, the robot was locked in a high-stakes, goal-scoring clash with other robots from around the country in a FIRST® Robotics Competition.

Inspired, Gina told her parents she would one day join the Miss Daisy team. Nine years later, she had not only competed with the team, but graduated as team captain. "She went from a third grader that didn't really understand the competition at all to studying computer science at Princeton," said Alan Ostrow, Miss Daisy's head coach. "And she interned at Microsoft the last two summers."

Gina is one of thousands of students inspired by FIRST, a nonprofit that organizes robot competitions around the world. The contest— which gives high school teams six weeks to design and assemble a sport-playing robot—builds students' confidence, knowledge, and life skills while motivating them to pursue career opportunities in science and technology. Microsoft donated more than 2,400 Xbox 360 Kinect Sensors to the nonprofit in 2012.

"Kids learn all kinds of useful skills, but they also become personally invested in the project," said former team member Jared Russell, who's now a robotics researcher at Lockheed Martin and a mentor for current students. "We're not trying to build engineers straight out of high school. We're developing kids' interests and skills so they want to become engineers in the future."

Providing hardware to more people

Access to a PC can change a person's life—creating direct connections to education and employment. We've made PCs available to people who otherwise couldn't afford them.

- Gave families access to refurbished laptops for only $150 through the US Federal Communications Commission's GoodPC program.

- Provided refurbished PCs to UK citizens receiving certain government benefits and nonprofits for only £99 through Get Online @ Home, created in partnership with the UK Government Digital Inclusion program.

- Sponsored the International Computer Refurbisher Summit, an annual meeting that brings refurbishers together to share knowledge.

- Enabled members of the Computers for Youth Affiliate Network to tell their stories by providing consumer video cameras.

"Microsoft has been a true partner in this field. They were there at the beginning, helping foster the community, programs, and services that we deliver. Today, they are still here, helping NTEN and the field redefine the next stage of our work."

Holly Ross, Executive Director, NTEN

978

Nonprofits worldwide enrolled in the refurbished PC program in FY12

$949M
FY11

$904M
FY12

$603M
FY10

62,231
FY12

46,886
FY11

43,650
FY10

4.05%
FY12

3.48%
FY11

3.20%
FY10

**Nonprofit recipients
of software donation**

**Giving as percentage
of pre-tax profits**

$504M

$844M

$804M

■ Software[1]

$99M

$105M

$99.6M

■ Cash
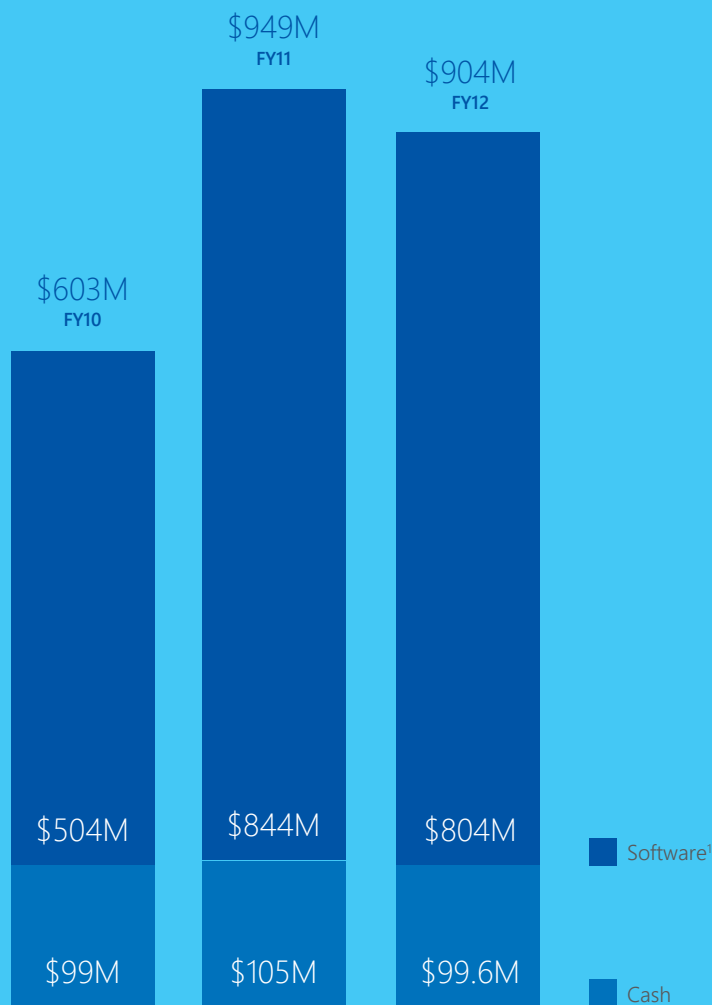
Global giving
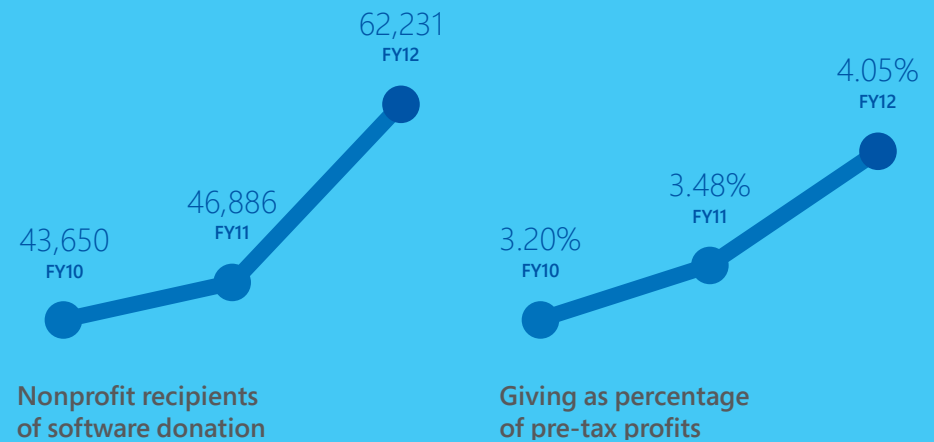
Software supplied to nonprofits[2]

REGION	WINDOWS	OFFICE
Asia Pacific	28,040	17,490
Europe, Middle East, and Africa	78,930	26,220
Latin America	23,040	700
North America	414,290	97,610
Total	**544,300**	**142,020**

1 As of FY11, data includes employee in-kind giving of software.

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

Sharing knowledge to build capacity

To complement our technology donations, we meet with nonprofits all around the world and share knowledge that can advance their work.

- Collaborated with nonprofits by hosting more than 100 NGO Connection Days, attended by more than 6,000 NGOs and 12,800 individuals.

- Educated 1,300 NGO staff on how to get the most value from donated software via webinars conducted with TechSoup, with 94 percent stating they learned new skills and ideas.

- Presented nine Social Media for Nonprofits (SM4NP) conferences in the United States, with attendance reaching more than 2,400 through partnership with SM4NP and the Nonprofit Technology Network (NTEN).

Solutions in action

Our technology can provide a measurable gain in the type and scope of change nonprofits bring to the communities they serve.

- Helped organizations increase employee and donor motivation through Local Impact Maps, compelling visual displays of community investments and results shown on a new platform based on Bing Maps and Windows Azure.

- Improved the delivery of humanitarian aid to the world's poor in some of the most remote areas by implementing Office 365 for Concern Worldwide.

- Provided web and technology expertise to champion anti-corruption, rule-of-law, and transparency websites in Romania through RestartRomania—an initiative that develops web-based solutions to address offline issues. This partnership between the US Embassy and TechSoup generated more than 2,000 user profiles, 65,000 unique visits, and 220,000 hits.

- Advanced operational efficiency at KEXP Seattle, a nonprofit arts organization and radio station, including powering donor management and capital campaign processes through Microsoft customer relationship management software, and promoting collaboration through the cloud via Office 365.

Joining forces for kids and families

Social innovation increasingly requires social enterprises to collaborate with multiple partners. Developing and sustaining multifaceted relationships with government, corporate partners, and philanthropic funders often requires an initial leap of faith from both not-for-profits and businesses. But the benefits can extend way beyond traditional ROI measures.

Plunket is one of New Zealand's most trusted brands. We've been careful to refine our model in terms of building enduring corporate alliances, limiting the number of business partners we align ourselves with.

We also have a history of adapting technology to improve health outcomes for children and families. Microsoft's initial multimillion-dollar software and services grant in 2008–09 acted as a catalyst for Plunket to better use technology as a key enabler.

Two years ago, we embarked on our biggest-ever project. PlunketPlus is a clinically led, technology-based systems development that's also a world first—a single, interoperable electronic health record for children and families, allowing Plunket Nurses to share key health data in real time with other health professionals and social services.

The fit between Plunket and Microsoft is a strong one. With the assistance of key Microsoft people, from Redmond to Singapore and here in New Zealand, we've been able to maximize the benefits of this support.

It's a partnership that's capable of delivering beyond everyone's expectations, with real potential to scale beyond New Zealand to improve the health and well-being of children and families in other countries.

Jenny Prince, CEO
Royal New Zealand Plunket Society

Plunket provides well-child services to New Zealand children from birth through age five, serving more than 91 percent of the babies born in the country.

Empowering nonprofits

FY12 performance highlights	Our commitments for FY13 include

Goal: Make it easier for nonprofits to participate in our software donation program and provide increased support to help them make the most of the technology.
With the help of our software program partner, TechSoup Global, we introduced a simplified donation process, increased eligibility, and added new online service features.

Goal: Expand our software donation programs to serve more nonprofits.
More than 62,200 nonprofits participated in our software donation program, surpassing our goal of 45,000. Our target for FY13 is to reach 70,000 nonprofits.

Goal: Make the latest version of Windows more readily available to nonprofits.
We gave nonprofits the opportunity to get more out of their PCs by making Windows Professional 7 available to our computer refurbishing partners for the first time.

Goal: Help nonprofits take advantage of the benefits of the cloud.
We worked with key nonprofit partners to showcase how others are using the cloud to help their communities. We also shared information with NGOs and offered training about the cloud.

- Expanding the reach of our software donation programs

- Increasing the availability of our nonprofit cloud programs and services for nonprofits

- Helping nonprofits understand and adopt new products, including Windows 8, Office, and Windows Server

- Creating an ecosystem that increases the development and distribution of technology solutions for nonprofits

Employee giving

Our employees are passionate about supporting their communities and causes through charitable giving. To deepen their impact and extend the reach of their giving, we match their contributions.

In this section

Helping employees make a difference

FY12 performance and
FY13 commitments

$99.8 million

Combined US employee giving and company match in FY12

64% employee participation in our US giving campaign

10,000+ employees

Signed up to find service opportunities on Volunteer Manager

Note: Giving by employees in other countries is not reflected in the above US-specific data.
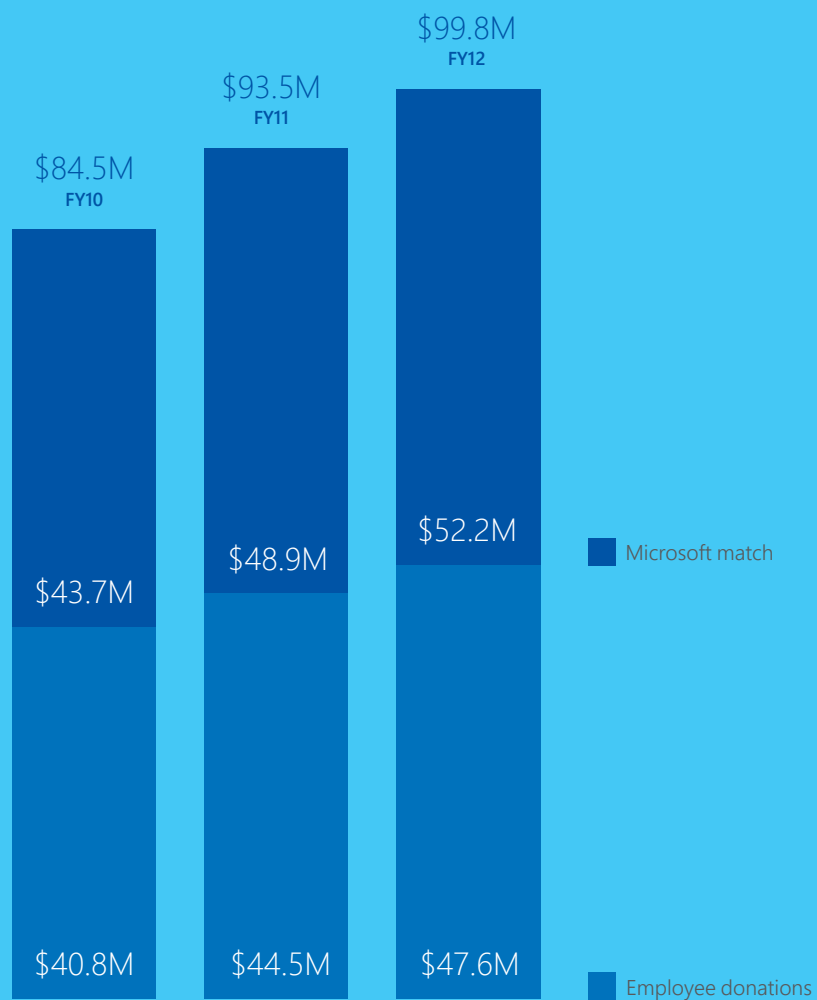
"Charitable giving helps create opportunity, solve problems, and make the most of people's potential. We're proud to amplify employee efforts to create real impact around the world."

Lori Harnick, General Manager
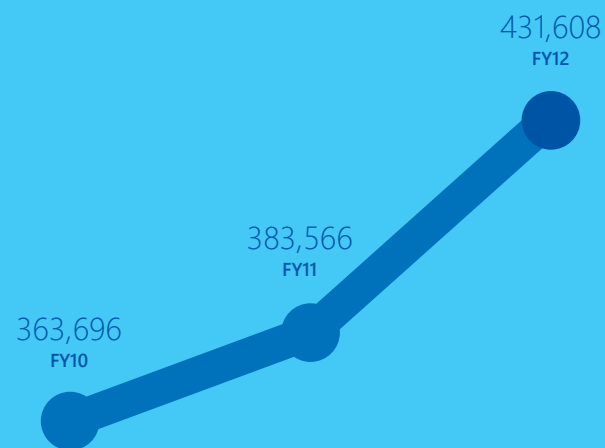**Citizenship and Public Affairs**

Helping employees make a difference

Time and money can help almost any cause. Led by our employees, we make charitable giving to worthy causes a top priority. And we take our employees' leadership seriously, which is why we match employee giving of time and money to their communities.

- Contributed $100 million through our employee giving and company match program in calendar year 2011. Since 1983, employee donations and Microsoft matches have totaled $946 million, and we're poised to reach $1 billion in calendar year 2012.

- Encouraged employee giving and volunteering by offering company matching contributions for US employees—up to $12,000 for total time and cash donations.

- Provided at least three days off for volunteering for employees outside the United States.

- Increased employee giving participation to 64 percent in FY12, with more than 38 percent of that group contributing either $1,000 before corporate match or at least 60 hours of volunteer time.

- Increased volunteering participation by 12.5 percent year over year.

- Registered more than 10,000 employees and 2,000 nonprofit organizations on Volunteer Manager, Microsoft's opportunity matching system for bringing needs and skills together.

- Motivated volunteering through the Give SharePoint site, where employees can share experiences and opportunities with the rest of the Microsoft community.

$99.8M
FY12

$93.5M
FY11

$84.5M
FY10

$52.2M

$43.7M

$48.9M

$40.8M

$44.5M

$47.6M

■ Microsoft match

■ Employee donations

Employee giving and company match donations

431,608
FY12

383,566
FY11

363,696
FY10

Volunteering hours contributed

US employee volunteerism

	FY10	FY11	FY12
Employee volunteers	4,200	4,412	4,967
Percentage of US workforce	7.5%	7.8%	8.9%

Empowering young women in Kenya

Disadvantaged girls in Kenya grow up knowing their options for higher education are limited. Those who complete high school and dream of attending college face extraordinary odds. All too often, they end up back in the circle of poverty, with little support or encouragement to achieve their goals.

That's where Erin Zuehlsdorff enters the picture. In 2010, this Microsoft employee discovered the power of mentoring through Global Give Back Circle (GGBC). GGBC helps girls in Kenya complete their education, develop skills to find jobs, and become agents of change in their communities.

In 2008, GGBC began setting up IT labs in Kenya, in collaboration with Microsoft Women of West, East, and Central Africa. Now, young women in those communities get help staying on track by taking a nine-month course covering scholarship opportunities and career planning, as well as programming, web design, accounting, and Microsoft Office tools. Mentors like Erin use Skype, send text messages, or write letters a few times a week, providing support and friendship.

When Erin learned about Microsoft's volunteer match program, in which the company makes a cash donation of $17 per employee volunteer hour, she realized she could help make an even bigger difference. Now, she is working to attract additional employees to become mentors. Erin says, "It's such a small amount [of time] to give for so much reward. Just a small piece of your heart—two letters a month—can have a significant impact."

Employee giving

FY12 performance highlights	Our commitments for FY13 include

Goal: **Make it easier for our employees and alumni to contribute their skills and expertise to local communities.**
We can now better connect our employees and alumni with organizations thanks to the companywide rollout of Volunteer Manager, an online tool that matches skills and expertise with needs.

Goal: **Continue to support our employees' giving and volunteerism activities worldwide.**
Volunteerism was up more than 12 percent, and between our employees' generosity and Microsoft's match, we gave $99.8 million to nonprofits last year.

Goal: **Support the Net Impact chapter at our headquarters in Redmond to spark employee-led citizenship projects, and expand the chapter to other campuses.**
We fell short on this commitment—the Net Impact program did not go beyond our Redmond campus.

- Making it easier for employees and alumni to contribute their skills and expertise to local communities

- Championing volunteerism and assisting the industry to advance and better adopt skills-based volunteering

- Supporting our employees' giving and volunteerism activities worldwide

See GRI Index for more ⊙→

Humanitarian response

Relief efforts move faster when information technology keeps people connected. In the last year, we've expanded our tools to address the challenges that arise during a disaster.

In this section

Providing assistance in times of need

FY12 performance and
FY13 commitments

Connecting aid organizations
with victims in need

$15
million+

In software donations to
support drought relief efforts
in East Africa

Recognized as Laureate
in the Collaboration category
by the Computerworld
Honors Program

> "The best response to disaster is to empower people to connect and collaborate. We provide powerful technologies and human support that make it possible to keep families and communities connected, and speed the arrival of much needed aid. And, as we've shown in Japan, we extend our commitment beyond the immediate need, supporting rebuilding efforts for months and years afterward."
>
> **Yasuyuki Higuchi, Microsoft Corporate Vice President and President of Microsoft Japan**

Providing assistance in times of need

When disaster strikes, every minute counts. Rescue, relief, and rebuilding efforts depend on fast, accurate communication to make a difference. That's where we can help. We partner with organizations worldwide, using technology to keep vital information flowing during emergencies. We also provide the support and services our customers need to get their businesses up and running again, helping communities get back to normal as quickly as possible. And, we don't stop there. We stay in affected communities to help them rebuild over the long term.

- Aided governments with disaster response using the Disaster Response Incident Portal, based on the Windows Azure cloud platform. The portal—developed by Microsoft Disaster Response and used by key partners such as the Aidmatrix Foundation—contributed to the following:
  - Ensured aid was delivered to victims of the March 2012 earthquake in Turkey as part of a collaborative effort with the San Francisco Fleet Week Association.
  - Assisted the victims of the 2011 Japanese tsunami by improving Second Harvest's food-donation management system.

- Received Laureate honor from the Computerworld Honors Program in the Collaboration category for our 2011 response to the Japanese tsunami.

- Supported drought relief efforts in East Africa with more than $15 million in software donations, which were granted to NetHope and its member organizations working in the Horn of Africa region.

- Accelerated critical first-responder decisions by developing a strategic partnership with Esri, a provider of geographic information systems (GIS) services and analytic knowledge.

- Educated people and organizations—as part of National Hurricane Preparedness Week—about using SkyDrive to secure data and prepare for disaster.

Getting help where it's needed most

During major disasters, it's critical to get the right relief to the right areas—quickly. Notes from the Ground, a partnership between Aidmatrix and Microsoft Disaster Response, will help do just that.

"Everything is so hectic during disaster recovery, that by making communication and data sharing easier, more time can be spent in other areas of the recovery effort," said Keith Thode, COO and CTO of Aidmatrix.

Notes from the Ground will connect readers on www.msn.com, Bing, and other Microsoft outlets to opportunities to help the impacted community. As relief organizations post requests for water, gauze, shovels, and other essentials through Aidmatrix, citizens around the world are able to view precisely what is needed on the ground.

In addition, Microsoft Disaster Response and Aidmatrix seek to provide an opportunity for on-the-ground responders to share their stories more broadly. Through Notes from the Ground, aid workers, volunteers, and first responders are able to share updates on their relief activities. It includes an interactive map containing stories, photos, and videos from relief organizations, providing firsthand accounts of how aid efforts are going.

Humanitarian response

FY12 performance highlights	Our commitments for FY13 include

Goal: **Make more robust solutions available to support disaster response efforts.**
We partnered with Esri, which provides geographic information systems, to help first responders make better decisions faster.

Goal: **Implement cloud solutions to support performance and scalability during disasters.**
We're helping governments manage emergency situations more effectively with Disaster Response Incident Portal, which runs on the Windows Azure cloud platform.

Goal: **Help businesses restart after a disaster with access to services and technology that speed their recovery.**
After widespread flooding in Thailand, we provided customers with impact assessments as well as support and services to help get their businesses back up and running.

• Promoting better coordination through technology by expanding relationships across our industry and the humanitarian response community

• Continuing to expand the technology solutions and services Microsoft can provide in time of disaster

• Raising awareness for how technology can support personal, community, and organizational preparedness and response

See GRI Index for more ⊙

Accessibility

Everyone deserves access to technology that can help them realize their full potential. Our technology can remove barriers, unlock new opportunities, and improve quality of life for people of all ages and abilities.

In this section

Empowering people with disabilities
Engaging students with special needs
Improving seniors' well-being

2011 FCC Chairman's Award for Advancement in Accessibility
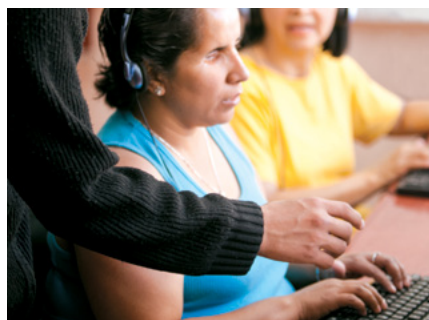
New templates for digital talking books and Braille documents

Seniors getting fit with Microsoft Kinect for Xbox 360

> "Today, people have to adapt to technology. The future lies in technology that automatically adapts to people, so users with a wide range of abilities can see, hear, and use a computer and other devices."
>
> **Rob Sinclair, Chief Accessibility Officer**

Empowering people with disabilities

Technology enriches everyone's lives—if they have the capability to use it. From magnification for people with vision impairments to speech recognition for people with limited use of their hands, we create innovative home and work solutions that allow everyone to develop their skills and share their talents with the world.

For many people with impaired vision or hearing, or with physical disabilities, accessible technology can have a transformative impact. We build accessibility into many products and services we develop, providing essential computer access to individuals with vision, hearing, dexterity, language, or learning needs.

- Advised businesses, governments, and NGOs on how to make communications tools more accessible through our free Microsoft Accessibility Tools and Training resources for developers, which won the 2011 US Federal Communications Commission (FCC) Chairman's Award for Advancement in Accessibility.

- Shared strategies for incorporating accessible technologies into the workplace, helping businesses expand job opportunities for people with disabilities. We partnered with the Assistive Technology Industry Association (ATIA) and the US Department of Labor's Office of Disability Employment Policy to communicate best practices and expertise to ATIA members, customers, and partners.

- Showed Indian government officials how technology can make public information more accessible to people with visual, hearing, and learning impairments. Timed in support of World Disability Day, we unveiled a set of 40 standardized Microsoft Office templates that can be converted into digital talking books or Braille documents.

Engaging students with special needs

Educating students of all needs and abilities is one of a teacher's most important—and challenging—responsibilities. We want all students to have access to the best learning tools available, and we work with teachers to make it happen.

- Provided teachers with accessibility guides, curriculum resources, teacher training workshops, and articles explaining how to integrate accessible technology into the classroom.

- Supported educators using Kinect classroom activities for special education students. Educators are enhancing classroom activities with attention-grabbing, body-moving experiences that help students stay engaged with curriculum.

- Reported recommendations for providing accessible technology through our partnership with the United Nations Educational, Scientific, and Cultural Organization. Together, we convened a meeting in November 2011 in Paris that brought together 30 participants from more than 10 countries to discuss accessible technology for students and report on practical solutions for educators.

- Made it easier for schools to select, buy, and deploy accessible devices and assistive technology in collaboration with Dell's Assistive Technology Service. Our work includes showing educators how to create digital talking textbooks and other accessible teaching materials using the accessibility features in Windows, Office, and other Microsoft products.
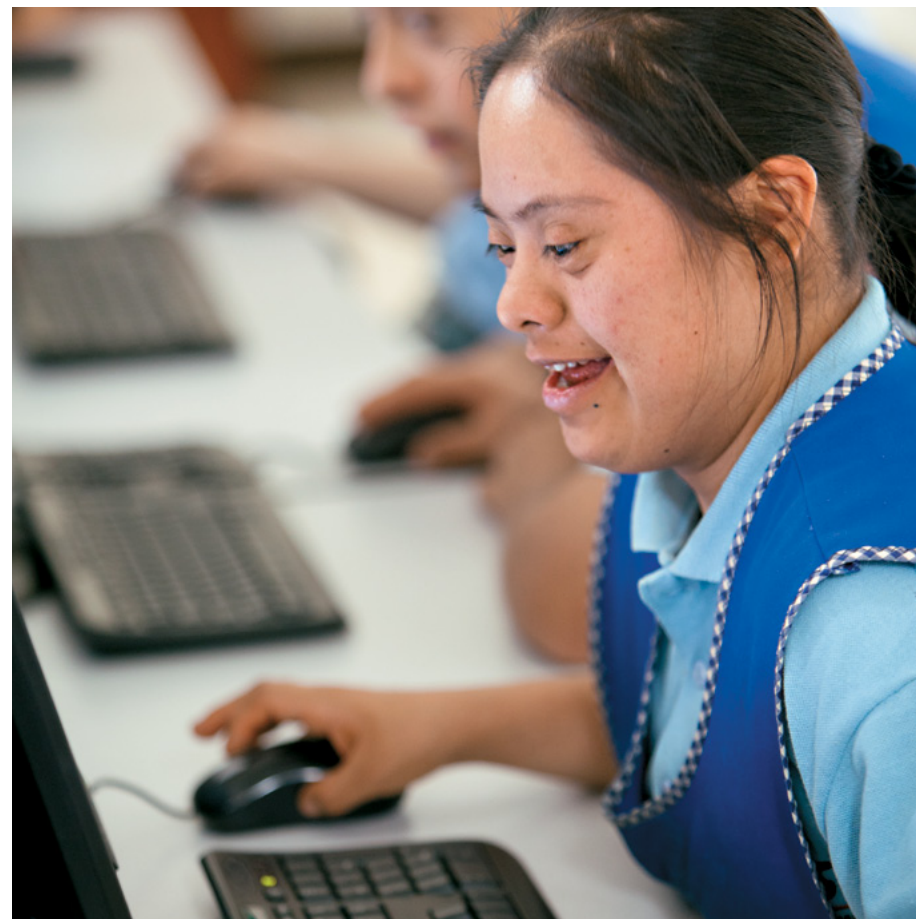
Daunis Gente Excepcional A.C. is a Mexico City-based organization that provides employability skills to young people with Down Syndrome.

Software helps student who is blind reach the top of her class

Ignacia Picas maintains a near-perfect grade-point average at her primary school in Santiago, Chile. While her grades are impressive, her feat appears even more remarkable when you learn she's blind, yet participates in the same learning environment as her peers.

At Colegio San Benito, Ignacia once relied on a Braille typewriter to complete her school assignments. But at age 12, a laptop running the Windows operating system changed her learning experience. She now excels by using accessibility programs in Windows and built-in tools in Microsoft Office applications, along with the Job Access With Speech (JAWS) screen-reading software.

"Before, all of her assignments needed to be translated into Braille, which took extra time and made it harder for Ignacia to keep up with the rest of the class," said Viviana Contreras, Ignacia's teacher. "When she started using Microsoft programs, together with the JAWS software, we noticed everything became much easier for her."

The JAWS software converts text into spoken words. Ignacia then uses the accessibility tools in Microsoft Word and Excel to create documents, take notes, complete tests, and perform calculations for math and science lessons.

"Ignacia's story illustrates the power of technology," explained Angel Dubon Marchelli, director of Microsoft Partners in Learning in Latin America. "Accessibility features in Windows and Microsoft Office can empower students who otherwise might have had an extremely difficult time communicating, collaborating, or socializing with their peers."

Improving seniors' well-being

Older adults can live more independent and productive lives with the right technology. We partner with governments and organizations around the world to show how technology can reduce social isolation, increase wellness, and enhance the quality of life of seniors everywhere.

- Gave seniors a new way to get fit, socialize, and manage their personal health information online. Members of the Exergamers Wellness Club in Los Angeles use Microsoft Kinect for Xbox 360, Xbox LIVE, and Microsoft HealthVault to compete in virtual bowling tournaments, dance to hip-hop and salsa routines, and participate in other physical activities as part of a comprehensive health and wellness program. See Seniors in Action.

- Surveyed home care and geriatric care providers to learn how technology can help older adults remain independent, productive, and healthy in their homes. In collaboration with Philips and LivHome, the Future of Home Care Technology survey was designed to help providers learn how to better serve the needs of older adults by improving quality of care and providing information and reassurance to family members.

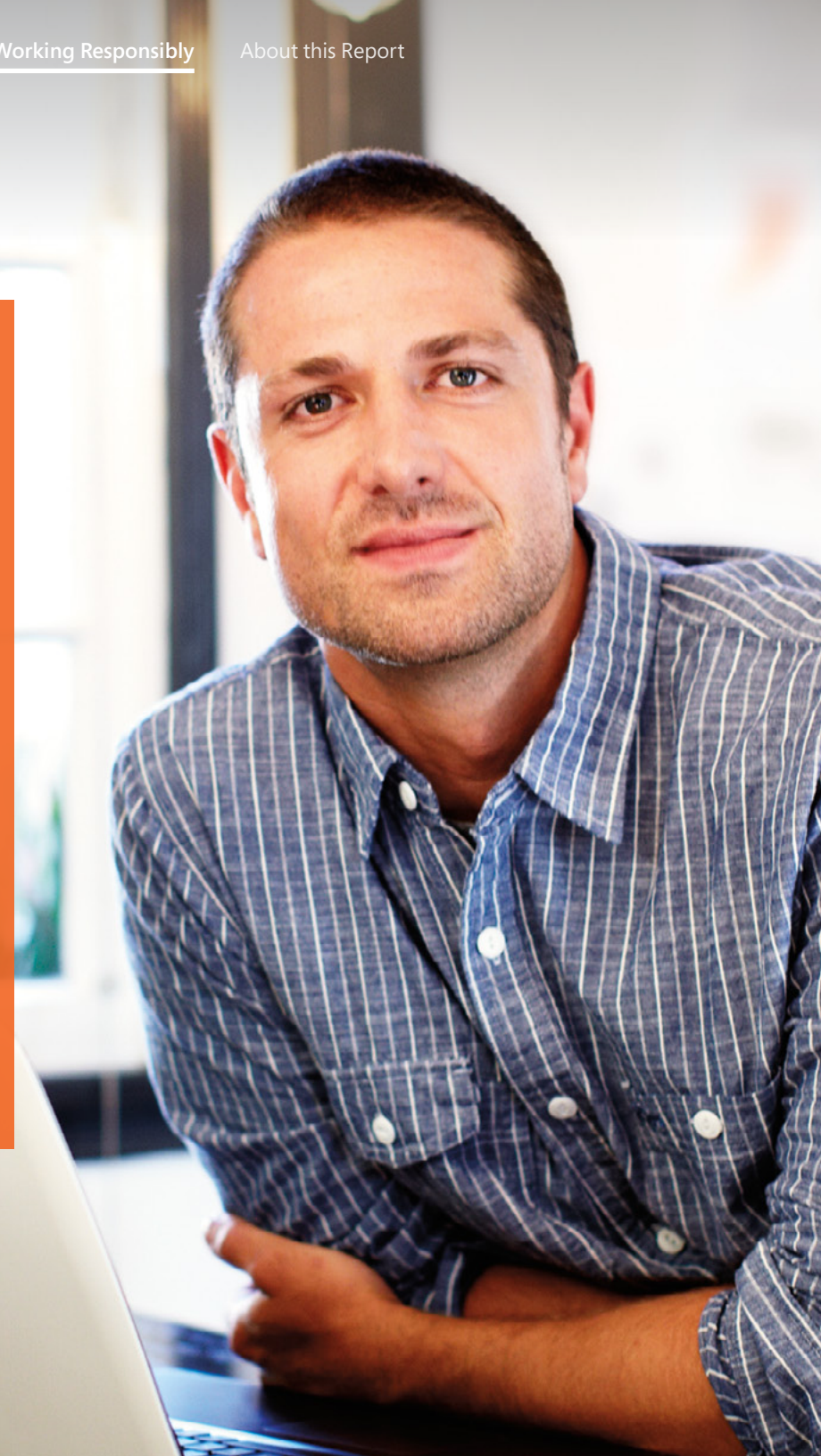A member of the Exergamers Wellness Club in Los Angeles, California.

Working Responsibly

We're committed to responsible practices in our own operations, with policies and programs that ensure we're acting as a good corporate citizen everywhere we do business.

Our people

Our mission—to help people around the world realize their full potential—begins with our employees. Their passion fuels our success. We compete for outstanding talent around the world and keep employees engaged with a dynamic, diverse culture that values growth and well-being.

In this section

Compensation and benefits
Diversity and inclusion
Training and development
Health and safety
FY12 performance and
FY13 commitments

GREAT
PLACE
TO
WORK®
WORLD'S
BEST
MULTINATIONAL
WORKPLACES
2011

Recognized by the Great Place to Work® Institute as the World's Best Multinational Workplace

90% of employees feel proud to work at Microsoft

100%

Rating from the Human Rights Campaign Foundation's Corporate Equality Index

3 million

Hours our employees dedicated to professional training and development opportunities

> "Life at Microsoft is about more than just the work; it's about who we are as people. We have a passion for life, for creating outstanding products, and for helping others realize their full potential."
>
> **Lisa Brummel, Chief People Officer**

Our employees are innovators from every corner of the globe, defining the Microsoft experience. Our talent, commitment, diverse life experiences, and community contributions make us who we are, and help us better understand customer needs. We value each individual, rewarding outstanding talent and creating opportunities for employees to grow professionally and support the causes they care about. We also ask for—and act on—employee feedback in search of new ways to continually advance our status as one of the best places to work in the world.

Compensation and benefits

The world's top talent demands and deserves a premier work environment. We deliver, with competitive compensation, performance awards and attractive benefits packages for our employees.

- Made the most significant investment in overall employee compensation in company history, in part by shifting a portion of stock-award targets into employee base salaries. We also increased funding to deliver at least 100 percent of target bonus and stock awards for approximately 85 percent of eligible employees.

- Added the Opposite Sex Domestic Partners (OSDP) benefit eligibility option for US employees and a tax gross-up benefit for both OSDP and Same-Sex Domestic Partner (SSDP) health coverage.

- In the United States, maintained an industry-leading 87 percent participation in our employee 401(k) program.

EMPLOYEE POLL RESULTS	2010	2011	2012
Employee response rate	85%	90%	88%
Employees who feel proud to work at Microsoft	89%	86%	90%
Employees who feel they are treated with dignity and respect by their managers	91%	92%	92%
Employees who would recommend Microsoft as a great place to work	86%	83%	86%
Employees who feel their work group values diverse opinions	83%	84%	86%
Employees who feel their work group speaks openly and honestly, even when news is bad	80%	81%	82%
Employees who have a positive opinion about the degree of flexibility they are given in their job	82%	83%	84%
Employees who feel Microsoft is a good corporate citizen in employees' communities and in the world	91%	91%	93%

Since 2000, thousands of young women in 16 countries have received free technology education, interactive experiences, and a firsthand look at careers in technology through Microsoft's DigiGirlz technology programs.
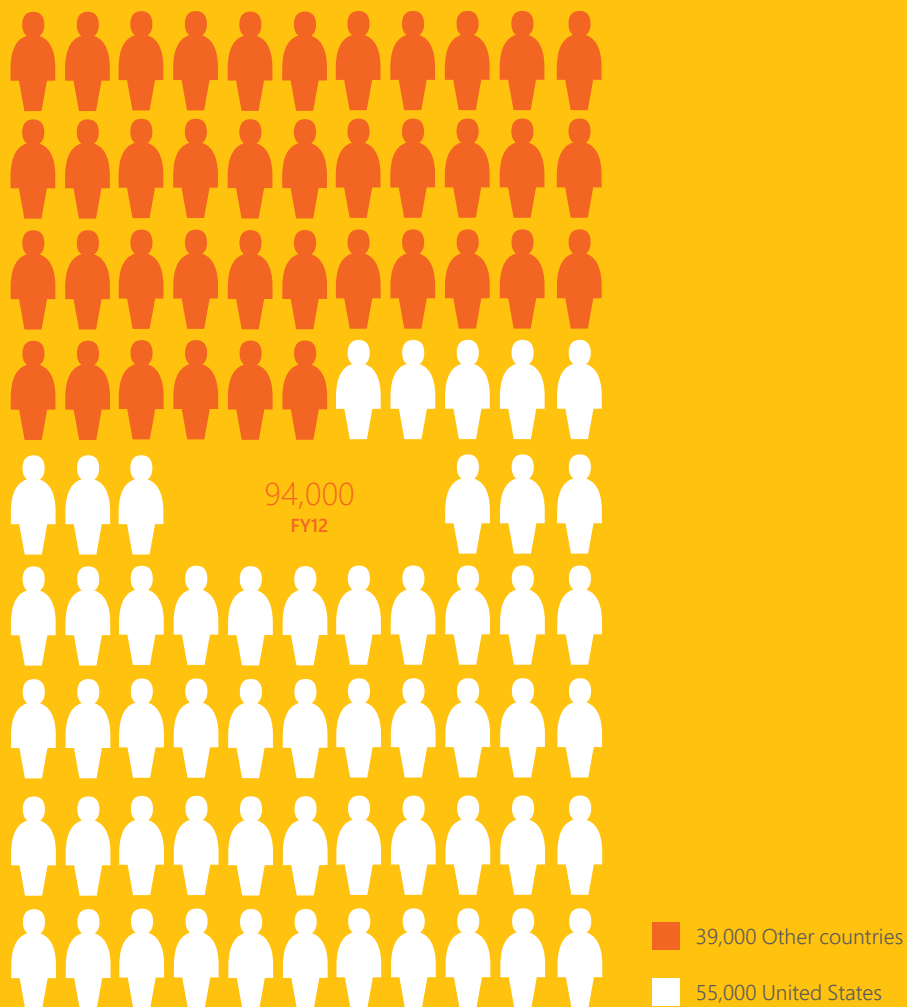
Diversity and inclusion

A diverse and inclusive workforce makes change possible and pushes innovation forward. Bringing unique, powerful perspectives together allows differences to shine and similarities to emerge, helping us better understand and meet the needs of our diverse customers around the world. With this in mind, we've set priorities aligned with a strategic plan based on representation, inclusion, and market innovation.
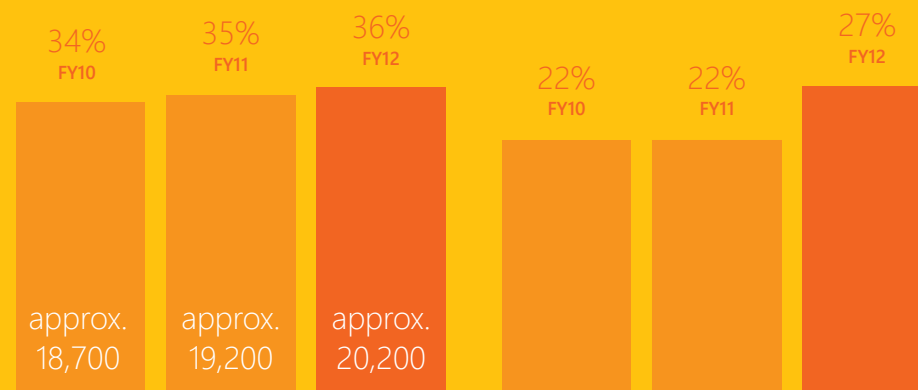
- Equipped 2,000 Microsoft managers with skills and training focusing on conscious and unconscious bias to foster an inclusive workplace.

- Inspired students from all backgrounds through youth programs such as Blacks at Microsoft Minority Student Day, DigiGirlz, and other opportunities to pursue science, technology, engineering, and math (STEM) disciplines, which are critical to our industry and the global economy.

- Promoted the development of assistive technology for people with disabilities by bringing together the Cross Disability Employee Resource Group (ERG) with the Trustworthy Computing Accessibility Business Unit at the April 2012 Microsoft Ability Summit.

- Endorsed legislation to legalize gay marriage in the US state of Washington.

- Expanded our ERGs—which include more than 10,000 members—with the addition of the new Generations at Microsoft ERG.

Microsoft employees[1]

94,000
FY12

39,000 Other countries

55,000 United States

Minorities in the US Microsoft workforce[2]

34% FY10	35% FY11	36% FY12
approx. 18,700	approx. 19,200	approx. 20,200

Women and US minorities on the Microsoft board of directors[2]

22% FY10	22% FY11	27% FY12
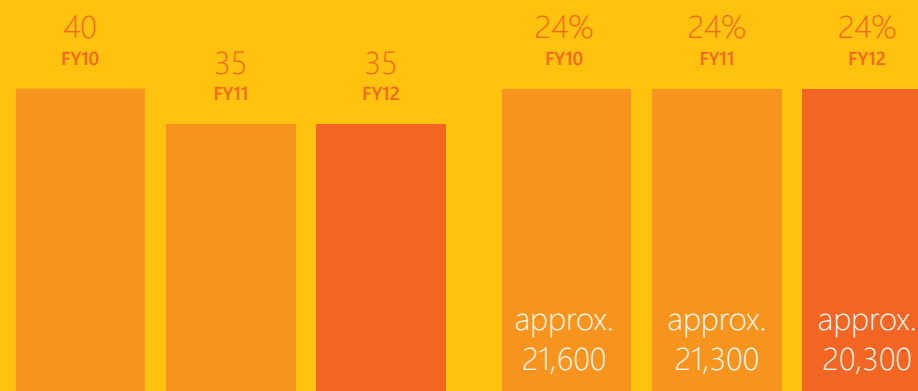
Women and US minorities in executive positions at Microsoft[2]

40 FY10	35 FY11	35 FY12

Women in the global Microsoft workforce

24% FY10	24% FY11	24% FY12
approx. 21,600	approx. 21,300	approx. 20,300

1 Each icon represents 1,000 employees.

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

Training and development

Our employees never stop seeking new opportunities to grow. We continually evaluate and evolve our training opportunities to meet their specific needs. By adapting our programs to meet a variety of learning styles—in the classroom, online, through video, and in other forms—we ensure our employees continue to learn and move their careers forward.

- Increased employee participation in professional training opportunities—more than 3 million hours, up from just over 2 million in FY11.

- Boosted employee satisfaction for training courses to a rating of 4.37 out of 5 in FY12, up from 4.09 in FY11.

Microsoft was inducted into *Training* magazine's Top 10 Hall of Fame, which recognizes successful corporate training programs.

3.05M
FY12

2.02M
FY11

Total employee training and development hours

4.09
FY11

4.37
FY12

Employee rating of training effectiveness

On a scale of 1-5, with 5 being the highest

1,500+

Number of employees who received tuition assistance

$9.1M

Total tuition assistance provided

Health and safety

We're responsible for facilitating a safe work environment for our employees. To us, that means establishing solid goals and targets for safety management that surpass basic compliance. We integrate sound safety and health practices into every aspect of our business, supporting the well-being of our employees, contractors, and customers.

- Improved employee understanding of our regulations through our Employee Safety and Health Manual—consisting of 22 required written regulatory programs.

- Completed 60 documented risk assessments, as well as exposure assessments related to lead soldering and loud-noise products.

- Enrolled 1,110 employees in 74 different employee health and safety training courses focused on chemicals, lead awareness, laser safety, and use of personal protective equipment.

- Gave employees working in labs or in research and development quick and easy access to information about chemicals used at Microsoft, with nearly 1,600 new material safety data sheets.

- Set an overall recordable incident rate (RIR) of 0.05, compared with the US average of 0.4. An RIR reflects the number of serious injury cases that required medical treatment beyond basic first aid.

"Pride and passion characterize what we heard in the words of Microsoft employees around the globe. Pride in their personal contributions and those of the company, passion for the work they each do every day, and a sense of how it contributes to a higher purpose. This collective experience—voiced by the employees—contributed to Microsoft being named the number one World's Best Multinational Workplace by Great Place to Work."

Susan Lucas-Conwell, CEO, Great Place to Work

Our people

FY12 performance highlights	Our commitments for FY13 include

Goal: **Roll out a new pay and performance management approach and monitor feedback to remain a top employer of choice.**
Our new approach is in place, and we're using surveys, listening tours, and internal discussions to gather employee input.

Goal: **Support our new performance-management approach that rewards business impact and how employees get their work done, and emphasizes ongoing career development.**
We streamlined our processes to better collect peer feedback on employee performance that helps inform more valuable career discussions.

Goal: **Increase executive leadership support and accountability in diversity and inclusion.**
We developed a new framework to help leaders assess diversity and inclusion, and foster an inclusive work environment.

Goal: **Recruit, advance, and retain senior-level women globally.**
With the number of women pursuing technology careers in decline, this is an industrywide challenge. We're working with partners and other organizations to reverse this trend.

- Continuing to optimize our pay-for-performance culture

- Offering learning and development to meet future business needs, support workforce agility, and enhance change-management capabilities

- Advancing efforts to increase diversity in senior-level positions, with a focus on racial minorities in the United States and women globally

- Enhancing managers' skills for engaging a diverse workforce and creating inclusive work environments

- Building US employees' awareness of and confidence in the value of their employee benefits, including their health coverage

See GRI Index for more ⊙

Environment

We're using our company as a living laboratory to explore ways in which IT can help us drive responsible environmental practices. This year, our software and technology enabled us to make more environmentally responsible choices and better manage resources.

In this section

Impact of our operations

Technology for the environment

FY12 performance and
FY13 commitments

30% less
Carbon intensity in FY12

Carbon neutral in FY13
Progress toward an
ambitious goal

1.1B
Kilowatt-hours of green
power purchased

50% less
Energy consumed by Microsoft
modular data centers compared
with traditional data centers

"Our carbon neutral commitment, with a cascaded carbon fee, will increase our focus on efficiency and clean energy."

Rob Bernard, Chief Environmental Strategist

Pressing environmental challenges require a collaborative, global response. We can minimize the impact of our operations by better conserving energy, managing resources, and setting aggressive goals. This year, we set a companywide carbon neutrality goal, which will begin with FY13. The goal will be accompanied by, and achieved through, a new internal carbon fee. We are hopeful that our goal will accelerate breakthroughs that will help our technology and products become more efficient.

Impact of our operations

Our continued focus on reducing the climate impact of our operations is helping minimize energy consumption across the company.

Expanding employee action

- Encouraged business groups to be financially responsible for the cost of offsetting their carbon emissions through an internal carbon fee. This fee is administered through our corporate finance department and applies to data centers, software development labs, offices, and air travel emissions.

- Eliminated approximately 9.9 million miles of car travel through employee commuting options at our Puget Sound, Washington, offices—including operating our own free commuter bus system.

- With the help of our employees, diverted 95 percent of the waste from dining facilities—and more than 80 percent of overall waste—at our corporate campus.

- Reduced emissions and waste across our European supply chain, which resulted in receiving the Green Mover Award at the 2012 Irish Logistics and Transport Awards reception.

- Educated employees about environmentally responsible practices through supporting more than 650 employee volunteers in our Sustainability Champions program.

- Recognized employee environmental leadership initiatives by presenting the Environmental Sustainability Action Award to an employee or team every quarter of FY12.

Minimizing data center impact

- Saved resources by developing modular data centers that use up to 50 percent less energy and consume only 1 percent of the water of traditional data centers.

- Reduced energy by using free-air cooling and operating our data centers at higher temperatures.

- Eliminated unnecessary components from servers within our data centers, and used higher-efficiency supplies, converters, processors, and platforms.

- Cooled our data center in San Antonio, Texas, using recycled wastewater from the city's wastewater system.

Improving efficiency

- Helped reduce our reliance on electricity generated from coal and other traditional energy sources by purchasing more than 1.1 billion kilowatt-hours of green power in FY12—the third most of any US company, according to the US Environmental Protection Agency.

- Implemented a program that charges energy costs back to specific divisions for all labs in Puget Sound. The chargeback is motivating business divisions to save money by reducing energy consumption.

The Washington State Recyclers Association named Microsoft 2012 Recycler of the Year.

Developed by The Green Grid nonprofit organization, power usage effectiveness (PUE) is the ratio of total amount of power used by a computer data center facility to the power delivered directly to the computing equipment. An ideal PUE is 1.0. Microsoft averaged 1.40, while the current industry average is 1.8–1.9. The Microsoft Chicago data center averaged a PUE of 1.07 in the container area for the majority of the year. We aim to average 1.125 PUE or better next year.

1,502,736
2010

1,530,352
2011

1,299,356
2009

311,082

303,012

222,322

1,144,271

1,186,492

1,305,385

41,649   47,383   40,848

1.954B
ML/year
2010

2.109B
ML/year
2011

Total water usage (1 megaliter = 1 million liters)[2]

Scope 1: Direct emissions
(on-site emissions)

Scope 2: Indirect emissions
(electricity consumption)

Scope 3: Indirect emissions
(air travel only)
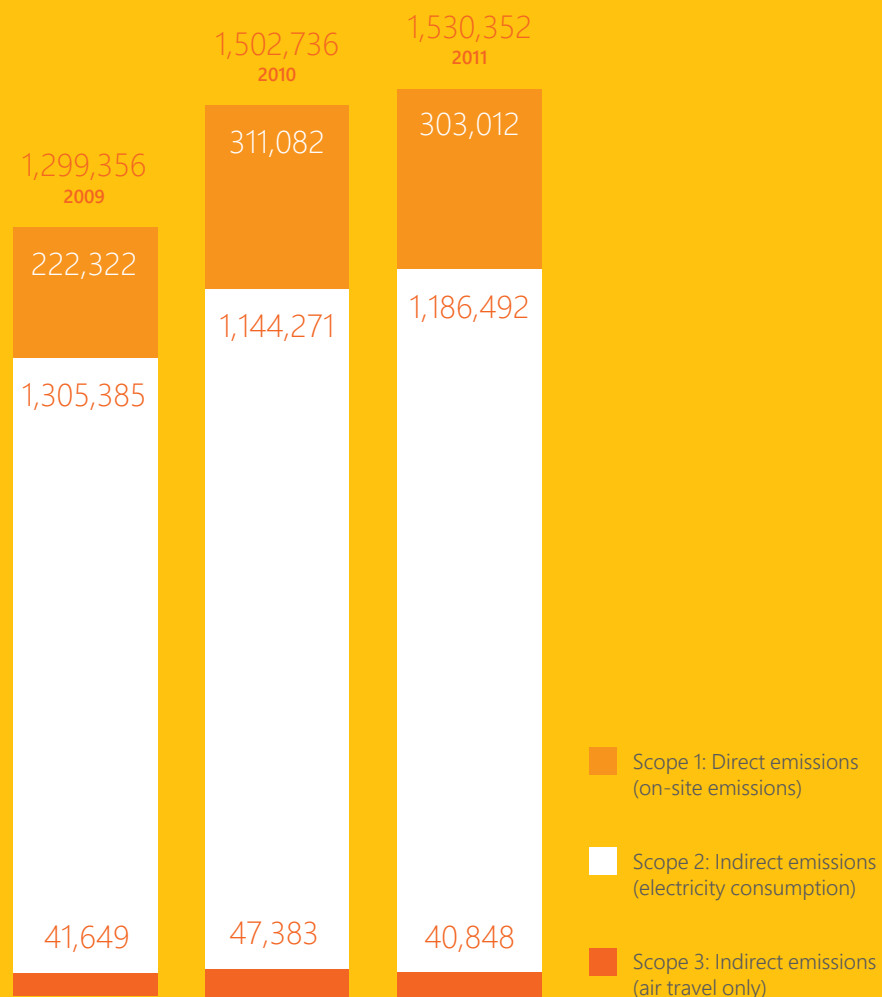
CO_2 equivalent emissions (metric tons)[1]

1   This data is provided on a calendar year basis rather than a fiscal year basis to facilitate reporting
    to the Carbon Disclosure Project.

2   Our data collection system does not yet track global water use. The number reported here
    represents approximately 65 percent of our global portfolio by square footage.

Reducing environmental impact in our operations

FY12 performance highlights	Our commitments for FY13 include

Goal: Reduce our carbon emissions per unit of revenue by 30 percent compared with 2007.
We met our goal with a mix of energy-efficiency measures and investments in renewable energy and carbon reduction projects that were externally verified.

Goal: Improve our governance model to increase accountability to corporate environmental goals.
Among other efforts, we're driving responsible business decisions by setting an internal price on carbon, measuring emissions, and charging a fee to teams responsible for those emissions.

Goal: Enhance our global carbon footprint–tracking system to also track water usage and waste.
We adopted a cloud-based application that collects data from smart meters, utilities, suppliers, waste processors, and internal business systems. Analyzing this data will help us enhance our reporting processes and improve our environmental performance.

- Achieving carbon neutrality and net-zero emissions for our data centers, software development labs, offices, and employee air travel by increasing energy efficiency and purchasing renewable energy

- Implementing an internal carbon fee that will place a price on carbon, based on current market pricing for renewable energy and carbon offsets, and making the company's business divisions financially responsible for the cost of their carbon emissions

- Sourcing more renewable power and continuing to implement our more sustainable Generation 4 modular data center designs

- Rolling out an energy-management program to decrease energy use in the buildings on our campus in Redmond

Technology for the environment

We're advancing environmental sustainability in our product design and distribution—without sacrificing quality, customer safety, or innovation. And through our work with others, we're advancing the dialogue about environmental sustainability.

Environmental benefits of our solutions

- Made it easier for organizations to measure, manage, and track their carbon footprint, total waste, and water usage with the new Microsoft Dynamics AX 2012 enterprise resource planning (ERP) solution—one of only five products that fulfill the requirements of the GRI Certified Software and Tools Program.

- A study found that moving Microsoft business applications to the Microsoft cloud can help organizations reduce related energy use and carbon emissions by at least 30 percent per user.

Collaboration and partnerships

- Provided online services for hosting and sharing global environmental data by launching the Eye on Earth network—a cloud computing-based network developed together with the European Environment Agency (EEA) and Esri.

- Enabled virtually anyone to access climate data from anywhere through our launch of FetchClimate—a free, cloud-based climate data–retrieval service created in partnership with the EEA.

- Partnered with the United Nations Environment Programme (UNEP) to provide energy-efficient, modular data center designs in order to enhance the performance of their new carbon-neutral headquarters in Nairobi, Kenya.

- Drove energy efficiency in technology as a board member and participating contributor in several industry initiatives, including The Green Grid, the Climate Savers Computing Initiative, and the Global e-Sustainability Initiative.

Microsoft is a founding member of the ICT for Energy Efficiency (ICT4EE) Forum.

Setting the stage for carbon neutrality

Mindy Lubber, President, Ceres

Ceres is a US-based coalition of investors, environmental groups, and other public interest organizations working with companies to address sustainability challenges such as climate change and water scarcity.

With governments slow to act on the accelerating climate change challenge, it is essential that leadership to drive a low carbon economy come from the private sector. A modest number of large, influential companies are stepping up to the plate, not only because they take good corporate citizenship seriously, but because they understand that operating sustainably also makes them more competitive and more profitable over the long term.

Microsoft's announcement that it will become carbon neutral in FY13 exemplifies the kind of visionary thinking that has been the company's hallmark for decades. And the fact that Microsoft didn't make this a long-term aspirational goal, but a companywide *commitment* to be met *this fiscal year*, is both bold and inspirational.

How Microsoft plans to achieve carbon neutrality reflects the company's innovative spirit. Ceres has long argued that without putting a price on the carbon emissions responsible for global warming, as long as the atmosphere is treated as an unlimited free resource, it will be virtually impossible to slow the rate of climate change.

Rather than wait for policymakers to take this vital but elusive step, Microsoft is putting an internal price on carbon that will make each of its business divisions responsible for the cost of offsetting its carbon emissions, either through energy efficiency or by payment into a central fund that will be used to source renewable energy or purchase carbon offsets. This kind of "green accountability" could well become a model for other companies looking to remain competitive in the carbon-constrained economy of the future.

Microsoft technology for the environment

FY12 performance highlights	Our commitments for FY13 include

Goal: **Create new energy-efficiency guidelines for Microsoft product groups.**
Windows 8 includes advanced energy-efficiency features, and Windows Azure enables developers to build applications that can be intelligently scaled to reduce environmental impact.

Goal: **Develop new environmental guidelines for the software industry.**
We released our most comprehensive framework on energy efficiency, and made it widely available to developers to prompt energy-smart applications.

Goal: **Work with partners to find solutions that allow cloud computing to grow while reducing environmental impact.**
We're joining others with expertise in cloud computing to develop powerful tools that will give society a new level of insight into the resource requirements and performance of complex systems.

- Providing guidance to help our industry develop more efficient software

- Working with partners on customer solutions in five key areas: greener IT, buildings, power and energy infrastructure, transportation, and resource management

- Collaborating with industry peers to develop new metrics like Carbon Usage Effectiveness and Water Usage Effectiveness that will help make data centers as efficient as possible

- Educating customers on how to dispose of old computers and devices sustainably through industry partnerships, collection programs, and outreach efforts

See GRI Index for more →

Human rights

People all over the world exercise fundamental human rights when they use our technology. Respecting these rights is one way we help people and businesses throughout the world realize their full potential.

In this section

Affirming our commitment

Privacy and data security

Online safety

Freedom of expression

FY12 performance and
FY13 commitments

Unifying our policies
and practices →

Internet Explorer 10's Do Not
Track feature →

Funding research to disrupt
online human trafficking →

Championing free expression and
the right to privacy worldwide →

> "Technology has the fundamental ability to positively impact people's lives. However, with this comes the responsibility—to our customers and the global community—to operate our business in a way that promotes respect for human rights."
>
> **Jean-Philippe Courtois, President**
> **Microsoft International**

Technology is changing the landscape of human rights. The Internet and other communications technologies allow people all over the world to share information and ideas. But technology doesn't take sides. Technology users are also increasingly vulnerable to privacy violations and other forms of exploitation. We partner with organizations around the world to protect privacy, create a safer online environment, and give people the means to make their voices heard.

Affirming our commitment

Our Global Human Rights Statement aligns with the United Nations (UN) Guiding Principles on Business and Human Rights. Our statement establishes a common set of principles we can infuse into our business practices, with a focus on these four key priorities:

- Creating opportunity: Our products, services, and devices bring the power of technology to promote respect for human rights and help shape the human rights agendas of governments and business.

- Acting globally: Our commitment is based on internationally recognized standards and respect for all human rights, including civil, political, economic, social, and cultural rights.

- Engaging strategically: We believe our business can most effectively respect human rights through our presence in, rather than absence from, countries that present significant human rights risks.

- Promoting good governance: We will continue to model and promote the rule of law and good governance around the world.

We're also committed to upholding human rights in our global supply chain and among our employees. See the Responsible sourcing and Our people sections of the report for more information.

Making a statement in corporate citizenship

John Ruggie, Former UN Special Representative for Business and Human Rights (2005–2011)

John Ruggie is the Berthold Beitz Professor in Human Rights and International Affairs at Harvard's Kennedy School of Government and faculty chair of the school's Corporate Social Responsibility Initiative.

With its Global Human Rights Statement, Microsoft has taken an important step toward aligning its policies and practices with the United Nations Guiding Principles on Business and Human Rights (GPs).

In June 2011, the UN Human Rights Council unanimously endorsed the GPs, which I developed over the course of six years of extensive consultations, research, and pilot projects. They now constitute the most authoritative global human rights instrument linked to business.

Core features of the GPs have been incorporated into the updated Organisation for Economic Co-operation and Development Guidelines for Multinational Enterprises, the new European Union corporate social responsibility strategy, the International Finance Corporation's revised sustainability policy, and ISO 26000. The GPs also enjoy strong support from stakeholder groups including business, workers organizations, and civil society.

The GPs lay out the duties of states to protect human rights, the corporate responsibility to respect human rights, and the need for remedy where harm does occur. In addition to calling on businesses to adopt a human rights policy statement, the GPs provide the means for them to know and show that they respect human rights. These include a due diligence process to identify, prevent, mitigate, and account for how they address adverse impacts on human rights, and processes to enable the remediation of any such impacts they cause or to which they contribute.

By reducing the risk that companies cause or contribute to human rights harm, the GPs protect human rights, build trust between companies and their internal and external stakeholders, and help ensure that fragile global markets become socially more inclusive and sustainable.

"Microsoft's Internet safety programs are vital to our children, as they're the generation that will only know life through technology. Our students socialize, play games, communicate, and find information through the Internet, which puts them at risk. Having an industry leader like Microsoft teach our children how to stay safe online sends a powerful message to our school community."

Cliona O'Keeffe
Our Lady's Boys National School, Dublin, Ireland

Privacy and data security

As people spend more time online and store more information in the cloud, the risk of privacy and data security attacks continues to rise. Ten years ago, our chairman Bill Gates launched a company-wide response with the Trustworthy Computing initiative, which made privacy and data security our highest priorities in product development. We continue to find innovative ways to protect our customers' privacy and keep their information secure.

- Gave consumers the power to manage their privacy with the Do Not Track setting turned on in Internet Explorer 10 in Windows 8. The feature prevents advertisers from creating targeted ads based on a consumer's web surfing habits.

- Revealed how people's behaviors and attitudes can affect their online reputations with a new survey of 5,000 consumers across the United States, Canada, Germany, Ireland, and Spain. Released in support of the international Data Privacy Day, the survey helps people understand how to maintain online profiles and still protect their privacy.

- Fueled development of new, creative ways to keep hackers from exploiting software vulnerabilities. The Microsoft BlueHat Prize contest offers innovative researchers in this area more than $250,000 in cash and prizes. It's already inspired technologies used in our Enhanced Mitigation Experience Toolkit, which helps IT professionals protect their systems against common threats.

- Promoted industrywide adoption of Microsoft Security Development Lifecycle practices at the inaugural Security Development Conference in Washington, D.C., which attracted more than 240 attendees from 115 global organizations.

Online safety

A safer online environment is critical—particularly for children. We partner with policymakers, advocacy groups, and other companies in our industry on a range of online safety issues, from leading the charge against online child exploitation to teaching people how to help protect themselves on social networking sites.

- Advanced the fight against online child pornography by making Microsoft PhotoDNA technology available at no charge to Internet services companies, NGOs, and law enforcement. Developed in a partnership between Microsoft Research and Dartmouth College, the image-matching technology enables Internet service companies to find, report, and eliminate known child pornography images from their networks and helps law enforcement officers more efficiently identify and rescue victims and bring abusers to justice.

- Helped lead a collaborative, international effort to make the Internet a safer place for children as a founding member of the European Union CEO Coalition on Child Online Safety. The coalition's priorities include developing age-appropriate privacy settings for online services, creating a more comprehensive content rating system for video games, and removing content that exploits children from the Internet.

- Awarded six grants to North American researchers studying the intersection of technology and commercial child sex trafficking.

Using technology to fight child trafficking

Technology has enabled jaw-dropping advancements in communication, providing greater access to information and allowing individuals to work more efficiently and stay better connected. But it has also benefited criminals—including child sex traffickers and their customers.

We're working to help create a safe computing environment for children and ensuring that Microsoft technologies are not used to conduct crime. In 2012, Microsoft Research and the Microsoft Digital Crimes Unit collaborated to begin understanding how we can contribute to the fight against human trafficking—a $32 billion a year industry. We awarded six grants totaling $185,000 to research teams at universities across North America interested in better understanding the role technology plays in the problem.

"Armed with better data, I believe real breakthroughs are possible for helping disrupt the dynamics that fuel the child sex trade," said Samantha Doerr, program manager for the Microsoft Digital Crimes Unit.

The research will cover a range of topics from investigating how technology facilitates the recruiting, buying, and selling of victims to understanding the benefits and obstacles of technology on law enforcement efforts to combat human trafficking. Collecting data is just the first step. Ultimately, we want to make a difference by developing technologies to help thwart traffickers and those who do business with them.

Freedom of expression

Internet freedom may seem like a given to some, but for many people around the world, it's not that simple. In FY11, we adopted a Freedom of Expression policy to guide our decision making when approached by governments that want to filter or censor Internet content. This year, we continued to support the free exchange of ideas and information online through our membership in the Global Network Initiative (GNI).

- Championed free expression and the right to privacy in the information and communications technologies (ICT) sector as a member of the GNI.

- In FY12, a third-party assessor completed an independent review of our policies and procedures for protecting online speech from government intervention. The GNI is using our assessment as a learning tool to improve its implementation guidelines.

As a signatory to the UN Global Compact, Microsoft is 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

- The International Labour Organization Declaration on Fundamental Principles and Rights at Work

The Global Network Initiative is an international coalition of technology companies, civil society organizations, investors, and academics dedicated to safeguarding human rights in the face of restrictive governments. Read more about its efforts to advance Internet freedom and online privacy.

Respecting human rights through engagement

Many in the human rights community question when it's right for a business to leave (or refuse to enter) a country on human rights grounds.

While we respect other companies' decisions to withdraw from certain markets, we generally believe that engaging in difficult environments holds the greatest promise for promoting human rights. From our perspective, the critical challenge is determining how to operate within these environments, so that citizens derive the same benefits from ICT products as people in other, freer countries.

Our approach takes many forms. We engage with local stakeholder groups to help shape our human rights policies in specific communities. We also use our size and leadership to influence government behaviors. Most importantly, we perform due diligence before making decisions, helping us minimize the human rights risks of our actions.

Human rights

FY12 performance highlights	Our commitments for FY13 include

Goal: **Raise awareness of safer online habits and practices.**
We continued our support of global campaigns such as Safer Internet Day, Data Privacy Day, and National Cybersecurity Awareness Month to raise awareness among consumers, government officials, and organizations.

Goal: **Develop strong privacy and safety public policy frameworks in the United States, Europe, and emerging markets worldwide.**
We worked with governments and partners in countries such as Turkey, China, Singapore, and Colombia to ensure proposed legislation was flexible, principles-based, and facilitated trans-border data flows. We also collaborated with governments, organizations, and industry peers in the United States and European Union to help craft legislative proposals on data protection.

Goal: **Engage with multilateral organizations to create strong and consistent global frameworks for privacy and security policy.**
We participated in developing the Asia-Pacific Economic Cooperation (APEC) Cross-Border Privacy Rules, which were released in 2012. Developed through public/private collaboration, the rules promote data-privacy practices for companies doing business in APEC economies.

Goal: **Partner to fight online crime.**
We assisted law enforcement worldwide in their fight against online child pornography by making Microsoft PhotoDNA technology available for free.

Goal: **Continue our active participation in the Global Network Initiative (GNI).**
We completed Phase II of the GNI assessment, which focused on implementing and observing internal processes, advancing our commitment to freedom of expression and privacy on the Internet.

- Maintaining a comprehensive privacy program to minimize customer risk, foster compliance, and build privacy into our products and services

- Strengthening consumer privacy and online safety by partnering with governments, NGOs, industry partners, and law enforcement

- Hosting the fifth US-China Internet Industry Forum, bringing together leaders from government, industry, and NGOs to discuss issues such as free expression

- Advancing our work with industry, law enforcement, government, and nonprofit partners to fight cybercrime, online child exploitation, and human trafficking

- Continuing our sponsorship of the Personal Democracy Forum, which shares knowledge on using technology in campaigns and civic organizing

- Upholding our commitment to human rights as outlined in our Global Human Rights Statement, and annually communicating our progress

- Identifying, preventing, and mitigating the human rights risks associated with our products and services

- Conducting a GNI Phase III Assessment, which looks beyond reviewing internal policies to protect human rights, to assessing outcomes

See GRI Index for more ⊙

Responsible sourcing

We expect our tens of thousands of suppliers to uphold the same high standards of citizenship to which we hold ourselves. Those standards play an important part in our supplier selection and retention decisions. By setting clear expectations, and by sharing experiences and best practices with our suppliers, we create incentives for them to promote the health, safety, and well-being of their workers and the communities where they operate.

100%
Suppliers required to abide by our Vendor Code of Conduct

$1.5 billion+
Worldwide spending with women-owned, minority-owned, or veteran-owned suppliers

"Microsoft is committed to the fair treatment and safety of workers at manufacturers contracted to our company, and we use a risk-based approach to promote safe and healthy working and living conditions, engaging directly with our suppliers to build their capabilities in these important areas. We have invested heavily in a robust supply chain social and environmental accountability program intended to verify that suppliers meet our Vendor Code of Conduct."

Brian Tobey, Corporate Vice President
Manufacturing, Supply Chain, Information and Services

As a global company with supplier relationships around the world, Microsoft recognizes the importance of working with suppliers committed to responsible business practices. As the foundation of our commitment, all companies doing business with Microsoft must agree to abide by our Vendor Code of Conduct, which sets out our expectations about ethical business practices, employment practices, and compliance with environmental and worker safety requirements.

We also share experiences and best practices with our suppliers to encourage them to improve their business practices. We work collaboratively with our suppliers to verify that they are complying with the Vendor Code of Conduct and to enhance their ability to find and fix problems that do sometimes occur. If we find a supplier is unwilling to follow the Vendor Code of Conduct or address such problems, we will take—and we have taken—disciplinary action up to and including terminating supplier contracts. There is always room for improvement, but we are encouraged by the cooperation we find among our suppliers and many companies across the electronics industry to tackle existing challenges and address new issues as they arise.

Vendor Code of Conduct

The Microsoft Vendor Code of Conduct (VCC) sets our expectations for ethical business and employment practices among all companies doing business with Microsoft, including overseas suppliers and service providers. Our VCC requires, among other things:

- Fair, legal wages under humane conditions
- A safe and healthy work environment
- A workplace free of harassment, discrimination, or abuse
- Freedom of association
- No forced or child labor
- Environmental and regulatory compliance
- Business, legal, and anti-corruption protections

Hardware production

To meet our own and others' expectations to make our products with integrity, Microsoft operates a Social and Environmental Accountability (SEA) program specifically focused on suppliers that produce our hardware products and packaging materials.

Raising supplier accountability expectations

- Microsoft's hardware and packaging suppliers are required to provide Microsoft and third-party auditors on-site access to conduct audits and assessments of conformance with our Vendor Code of Conduct. Microsoft's factory managers and SEA team regularly visit supplier factories to assess living and working conditions. The factories that assemble Microsoft products receive third-party compliance audits at least once a year. The suppliers we contract to make components for our products also receive SEA team assessments and third-party audits based on their risk level. All of the final assemblers of our hardware and all high- and medium-risk component suppliers have undergone human rights pre-contracting and ongoing screening. In FY12, 98 significant hardware suppliers underwent human rights risk assessment and monitoring.

- Overall, monitoring found no instances of human trafficking or interfering with workers' freedom of association. Monitoring detected eight non-conformances of the non-discrimination provisions of our Code of Conduct. It also found seven instances of concern regarding suppliers' forced labor prevention processes, including protecting workers' ability to refuse overtime work and to have easy access to their personal identification documents that workers need for travel. All of these issues were escalated to Microsoft senior management and the suppliers were placed on restricted status with no new Microsoft business awarded until they had resolved the issues.

- We identified one instance of under-aged labor at each of two supplier sites, and one instance at a site of a prospective supplier with which we declined to do business. The cause of these violations was vulnerabilities in the suppliers' age verification procedures, which did not detect the misuse of borrowed identification. Both cases were escalated to senior management, and the supplier was placed on restricted status with no new Microsoft business awarded until the problem was resolved. We verified they had taken corrective action—including immediately ceasing employment of the minors and providing the minors a safe journey home—and verified they had taken appropriate steps to make their identity validation controls more robust. In one case, we helped the supplier implement facial recognition software to screen new employees and substantially reduce the risk of minors using false identification papers to get work.

We seek worker input to help target our supplier engagement efforts for improvements where they matter most.

Promoting a safe working environment

- Shared experiences and best practices with suppliers on a number of workplace safety topics, including management of hazardous and toxic substances, electrical safety, emergency response plans, combustible dust, and use of personal protective equipment at a supplier forum in Shenzhen, China.

- Directly engaged priority suppliers based on risk and compliance records to promote improved factory conditions and worker treatment at those suppliers' sites. We sent a team of Microsoft senior management and health and safety representatives to China to meet with those suppliers, support their efforts to implement corrective actions, and help them build capabilities to address future issues.

Improving health and living conditions

- Launched a worker community project to support supplier efforts to improve living conditions, quality of life, and develop career growth opportunities for workers. Our improvement projects include providing cleaner dormitories, workshops, and canteen areas; offering more culturally diverse foods; organizing field trips for workers to give them a better work/life balance; enhancing management and worker communications; and developing career paths for workers.

Listening to workers

- Enhanced supplier management capabilities to better understand and resolve workers' concerns through an updated workers' grievance process, including an anonymous hotline to capture worker concerns and worker interviews conducted by the Fair Labor Association (FLA).

- Based on an initial assessment in 2011, we updated the model in FY12 with a bigger focus on promoting improvements in worker/management communication. Worker surveys and interviews conducted by the FLA provided key data to support our collaborative efforts with suppliers on issues the workers themselves most want to see addressed.

Community Technology Centers teach people in supplier communities how to use computers and the Internet, explore new careers, further their education, participate in community activities, and develop job-related technology skills.

Conflict minerals

We proactively support industry and multistakeholder efforts to move toward a conflict mineral–free electronics supply chain.

- Continue to examine our supply chain to identify each component used in our products containing tin, gold, tantalum, or tungsten and the suppliers of these components. We are educating these suppliers regarding the conflict minerals issue and ask suppliers to identify each smelter or refinery they use and verify that the minerals in these components do not come from implicated conflict mineral zones.

- We seek to align our efforts with the Organisation for Economic Co-operation and Development (OECD) Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas and the requirements of the Dodd-Frank Act and related US Securities and Exchange Commission (SEC) regulations.

- Supported strong and effective disclosure requirements by publicly signing on to comments on the US government's proposed Dodd-Frank regulations on conflict minerals.

- Participated in the Public-Private Alliance for Responsible Minerals Trade (PPA), a joint initiative among governments, companies, and civil society to explore potential supply chain solutions to conflict minerals challenges in the Democratic Republic of the Congo and the Great Lakes region of Central Africa.

See the Environment section to learn how we work with our partners to reduce environmental impact.

UK

France   Germany   Korea   Japan

USA   Italy   China   Taiwan

Israel

Thailand   Vietnam

Malaysia   Philippines

Brazil   Singapore

Microsoft production supplier country locations

Expanding our efforts

This year, we enhanced our responsible sourcing efforts in many ways:

- Supported woman-owned, minority-owned, or veteran-owned suppliers with more than $1.5 billion in worldwide spending in FY12. This puts us among the top 15 companies globally in this category.

- Explored ways to promote improvement in our suppliers' social performance by launching a new reporting program. Under the program, we asked approximately 20 key hardware suppliers and service providers to use several Global Reporting Initiative indicators to document how their programs and policies meet our standards.

- Provided people of all ages and abilities low-cost access to technology by partnering with suppliers to build Community Technology Centers (CTCs) in their communities. To date, 15 suppliers in 13 countries host CTCs in their facilities.

Responsible sourcing

FY12 performance highlights	Our commitments for FY13 include

Goal: **Increase transparency of our supply chain management.**
We met with institutional and socially responsible investors and briefed nongovernmental organizations concerned with issues such as conflict minerals in Africa and the environment in China.

Goal: **Work with hardware suppliers to evaluate the potential use of conflict minerals, thereby supporting the technology industry's ultimate aim of developing a conflict mineral–free supply chain.**
We identify the materials used in our products and ask our hardware suppliers to identify the smelters and refineries they use to help identify potential sources of conflict minerals.

Goal: **Developed new practices to promote supplier adherence to our Vendor Code of Conduct, and to apply the code consistently across our business units.**
We strengthened our anti-corruption screening program for our entire supplier database and developed new ethics training programs for our suppliers. We also enhanced how we apply our Vendor Code of Conduct to strategic business process suppliers, such as customer support call centers.

- Continuing to enhance our programs to verify our suppliers adhere to our Vendor Code of Conduct

- Consider further enhancing the transparency of our supplier auditing processes on labor and human rights issues

- Supporting industry efforts to identify, reduce, and ultimately eliminate conflict minerals from the technology supply

See GRI Index for more ⊙

Governance

Public trust in corporations depends in large part on the basic aspects of business character: integrity, values, and transparency. A strong and steady core is the bedrock of both right action and good business.

In this section

Corporate governance

Maintaining strong practices and performance

Public policy engagement

Compliance

FY12 performance and FY13 commitments

9.5/10
Our rating from GovernanceMetrics International

100%
Independence of directors serving on board committees

Zero
Number of contributions made to Super PACs

2012 WORLD'S MOST ETHICAL COMPANIES
WWW.ETHISPHERE.COM

On the list of the World's Most Ethical Companies®

> "Maintaining high standards for business conduct helps businesses demonstrate their values. From our actions in the public sphere to our decisions in the boardroom, we aim to consistently apply exacting principles to chart a clear course, guided by our accountability to the public."
>
> **Brad Smith, Executive Vice President and General Counsel**

Sound principles, practices, and leaders are critical to good business. Accountability at the highest levels and ethical conduct throughout the company are central to earning and maintaining the public's trust.

Corporate governance

Strong corporate governance builds trust, creates internal checks and balances, and deepens management accountability.

Engaging proactively with stakeholders

- Updated investors on developments in our corporate governance framework with annual letter from members of the board's Governance and Nominating Committee.

- Engaged on a biannual basis with investors, including public pension funds and socially responsible investors, which collectively held approximately 35 percent of our outstanding shares, and delivered a summary of investor feedback to the board.

Managing risk at the board level

Created a more effective and efficient oversight structure by reorganizing the board's committees, reducing the number of committees from five to four.

- Incorporated the Antitrust Compliance Committee into the Regulatory and Public Policy Committee, which will continue to oversee our compliance with competition law as well as additional legal, regulatory, and compliance matters such as human rights, environmental sustainability, privacy and security, business operations risks, public policy, and corporate citizenship.

- Transferred the responsibilities of the Finance Committee for tax planning and compliance, investment policies, and investment risk management to the Audit Committee. The board has assumed the remainder of the Finance Committee's responsibilities related to capital structure and capital deployment.

- The board appointed two independent directors: John W. Thompson, CEO of Virtual Instruments; and Stephen J. Luczo, chairman, president, and CEO of Seagate Technology PLC.

To contribute to the development of best practices, we partnered with a variety of organizations, including the Conference Board Governance Center®, Stanford Institutional Investors' Forum, the Society of Corporate Secretaries and Governance Professionals, the Millstein Center for Corporate Governance and Performance, and the Council of Institutional Investors.

Maintaining strong practices and performance

- Received a 9.5 out of 10 global market rating from GovernanceMetrics International for practices and performance (as of July 9, 2012).

- Received best possible ratings from the Institutional Shareholder Services, Inc. Governance Risk Indicators in all governance risk categories, including board, audit, compensation, and shareholder rights.

- Included on the Ethisphere Institute's list of the World's Most Ethical Companies.®

- Awarded Best overall governance, compliance, and ethics (large cap) honor at the *Corporate Secretary* magazine 2011 Corporate Governance Awards.

- Ranked third on *CR Magazine*'s list of 100 Best Corporate Citizens, selected from all companies in the Russell 1000® Index.

Key governance data

Number of directors	Percentage of independent directors
11	81%

Number of board committees	Independence of directors serving on board committees
4	100%

Separate chairman and CEO	Lead independent director
Yes	Yes

Annual board, committee, and individual member self-evaluations	Number of board meetings held in fiscal year 2012
Yes	8

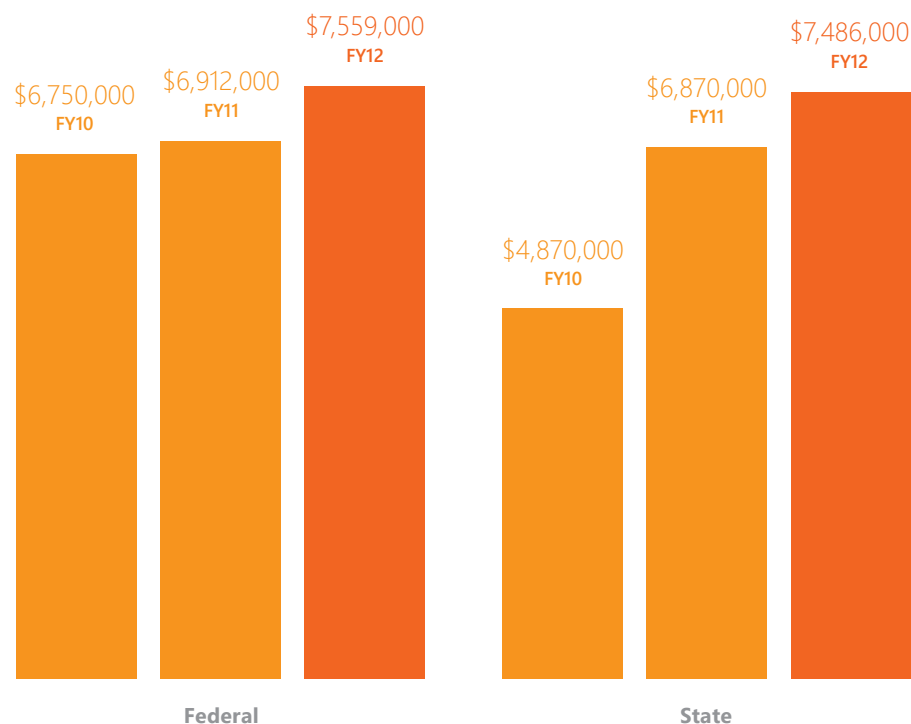| Shares of Microsoft common stock outstanding[1]	Registered holders of common stock[1]
8,383,396,575	128,992

1 As of July 18, 2012.

Public policy engagement

Corporate participation in the public policy process is an important means of enhancing shareholder value and is fundamental to free and democratic societies. Our engagement in the public policy process is grounded in and guided by our unwavering commitment to strong corporate governance—centered on transparency, accountability, and compliance.

- We engage in public policy discussions that relate to our business, and also update our public policy agenda every year to reflect changes in the policy environment and our business. Our FY12 policy agenda focused on Accelerating Economic Growth, Addressing Social Challenges, and Working Responsibly in the Information Economy.

- We regularly file reports that detail our advocacy activities in compliance with regulations and our commitment to transparency. Our disclosures include consultant fees, lobbying expenses, and trade-association dues related to advocacy.

- We are a member of a number of trade associations and business coalitions that help us work with industry peers to advance issues that affect our business and society. A full list of the trade associations and business coalitions supported by our Legal and Corporate Affairs group is available on our Citizenship website. For a complete statement on our involvement with trade associations, please see the Principles and Policies for Guiding Microsoft's Participation in the Public Policy Process in the United States.

US public policy advocacy

Federal:
- $6,750,000 FY10
- $6,912,000 FY11
- $7,559,000 FY12

State:
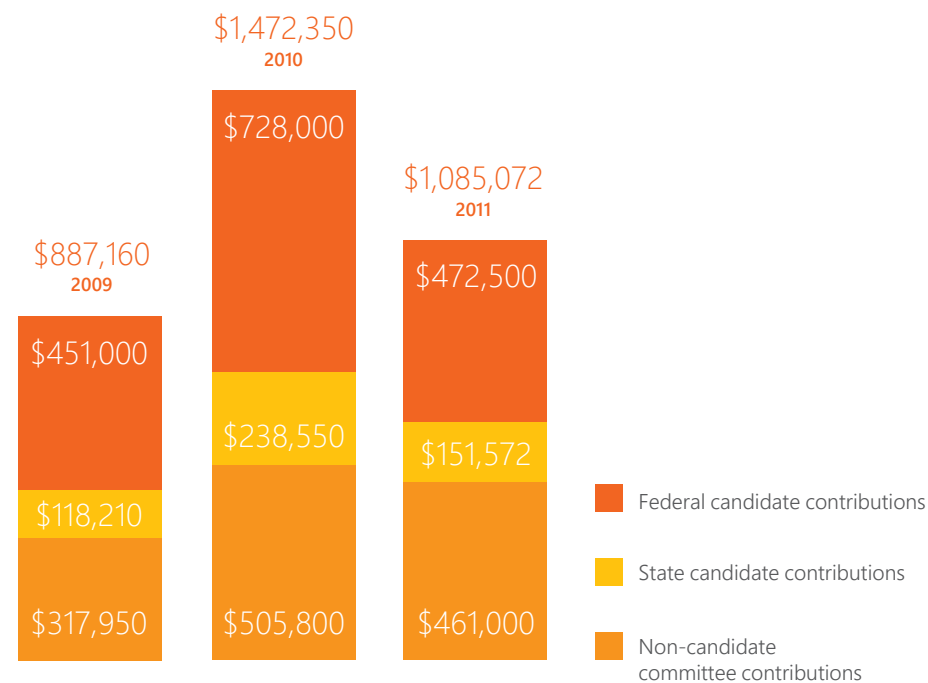- $4,870,000 FY10
- $6,870,000 FY11
- $7,486,000 FY12

Adhering to strict principles and policies

- Clear principles govern our engagement in the political process in the United States.

- Political spending will reflect the company's interests and be used to further its public policy agenda and not the personal agenda of individual officers, directors, or employees.

- We do not make corporate contributions to any noncandidate or nonparty political committees organized under section 527 of the Internal Revenue Code, which are formed solely to influence elections.

- No campaign contributions are given in anticipation of, in recognition of, or in return for an official act.

- Reaffirmed our 2010 stance on not making independent political expenditures or electioneering communications, as permitted under the US Supreme Court's Citizens United ruling.

- For the last calendar year, the Microsoft Political Action Committee (MSPAC) made political contributions totaling $1,085,072. In addition to MSPAC's contributions, our company as a whole also contributed $151,572 to state and local political campaigns in calendar year 2011. We do not support political candidates or campaigns outside the United States.

Microsoft Political Action Committee political contributions

$1,472,350
2010

$728,000

$1,085,072
2011

$887,160
2009

$451,000

$472,500

$238,550

$151,572

$118,210

$317,950

$505,800

$461,000

■ Federal candidate contributions

■ State candidate contributions

■ Non-candidate committee contributions

Timothy Smith, Senior Vice President Walden Asset Management

Timothy Smith is senior vice president and director of ESG shareowner engagement of Walden Asset Management. In 2007, the Ethisphere Institute named him one of the 100 most influential people in business ethics.

Setting the standard for transparency

Corporate participation in politics and funding of elections has become a hotly debated issue. From newspaper editorials to grass-roots campaigns to investor inquiries, companies are under scrutiny for their political spending and lobbying, with widespread fears that they are exerting undue influence. As Microsoft has demonstrated, the way to address such fears is transparency.

Microsoft engages government agencies and representatives on public policy issues crucial to its business, guided by a set of principles and practices with transparency, responsibility, and accountability at its core.

When asked "How much influence is your company exerting in the political process, and how do you do it?" or "What is your agenda?" Microsoft provides answers, posts them publicly, and updates them annually. Microsoft provides specifics about its lobbying and political spending, with details on how much is spent on each activity. Company participation is guided by a public policy agenda, which openly spells out the issues important to its business.

Any company involved in the political process can face controversy. For example, it is always confusing to stakeholders when trade associations claiming they speak for their members, such as the US Chamber of Commerce, take positions counter to Microsoft's on issues like the environment or diversity. This makes it all the more important for Microsoft to consistently declare what it stands for and differentiate itself from any backward-looking trade association statements or lobbying positions. Such a transparent, responsible, accountable approach sets the gold standard.

Microsoft is a leader in showing how corporate participation in politics can be consistent with corporate responsibility.

Compliance

Businesses have a responsibility to operate in full accordance with the law, and we have zero tolerance for failure to adhere to our internal compliance policies and practices.

Competing responsibly within our industry

- We comply with antitrust rulings and apply principles that support innovation, choice, and opportunities for developers regarding new products and services.

- For information about acquisitions or our response to rulings, see our 2012 Annual Report.

Ongoing litigation

At any given time, there may be a range of legal actions pending against a company. Actions currently pending against Microsoft include:

- Ongoing litigation with Motorola Mobility in several countries.

- Approximately 60 other patent infringement cases.

- In July 2012, a trial court granted Microsoft's motion dismissing Novell, Inc.'s case against us. Novell has appealed this decision.

- As of June 30, 2012, all but three cases under Canadian jurisdiction have been settled. All overcharge class actions in the United States were dismissed or resolved. The only remaining actions are in Canada, where the lead case was dismissed by the appeals court and ruling is now pending before the Canadian Supreme Court.

- For more information, see the Note 17—Contingencies section of our 2012 Annual Report.

Training employees

- In FY12, we trained more than 99.6 percent of our employees on our Standards of Business Conduct, which addresses topics such as anti-corruption, conflicts of interest, and financial integrity.

- Every year, we use a survey to measure employee satisfaction with ethical conduct training. The FY12 survey showed that employees scored the program 176 out of 200.

- We promote employee awareness of business conduct policies through MS Policy, an online tool and central resource for all relevant information.

Governance

FY12 performance highlights	Our commitments for FY13 include

Goal: **Maintain or increase dialogue between shareholders and the company.**
We updated investors on developments in corporate governance with an annual letter from the Governance and Nominating Committee of the board. We engaged biannually with a group of investors who collectively hold approximately 35 percent of outstanding shares. We released a new installment of our director interview series featuring members of our board.

Goal: **Engage in cross-industry forums to help us identify and contribute to the development of best practices.**
We engaged with a variety of organizations, including the Conference Board Governance Center, Stanford Institutional Investors' Forum, the Society of Corporate Secretaries and Governance Professionals, the Millstein Center for Corporate Governance and Performance, and the Council of Institutional Investors.

Goal: **Continue to enhance our corporate governance principles and policies to serve the interests of our shareholders and other stakeholders.**
We made our board oversight structure more efficient by reorganizing the board's committees, reducing the number of committees from five to four.

Goal: **Implement the regulatory and disclosure requirements adopted under the Dodd-Frank Wall Street Reform and Consumer Protection Act.**
In 2009, we voluntarily submitted our executive compensation to a shareholder advisory vote, which received overwhelming support. At the 2011 Annual Meeting, nearly 99 percent of the votes cast supported our say-on-pay resolution.

- Maintaining or increasing dialogue between stakeholders and the company

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

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

- Implementing the regulatory and disclosure requirements adopted under the Dodd-Frank Wall Street Reform and Consumer Protection Act

- Upholding our unwavering commitment to strong corporate governance when participating in the public policy process

- Maintaining leadership in corporate accountability, transparency, integrity, and responsibility by revising our principles, policies, and practices, as needed

See GRI Index for more ⊙

About this Report

Reporting year

Unless otherwise stated, information in this report is related to fiscal year 2012 (July 1, 2011, to June 30, 2012).

Scope

As part of Microsoft's global citizenship initiative, this report covers Microsoft nonfinancial performance and impact in FY12 across our global operations. The report covers our material citizenship issues based on:

- Internal assessments
- Ongoing engagement with stakeholders ranging from socially responsible investors to our own employees
- Requests for information by corporate responsibility rating agencies

To improve this year's report, we conducted a gap analysis comparing the information provided in our FY11 Citizenship Report with the information requests we received from stakeholders during FY12.

We relied on the Global Reporting Initiative's (GRI) Sustainability Reporting Guidelines to help determine relevant content and metrics. Please see our standalone GRI Index online for more detailed data and other information. When relevant, this report provides links to data in the GRI Index for more detailed information.

Additional reporting

This report was released at the same time as the Microsoft FY12 Annual Report. These reports complement each other and together provide a full picture of Microsoft's performance over the past fiscal year.

In addition to these reports, we report on our actions in many other ways throughout the year. These include:

- Ongoing direct dialogue with a broad range of stakeholder groups, as well as with industry and issue-advocacy organizations
- Updates to our Citizenship website, blogs, Facebook, and Twitter to reflect recent initiatives and progress
- Research and white papers on specific issues
- Economic impact data and hundreds of local impact stories through the Microsoft Local Impact Map
- An annual submission to the Carbon Disclosure Project
- This report demonstrates our commitment to the UN Millennium Development Goals

Feedback

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

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

United Nations Global Compact

Microsoft's commitment to the United Nations Global Compact advances our mission to help people and businesses around the world realize their full potential.

Since endorsing the Global Compact in 2006, we continue to view it as an important guide for Microsoft. The Global Compact's 10 principles related to human rights, labor, the environment, and anti-corruption align with our company's business strategies, practices, policies, and operations. Our involvement supports our efforts to demonstrate accountability and ongoing improvement across the broad range of citizenship topics.

This 2012 Citizenship Report serves as Microsoft's annual Global Compact Communication on Progress. The following table describes the location of information about each principle in this report.

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 that 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;	Responsible sourcing
Principle 4: the elimination of all forms of forced and compulsory labor;	Responsible sourcing
Principle 5: the effective abolition of child labor; and	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;	Environment
Principle 8: undertake initiatives to promote greater environmental responsibility; and	Environment, Responsible sourcing
Principle 9: encourage the development and diffusion of environmentally friendly technologies.	Environment
Anti-corruption	
Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.	Responsible sourcing, Governance